2011 Annual Report

George Weston Limited

Weston

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This Annual Report contains forward-looking information. See Forward-Looking Statements beginning on page 5 of this Annual Report for a discussion of material factors that could cause actual results to differ materially from the conclusions, forecasts and projections herein and of the material factors and assumptions that were applied in presenting the conclusions, forecasts and projections presented herein. This Annual Report must be read in conjunction with George Weston Limited's filings with securities regulators made from time to time, all of which can be found at www.sedar.com.

Financial Highlights[1]

As at or for the years ended December 31 ($ millions except where otherwise indicated)	2011	2010[4]
Consolidated Results of Operations		
Sales	**$ 32,376**	$ 31,847
Operating income	**1,609**	1,568
Adjusted operating income[2]	**1,700**	1,659
Adjusted EBITDA[2]	**2,459**	2,342
Net interest expense and other financing charges	**366**	471
Net earnings attributable to shareholders of the Company	**635**	452
Net earnings	**919**	703
Consolidated Financial Position and Cash Flow		
Working capital	**$ 3,355**	$ 2,390
Adjusted debt[2]	**5,960**	6,228
Adjusted net debt[2]	**1,722**	900
Free cash flow[2]	**1,051**	967
Cash flows from operating activities	**1,974**	2,279
Capital investment	**1,027**	1,214
Consolidated per Common Share ($)		
Basic net earnings	**$ 4.58**	$ 3.16
Adjusted basic net earnings[2]	**4.86**	4.09
Consolidated Financial Measures and Ratios		
Sales growth	**1.7%**	0.1%[3]
Operating margin	**5.0%**	4.9%
Adjusted operating margin[2]	**5.3%**	5.2%
Adjusted EBITDA margin[2]	**7.6%**	7.4%
Adjusted debt[2] to adjusted EBITDA[2]	**2.4x**	2.7x
Adjusted debt[2] to equity attributable to shareholders of the Company	**1.09**	1.19
Interest coverage[2]	**4.4x**	3.3x
Return on average net assets[2]	**12.8%**	13.0%
Return on average common shareholders' equity attributable to shareholders of the Company	**13.1%**	8.4%
Reportable Operating Segments		
Weston Foods		
Sales	**$ 1,772**	$ 1,624
Operating income	**208**	285
Operating margin	**11.7%**	17.5%
Adjusted operating income[2]	**265**	235
Adjusted operating margin[2]	**15.0%**	14.5%
Return on average net assets[2]	**24.5%**	40.8%
Loblaw		
Sales	**$ 31,250**	$ 30,836
Operating income	**1,376**	1,339
Operating margin	**4.4%**	4.3%
Adjusted operating income[2]	**1,435**	1,424
Adjusted operating margin[2]	**4.6%**	4.6%
Return on average net assets[2]	**11.7%**	11.8%

(1) For financial definitions and ratios refer to the Glossary beginning on page 146.
(2) See non-GAAP financial measures beginning on page 54.
(3) Compared to 2009 sales reported under Canadian Generally Accepted Accounting Principles ("CGAAP").
(4) 2010 comparatives previously reported in accordance with CGAAP have been restated to conform with International Financial Reporting Standards.

Report to Shareholders[2]

2011 was a successful year for George Weston Limited, with both operating segments, Weston Foods and Loblaw Companies Limited contributing positively to the Company's overall solid performance. Weston Foods delivered strong financial operating results and successfully integrated two bakery acquisitions, Keystone Bakery Holdings, LLC in the United States and ACE Bakery Ltd. in Canada, into its existing businesses. Loblaw continued on its relentless journey of renewal and while maintaining the pace of critical work to fix the foundation and infrastructure, also further strengthened its customer proposition through improved retail execution, operating efficiency and product innovation.

Due to the Company's transition to International Financial Reporting Standards ("IFRS"), effective January 1, 2011, all 2010 comparative figures that were previously reported in the consolidated financial statements in accordance with Canadian Generally Accepted Accounting Principles have been restated to conform with IFRS.

The Company's 2011 adjusted basic net earnings per common share[1] were $4.86 compared to $4.09 in 2010, an increase of $0.77 or 18.8%. The increase was primarily attributable to the improvements in the operating performance of the Company's two operating segments, Weston Foods and Loblaw, and decreases in both net interest expense and other financing charges and income tax expense.

Sales increased 1.7% to $32.4 billion from $31.8 billion in 2010. Adjusted operating income[1] was $1,700 million compared to $1,659 million in 2010, an increase of $41 million or 2.5%. The Company's adjusted operating margin[1] improved and was 5.3% in 2011 compared to 5.2% in 2010.

Weston Foods sales for 2011 increased 9.1% compared to 2010. Excluding the impact of acquisitions and foreign currency translation, sales increased by 2.4% primarily due to the positive impact of higher pricing across key product categories, partially offset by a decrease in volume. Price increases were implemented during 2011 to mitigate higher commodity and fuel costs. Growth was realized in frozen bakery and biscuit sales, while fresh bakery sales remained relatively flat. Growth in the *D'Italiano*, *Country Harvest* and *Jake's Bake House* brands and product innovation, with the introduction of new products such as *Gadoua MultiGo* Flat Bagels, Pitas and Tortillas, and the *Première Fournée de Weston* line of artisan inspired breads and the recent relaunch of the *Wonder* and *Gadoua MultiGo* lines of breads that are free of artificial additives including preservatives, colours and flavours, contributed positively to branded sales in 2011.

Weston Foods adjusted operating income[1] in 2011 increased 12.8% to $265 million from $235 million in 2010. Adjusted operating margin for 2011 was 15.0% compared to 14.5% in 2010.

Weston Foods adjusted operating income[1] in 2011 was positively impacted by sales growth mainly as a result of higher pricing in key product categories and the bakery acquisitions, and by the benefits realized from productivity improvements and other cost reduction initiatives, which were partially offset by higher commodity and fuel costs.

Weston Foods continues to evaluate strategic and cost reduction initiatives related to its manufacturing assets and distribution networks with the objective of ensuring a low cost operating structure. Initiatives are in place to help drive best practices, which are expected to result in the continued improvement of processes as well as lower costs.

As disclosed in the Loblaw Companies Limited Annual Report, Loblaw realigned its Retail segment into a two divisional structure, conventional and discount, to sharpen its customer proposition and improve execution. The benefits of the realignment began to show in the second half of the year with improved sales at satisfactory margins.

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

Loblaw sales for 2011 were $31.3 billion compared to $30.8 billion for 2010, representing an increase of 1.3%. Same-store retail sales increased 0.9%. Despite a highly competitive and challenging economic environment, Loblaw delivered product innovation, infrastructure improvements, renovated stores and opened new stores including a new urban format, represented by its flagship Loblaws store at Maple Leaf Gardens® and increased customer value, while investing in *Joe Fresh* and *President's Choice Financial* growth.

Loblaw adjusted operating income[1] in 2011 increased 0.8% to $1,435 million from $1,424 million in 2010. Adjusted operating margin[1] was 4.6% in both 2011 and 2010.

The increase in Loblaw adjusted operating income[1] was mainly attributable to continued labour, supply chain and other operating cost efficiencies, growth and performance of Loblaw's franchisees, improved control label profitability and improved shrink. These improvements were partially offset by increases in promotional pricing programs and fuel costs, the incremental costs related to the investment in information technology ("IT") and supply chain, the continued investment in the growth of Loblaw's Financial Services segment, foreign exchange losses, start up costs associated with the launch of Loblaw's *Joe Fresh* brand in the United States, costs associated with the transition of certain Ontario conventional stores to the more cost effective and efficient operating terms under collective agreements ratified in 2010 and fixed asset impairment charges net of recoveries.

George Weston Limited has strategically well positioned companies with leading market positions in food retail and baking in Canada, as well as a U.S. frozen baking manufacturing business, a North American biscuit manufacturing business and a significant amount of cash.

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

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

For 2012, George Weston Limited anticipates adjusted basic net earnings per common share[1] to be down year-over-year, primarily due to the impact of the incremental costs at Loblaw, as discussed above.

On behalf of the Board of Directors and shareholders, I thank our loyal customers for their support and our more than 142,000 employees for their dedication and continued commitment to the Company.

[*signed*]
W. Galen Weston
Executive Chairman

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

Management's Discussion and Analysis

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

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

1. FORWARD-LOOKING STATEMENTS

This Annual Report, including this MD&A, contains forward-looking statements about the Company's objectives, plans, goals, aspirations, strategies, financial condition, results of operations, cash flows, performance, prospects and opportunities. These forward-looking statements are typically identified by words such as "anticipate", "expect", "believe", "foresee", "could", "estimate", "goal", "intend", "plan", "seek", "strive", "will", "may" and "should" and similar expressions, as they relate to the Company and its management. In this Annual Report, forward-looking statements include the Company's expectations that:

For Weston Foods:

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

For Loblaw Companies Limited ("Loblaw"):

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

For the Company:

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

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

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

These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations, including, but not limited to:

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

This is not an exhaustive list of the factors that may affect the Company's forward-looking statements. Other risks and uncertainties not presently known to the Company or that the Company presently believes are not material could also cause actual results or events to differ materially from those expressed in its forward-looking statements. Additional risks and uncertainties are discussed in the Company's materials filed with the Canadian securities regulatory authorities from time to time, including the Enterprise Risks and Risk Management section of this MD&A. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect the Company's expectations only as of the date of this Annual Report. The Company disclaims any intention or obligation to update or revise these forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

2. OVERVIEW

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

3. VISION

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

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

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

4. OPERATING AND FINANCIAL STRATEGIES

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

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

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

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

Weston Foods' long term operating strategies include:

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

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

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

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

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

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

The Company's financial strategies include:

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

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

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

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

5. KEY PERFORMANCE INDICATORS

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

Key Financial Performance Indicators[(1)]

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

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

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

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

Selected Financial Ratios

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

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

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

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

6. OVERALL FINANCIAL PERFORMANCE

6.1 CONSOLIDATED RESULTS OF OPERATIONS

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

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

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

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

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

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

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

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

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

Sales

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

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

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

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

Operating Income

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

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

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

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

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

Net Interest Expense and Other Financing Charges

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

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

Income Taxes

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

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

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

Net Earnings Attributable to Shareholders of the Company

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

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

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

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

6.2 CONSOLIDATED FINANCIAL CONDITION

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

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

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

(2) For financial definitions refer to the Glossary beginning on page 146.

(3) Includes a special one-time common share dividend of $7.75 per common share.

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

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

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

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

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

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

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

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

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

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

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

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

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

Dividends

The declaration and payment of dividends and the amounts thereof are at the discretion of the Board, which takes into account the Company's financial results, capital requirements, available cash flow and other factors the Board considers relevant from time to time. Over the long term, GWL's objective is for its common dividend payment ratio to be in the range of 20% to 25% of the prior year's basic net earnings per common share, adjusted as appropriate for items which are not regarded to be reflective of ongoing operations, giving consideration to the year end cash position, future cash flow requirements and investment opportunities. Currently, there is no restriction that would prevent GWL from paying common dividends at historical levels. Dividends on the preferred shares rank in priority ahead of the common shares.

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

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

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

Normal Course Issuer Bid ("NCIB") Programs

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

Cross Currency Swaps

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

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

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

Interest Rate Swaps

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

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

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

Equity Swaps and Forwards

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

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

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

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

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

Weston Foods Commodity Derivatives

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

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

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

6.3 SELECTED ANNUAL INFORMATION

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

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

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

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

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

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

translation and lower pricing including increased promotional spending compared to 2009. Volumes in 2010 were relatively flat compared to 2009.

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

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

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

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

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

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

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

The Company's 2009 net earnings attributable to shareholders of the Company and 2009 net earnings included net earnings from discontinued operations. On January 21, 2009, Dunedin sold its U.S. fresh bakery business

to Grupo Bimbo, S.A.B. de C.V. for gross and net proceeds of approximately U.S. $2.5 billion, including approximately U.S. $125 million for interest bearing assets. The sale resulted in a gain of $939 million ($901 million, net of tax). The results and the gain on the sale of the U.S. fresh bakery business were reflected separately as discontinued operations in 2009.

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

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

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

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

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

7. RESULTS OF REPORTABLE OPERATING SEGMENTS

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

7.1 WESTON FOODS OPERATING RESULTS

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

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

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

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

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

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

Sales

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

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

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

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

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

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

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

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

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

Weston Foods continuously evaluates strategic and cost reduction initiatives related to its manufacturing assets, distribution networks and administrative infrastructure with the objective of ensuring a low cost operating structure. Restructuring activities related to these initiatives are ongoing and in 2011, a charge of $13 million (2010 – $8 million) was recorded in operating income. The 2011 charge was primarily related to the ratification of a new collective agreement in conjunction with the acquisition of Colonial Cookies, a biscuit manufacturer in Ontario, which was recorded in the first quarter of 2011 and the closures of two frozen bakery manufacturing facilities, one in Canada and one in the United States, which were recorded primarily in the fourth quarter of 2011.

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

Outlook[(2)]
In 2012, Weston Foods expects to deliver modest sales growth with market conditions expected to remain challenging. Higher commodity and input costs are expected in the first half of 2012, and these higher costs will put increased pressure on operating margins when compared to the same period in 2011. Weston Foods is continuing its efforts to reduce costs through improved efficiencies and ongoing cost reduction initiatives in an effort to achieve full year operating margins in line with those in 2011.

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

7.2 LOBLAW OPERATING RESULTS

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

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

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

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

Sales

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

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

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

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

Operating Income

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

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

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

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

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

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

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

Outlook[(2)]

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

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

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

8. LIQUIDITY AND CAPITAL RESOURCES

8.1 MAJOR CASH FLOW COMPONENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Defined Benefit Pension Plan Contributions

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

8.2 SOURCES OF LIQUIDITY

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Independent Funding Trusts
Certain independent franchisees of Loblaw obtain financing through a structure involving independent funding trusts, which were created to provide loans to the independent franchisees to facilitate their purchase of inventory and fixed assets, consisting mainly of fixtures and equipment. These independent funding trusts are administered by a major Canadian chartered bank. During 2011, this $475 million revolving committed credit facility was renewed and extended for a three-year period. As a result of the renewal, Loblaw's credit enhancement was reduced from 15% to 10%. Other terms and conditions remain substantially the same.

The gross principal amount of loans issued to Loblaw's independent franchisees by the independent funding trusts as at the end of 2011 was $424 million (2010 – $395 million). Loblaw has agreed to provide credit enhancement of $48 million (2010 – $66 million) in the form of a standby letter of credit for the benefit of the independent funding trust representing not less than 10% (2010 – 15%) of the principal amount of the loans outstanding. This credit enhancement allows the independent funding trust to provide financing to Loblaw's independent franchisees. As well, each independent franchisee provides security to the independent funding trust for its obligations by way of a general security agreement. In the event that an independent franchisee defaults on its loan and Loblaw has not, within a specified time period, assumed the loan, or the default is not otherwise remedied, the independent funding trust would assign the loan to Loblaw and draw upon this standby letter of credit. The standby letter of credit has never been drawn upon. Loblaw has agreed to reimburse the issuing bank for any amount drawn on the standby letter of credit.

8.3 CONTRACTUAL OBLIGATIONS

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

Summary of Contractual Obligations

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

(1) Long term debt includes finance lease obligations.

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

(3) These obligations include agreements for the purchase of real property and capital commitments for construction, expansion and renovation of buildings. These agreements may contain conditions that may or may not be satisfied. If the conditions are not satisfied, it is possible the Company will no longer have the obligation to proceed with the underlying transactions.

(4) These include contractual obligations of a material amount to purchase goods or services where the contract prescribes fixed or minimum volumes to be purchased or payments to be made within a fixed period of time for a set or variable price. These are only estimates of anticipated financial commitments under these arrangements and the amount of actual payments will vary. The purchase obligations do not include purchase orders issued or agreements made in the ordinary course of business which are solely for goods that are meant for resale, nor do they include any contracts which may be terminated on relatively short notice or with insignificant cost or liability to the Company. Also excluded are purchase obligations related to commodities or commodity-like goods for which a market for resale exists.

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

8.4 OFF-BALANCE SHEET ARRANGEMENTS

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

Letters of Credit

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

Guarantees

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

9. QUARTERLY RESULTS OF OPERATIONS

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

9.1 QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

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

Results by Quarter

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

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

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

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

Consolidated quarterly net earnings for the last eight quarters were impacted by the following significant items:

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

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

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

9.2 FOURTH QUARTER RESULTS (UNAUDITED)

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

Selected Consolidated Information

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

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

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

Sales

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

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

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

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

Operating Income

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

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

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

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

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

Net Interest Expense and Other Financing Charges

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

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

Income Taxes

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

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

Net Earnings Attributable to Shareholders of the Company

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

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

Reportable Operating Segments

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

WESTON FOODS

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

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

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

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

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

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

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

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

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

Weston Foods continuously evaluates strategic and cost reduction initiatives related to its manufacturing assets, distribution networks and administrative infrastructure with the objective of ensuring a low cost operating structure. Restructuring activities related to these initiatives are ongoing and in the fourth quarter of 2011, a charge of $5 million (2010 – $3 million) was recorded in operating income. The charge recorded in the fourth quarter of 2011 related to the closures of two frozen bakery manufacturing facilities, one in Canada and one in the United States.

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

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

LOBLAW

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

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

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

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

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

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

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

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

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

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

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

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

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

Liquidity and Capital Resources

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

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

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

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

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

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

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

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

- GWL issued $10 million of Series B Debentures;
- *Eagle* issued $600 million of Series 2010 notes;
- PC Bank repurchased $600 million in securitized receivables; and
- PC Bank issued $11 million of GICs.

10. DISCLOSURE CONTROLS AND PROCEDURES

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

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

11. INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

Changes in Internal Control over Financial Reporting

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

12. ENTERPRISE RISKS AND RISK MANAGEMENT

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

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

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

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

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

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

12.1 OPERATING RISKS AND RISK MANAGEMENT

Operating Risks

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

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

Information Technology and Other Systems Implementations

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

Strategy Development and Execution

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

Change Management and Process Execution

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Company also uses third-party logistics services including the operation of dedicated warehouse and distribution facilities and third-party common carriers. The Company maintains a strategy of multiple sources for

logistics providers so that in the event of a disruption of service from one supplier another supplier can be used. However, disruption in these services is possible which could interrupt the delivery of merchandise to stores thereby negatively affecting the operations and financial performance of the Company.

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

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

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

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

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

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

Workplace Health and Safety

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

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

Environmental

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

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

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

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

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

Trademark and Brand Protection

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

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

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

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

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

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

12.2 FINANCIAL RISKS AND RISK MANAGEMENT

Financial Risks

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

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

Foreign Currency Exchange Rates

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

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

Credit

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

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

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

Interest Rates

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

Common Share Prices

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

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

Liquidity and Capital Availability

Liquidity risk is the risk that the Company cannot meet a demand for cash or fund its obligations as they come due. Liquidity risk also includes the risk of not being able to liquidate assets in a timely manner at a reasonable price. Difficulty accessing capital markets could impair the Company's capacity to grow, execute its business model and generate financial returns.

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

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

Derivative Instruments

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

13. RELATED PARTY TRANSACTIONS

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

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

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

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

Post-Employment Benefit Plans

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

Income Tax Matters

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

Compensation of Key Management Personnel

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

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

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

14. CRITICAL ACCOUNTING ESTIMATES

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

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

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

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

Inventories
The Company's inventories are stated at the lower of cost and estimated net realizable value. Net realizable value is estimated as the amount that inventories are expected to be sold taking into consideration fluctuations in retail prices due to seasonality less estimated costs necessary to make the sale. Inventories are written down to net realizable value when the cost of inventories is estimated to be unrecoverable due to obsolescence, damage or declining selling prices. When circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in retail selling prices, the amount of the write-down previously recorded is reversed.

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

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

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

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

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

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

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

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

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

Post-Employment and Other Long Term Employee Benefits

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

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

Goodwill and Indefinite Life Intangible Assets

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

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

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

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

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

Income and Other Taxes

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

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

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

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

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

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

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

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

15. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

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

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

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

16. FUTURE ACCOUNTING STANDARDS

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

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

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

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

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

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

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

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

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

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

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

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

17. OUTLOOK[1]

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

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

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

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

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

18. NON-GAAP FINANCIAL MEASURES

The Company uses the following non-GAAP financial measures: adjusted operating income and adjusted operating margin, adjusted EBITDA and adjusted EBITDA margin, adjusted basic net earnings per common share, adjusted debt and adjusted net debt, adjusted debt to adjusted EBITDA, adjusted debt to equity attributable to shareholders of the Company, free cash flow, interest coverage and return on average net assets. The Company believes these non-GAAP financial measures provide useful information to both management and investors in measuring the financial performance and financial condition of the Company for the reasons outlined below. These measures do not have a standardized meaning prescribed by GAAP and therefore they may not be comparable to similarly titled measures presented by other publicly traded companies, and they should not be construed as an alternative to other financial measures determined in accordance with GAAP.

Adjusted Operating Income, Adjusted Operating Margin, Adjusted EBITDA and Adjusted EBITDA Margin

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Adjusted Basic Net Earnings per Common Share

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

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

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

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

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

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

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

Adjusted Debt and Adjusted Net Debt

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

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

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

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

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

Free Cash Flow

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

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

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

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

Interest and Interest Coverage

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

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

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

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

Net Assets

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

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

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

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

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

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

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

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

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

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

19. ADDITIONAL INFORMATION

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

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

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

This Annual Report includes selected information on Loblaw Companies Limited, a 63.0%-owned public reporting subsidiary company with shares trading on the Toronto Stock Exchange. For information regarding Loblaw, readers should also refer to the materials filed by Loblaw with the Canadian securities regulatory authorities from time to time. These filings are also available on Loblaw's corporate website at www.loblaw.ca.

Toronto, Canada

February 29, 2012

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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 International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). It also includes ensuring that the financial information presented elsewhere in the Annual Report is consistent with that in the consolidated financial statements.

Management is also responsible for providing reasonable assurance that assets are safeguarded and that relevant and reliable financial information is produced. Management is required to design a system of internal controls and is required to certify as to the design and operating effectiveness of internal controls over financial reporting. Internal auditors, who are employees of the Company, review and evaluate internal controls on management's behalf. 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, 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.

[*signed*]
W. Galen Weston
Executive Chairman

[*signed*]
Paviter S. Binning
President

Toronto, Canada
February 29, 2012

Independent Auditors' Report

To the Shareholders of George Weston Limited:

We have audited the accompanying consolidated financial statements of George Weston Limited, which comprise the consolidated balance sheets as at December 31, 2011, December 31, 2010 and January 1, 2010, the consolidated statements of earnings, consolidated statements of comprehensive income, consolidated statements of changes in equity and cash flow for the years ended December 31, 2011 and December 31, 2010 and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

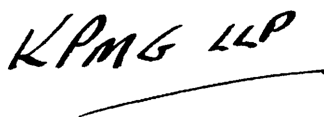
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of George Weston Limited as at December 31, 2011, December 31, 2010 and January 1, 2010 and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.



Chartered Accountants, Licensed Public Accountants

Toronto, Canada
February 29, 2012

Consolidated Statements of Earnings

For the years ended December 31

(millions of Canadian dollars except where otherwise indicated)	2011	2010
Revenue	**$ 32,376**	$ 31,847
Operating Expenses		
Cost of inventories sold (note 10)	**24,421**	23,918
Selling, general and administrative expenses (note 28)	**6,346**	6,361
	30,767	30,279
Operating Income	**1,609**	1,568
Net Interest Expense and Other Financing Charges (note 4)	**366**	471
Earnings Before Income Taxes	**1,243**	1,097
Income Taxes (note 5)	**324**	394
Net Earnings	**919**	703
Attributable to:		
Shareholders of the Company	**635**	452
Non-Controlling Interests	**284**	251
Net Earnings	**$ 919**	$ 703
Net Earnings per Common Share Attributable to Shareholders of the Company ($) (note 6)		
Basic	**$ 4.58**	$ 3.16
Diluted	**$ 4.55**	$ 2.92

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Comprehensive Income

For the years ended December 31

(millions of Canadian dollars)	2011	2010
Net earnings	**$ 919**	$ 703
Other comprehensive loss		
Foreign currency translation adjustment (note 28)	**12**	(27)
	12	(27)
Net loss on derivatives designated as cash flow hedges		(2)
Reclassification of net loss on derivatives designated as cash flow hedges to net earnings		6
		4
Net defined benefit plan actuarial losses (note 24)	**(238)**	(98)
Other comprehensive loss	**(226)**	(121)
Comprehensive Income	**693**	582
Attributable to:		
Shareholders of the Company	**486**	363
Non-Controlling Interests	**207**	219
Comprehensive Income	**$ 693**	$ 582

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Equity

(millions of Canadian dollars except where otherwise indicated)	Common Shares	Preferred Shares	Total Share Capital	Contributed Surplus	Retained Earnings	Foreign Currency Translation Adjustment	Cash Flow Hedges	Total Accumulated Other Comprehensive Loss	Non-Controlling Interests	Total Equity
Balance as at Dec. 31, 2010	$ 133	$ 817	**$ 950**	**$ (14)**	**$ 4,311**	$ (27)	$ 4	**$ (23)**	**$ 2,080**	**$ 7,304**
Net earnings					**635**				**284**	**919**
Other comprehensive (loss) income(1)					**(161)**	12		**12**	**(77)**	**(226)**
Comprehensive income					**474**	12		**12**	**207**	**693**
Effect of share-based compensation (note 25)	1		**1**	**43**					**17**	**61**
Subsidiary capital transactions (notes 22 & 25)				**(5)**					**5**	
Purchased for cancellation (note 21)	(1)		**(1)**		**(60)**					**(61)**
Dividends declared (note 21)										
Per common share ($) – $1.44					**(186)**				**(88)**	**(274)**
Per preferred share ($)										
– Series I – $1.45					**(13)**					**(13)**
– Series III – $1.30					**(10)**					**(10)**
– Series IV – $1.30					**(10)**					**(10)**
– Series V – $1.19					**(10)**					**(10)**
				38	**(289)**				**(66)**	**(317)**
Balance as at Dec. 31, 2011	$ 133	$ 817	**$ 950**	**$ 24**	**$ 4,496**	$ (15)	$ 4	**$ (11)**	**$ 2,221**	**$ 7,680**

(1) Other comprehensive loss includes actuarial losses of $238, $161 of which is presented above in retained earnings and $77 in non-controlling interests.

(millions of Canadian dollars except where otherwise indicated)	Common Shares	Preferred Shares	Total Share Capital	Contributed Surplus	Retained Earnings	Foreign Currency Translation Adjustment	Cash Flow Hedges	Total Accumulated Other Comprehensive Income (Loss)	Non-Controlling Interests	Total Equity
Balance as at Jan. 1, 2010	$ 133	$ 817	**$ 950**		**$ 5,153**		$ 1	**$ 1**	**$ 1,902**	**$ 8,006**
Net earnings					**452**				**251**	**703**
Other comprehensive (loss) income(1)					**(65)**	$ (27)	3	**(24)**	**(32)**	**(121)**
Comprehensive income (loss)					**387**	(27)	3	**(24)**	**219**	**582**
Effect of share-based compensation (note 25)				**$ 2**						**2**
Subsidiary capital transactions (note 22)				**(16)**					**46**	**30**
Dividends declared (note 21)										
Per common share ($) – $9.19					**(1,186)**				**(87)**	**(1,273)**
Per preferred share ($)										
– Series I – $1.45					**(13)**					**(13)**
– Series III – $1.30					**(10)**					**(10)**
– Series IV – $1.30					**(10)**					**(10)**
– Series V – $1.19					**(10)**					**(10)**
				(14)	**(1,229)**				**(41)**	**(1,284)**
Balance as at Dec. 31, 2010	$ 133	$ 817	**$ 950**	**$ (14)**	**$ 4,311**	$ (27)	$ 4	**$ (23)**	**$ 2,080**	**$ 7,304**

(1) Other comprehensive loss includes actuarial losses of $98, $65 of which is presented above in retained earnings and $33 in non-controlling interests.

See accompanying notes to the consolidated financial statements.

Consolidated Balance Sheets

(millions of Canadian dollars)	**Dec. 31, 2011**	As at Dec. 31, 2010	Jan. 1, 2010
ASSETS			
Current Assets			
Cash and cash equivalents (note 7)	**$ 1,372**	$ 1,453	$ 1,490
Short term investments (note 7)	**2,362**	3,253	3,420
Accounts receivable (note 8)	**559**	462	444
Credit card receivables (note 9)	**2,101**	1,997	2,095
Inventories (note 10)	**2,147**	2,050	2,080
Income taxes recoverable	**37**		
Prepaid expenses and other assets	**122**	91	107
Assets held for sale (note 11)	**32**	71	56
Total Current Assets	**8,732**	9,377	9,692
Fixed Assets (note 12)	**9,172**	8,823	8,261
Investment Properties (note 13)	**82**	74	75
Goodwill and Intangible Assets (note 14)	**1,555**	1,554	1,293
Deferred Income Taxes (note 5)	**295**	311	390
Security Deposits (note 7)	**367**	435	348
Franchise Loans Receivable (note 28)	**331**	314	344
Other Assets (note 15)	**789**	808	787
Total Assets	**$ 21,323**	$ 21,696	$ 21,190
LIABILITIES			
Current Liabilities			
Bank indebtedness	**$ 3**	$ 11	$ 10
Trade and other payables	**3,940**	4,799	3,676
Provisions (note 16)	**67**	92	96
Income taxes payable		12	79
Short term debt (note 17)	**1,280**	871	1,525
Long term debt due within one year (note 18)	**87**	1,202	312
Total Current Liabilities	**5,377**	6,987	5,698
Provisions (note 16)	**94**	95	110
Long Term Debt (note 18)	**6,757**	6,114	6,256
Deferred Income Taxes (note 5)	**160**	162	140
Other Liabilities (note 19)	**1,033**	813	760
Capital Securities (note 20)	**222**	221	220
Total Liabilities	**13,643**	14,392	13,184
EQUITY			
Share Capital (note 21)	**950**	950	950
Contributed Surplus (notes 22 & 25)	**24**	(14)	
Retained Earnings	**4,496**	4,311	5,153
Accumulated Other Comprehensive (Loss) Income	**(11)**	(23)	1
Total Equity Attributable to Shareholders of the Company	**5,459**	5,224	6,104
Non-Controlling Interests	**2,221**	2,080	1,902
Total Equity	**7,680**	7,304	8,006
Total Liabilities and Equity	**$ 21,323**	$ 21,696	$ 21,190

Leases (note 27). Contingencies (note 30). Financial guarantees (note 31).

See accompanying notes to the consolidated financial statements.

Approved on behalf of the Board

[*signed*]
W. Galen Weston
Director & Executive Chairman

[*signed*]
A. Charles Baillie
Director

Consolidated Statements of Cash Flow

For the years ended December 31 (millions of Canadian dollars)	2011	2010
Operating Activities		
Net earnings	**$ 919**	$ 703
Income taxes (note 5)	**324**	394
Net interest expense and other financing charges (note 4)	**366**	471
Depreciation and amortization	**762**	683
Foreign currency translation (gains) losses (note 28)	**(25)**	56
Income taxes paid	**(277)**	(336)
Interest received	**76**	67
Settlement of equity forward contracts (note 28)	**(22)**	
Net (increase) decrease in credit card receivables	**(104)**	98
Change in non-cash working capital	**(36)**	136
Fixed assets and other related impairments	**7**	28
(Gain) loss on disposal of assets	**(18)**	8
Other	**2**	(29)
Cash Flows from Operating Activities	**1,974**	2,279
Investing Activities		
Fixed asset purchases	**(1,027)**	(1,214)
Change in short term investments	**929**	80
Business acquisition – net of cash acquired (note 3)	**(12)**	(308)
Proceeds from fixed asset sales	**57**	90
Change in franchise investments and other receivables	**(24)**	(25)
Change in security deposits	**74**	(104)
Other	**(12)**	(12)
Cash Flows used in Investing Activities	**(15)**	(1,493)
Financing Activities		
Change in bank indebtedness	**(8)**	(2)
Change in short term debt (note 17)	**409**	(654)
Long term debt – Issued (note 18)	**635**	981
– Retired (note 18)	**(1,209)**	(322)
Share capital – Issued (notes 21 & 25)	**1**	
– Retired (note 21)	**(61)**	
Subsidiary share capital – Issued (notes 22 & 25)	**21**	
– Retired (note 22)	**(39)**	
Interest paid	**(489)**	(522)
Dividends – To common shareholders	**(1,186)**	(186)
– To preferred shareholders	**(44)**	(44)
– To minority shareholders	**(79)**	(57)
Cash Flows used in Financing Activities	**(2,049)**	(806)
Effect of foreign currency exchange rate changes on cash and cash equivalents	**9**	(17)
Change in Cash and Cash Equivalents	**(81)**	(37)
Cash and Cash Equivalents, Beginning of Year	**1,453**	1,490
Cash and Cash Equivalents, End of Year	**$ 1,372**	$ 1,453

See accompanying notes to the consolidated financial statements.

For the years ended December 31, 2011 and December 31, 2010
(millions of Canadian dollars except where otherwise indicated)

Note 1. NATURE AND DESCRIPTION OF THE REPORTING ENTITY

George Weston Limited ("GWL") is a Canadian public company incorporated in 1928, engaged in food processing and distribution. Its registered office is located at 22 St. Clair Avenue East, Toronto, Canada M4T 2S7. GWL and its subsidiaries are together referred to in these consolidated financial statements as the "Company". The Company's parent is Wittington Investments, Limited ("Wittington").

The Company has two reportable operating segments, Loblaw Companies Limited ("Loblaw") and Weston Foods, and holds cash and short term investments. The Loblaw operating segment is Canada's largest food distributor and a leading provider of drugstore, general merchandise and financial services. The Weston Foods operating segment is a leading fresh and frozen baking company in Canada and is engaged in frozen baking and biscuit manufacturing in the United States.

Note 2. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance These are the Company's first audited annual consolidated financial statements reported under International Financial Reporting Standards ("IFRS" or "GAAP") for the year ended December 31, 2011 with comparative financial information for the year ended December 31, 2010 and IFRS 1, "First-Time Adoption of IFRS" ("IFRS 1") has been applied. An explanation of how the transition from Canadian Generally Accepted Accounting Principles ("CGAAP") to IFRS as at January 1, 2010 (the "transition date") has affected the reported financial position, financial performance and cash flows of the Company, including the mandatory exceptions and optional exemptions under IFRS 1 is provided in note 34.

These consolidated financial statements were authorized for issuance by the Company's Board of Directors on February 29, 2012.

Basis of Preparation The consolidated financial statements were prepared on a historical cost basis, except for certain financial instruments carried at fair value. Liabilities for cash-settled share-based compensation arrangements are measured at fair value (see note 25) and defined benefit plan assets are also recorded at fair value with the obligations related to these pension plans measured at their discounted present value as disclosed in note 24.

The significant accounting policies set out below have been applied consistently in the preparation of the consolidated financial statements of all periods presented, including the presentation of the opening consolidated balance sheet as at January 1, 2010 except for certain mandatory exceptions and optional exemptions taken pursuant to IFRS 1 as described in note 34.

The consolidated financial statements are presented in Canadian dollars.

Basis of Consolidation The consolidated financial statements include the accounts of GWL and other entities that the Company controls in accordance with IAS 27, "Consolidated and Separate Financial Statements" ("IAS 27"). The Company's interest in the voting share capital of its subsidiaries is 100% except for Loblaw, which is 63.0% (December 31, 2010 – 62.9%; January 1, 2010 – 62.5%). The change in GWL's ownership was impacted by the Company's participation in the Loblaw Dividend Reinvestment Plan ("DRIP") and by other changes in Loblaw's common share equity.

Special Purpose Entities ("SPE") are consolidated under Standing Interpretations Committee ("SIC") Interpretation 12, "Consolidation – Special Purpose Entities" ("SIC-12"), if, based on an evaluation of the substance of its relationship with the Company and the SPE's risks and rewards, the Company concludes that it controls the SPE. SPEs controlled by the Company were established under terms that impose strict limitations on the decision-making powers of the SPE's management and that result in the Company receiving the majority of the benefits related to the SPE's operations and net assets, being exposed to the majority of risks incident to the SPE's activities, and retaining the majority of the residual or ownership risks related to the SPEs or their assets.

Non-controlling interests are recorded in the consolidated financial statements and represent the non-controlling shareholders' portion of the net assets and net earnings of Loblaw. Transactions with non-controlling interests are treated as transactions with equity owners of the Company. Changes in GWL's ownership interest in its subsidiaries are accounted for as equity transactions.

Fiscal Year The Company's year end is December 31. Activities are reported on a fiscal year ending on the Saturday closest to December 31.

As a result, the Company's fiscal year is usually 52 weeks in duration but includes a 53rd week every five to six years. Each of the years ended December 31, 2011 and December 31, 2010 contained 52 weeks. The next 53-week year will occur in fiscal year 2014.

Net Earnings per Common 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 period. The diluted EPS calculation assumes that the weighted average number of outstanding stock options during the period with an exercise price below the average market price during the period are exercised and the assumed proceeds are used to purchase the Company's common shares at the average market price during the period. Diluted EPS also takes into consideration the dilutive effect of the conversion options on the Loblaw capital securities, the equity derivatives recorded in trade and other payables, and a component of Loblaw's other liabilities.

Revenue Recognition Weston Foods recognizes sales upon delivery of its products to customers and acceptance of its products by customers net of provisions for returns, discounts and allowances. Loblaw revenue includes sales, net of estimated returns, to customers through corporate stores operated by Loblaw, sales to and service fees from associated stores, independent account customers, financial services and franchised stores, net of sales incentives offered by Loblaw. Loblaw recognizes revenue at the time the sale is made to its customers and at the time of delivery of inventory to its associated and franchise stores.

Loblaw customer loyalty awards are accounted for as a separate component of the sales transaction in which they are granted. A portion of the consideration received in a transaction that includes the issuance of an award is deferred until the awards are ultimately redeemed. The allocation of the consideration to the award is based on an evaluation of the award's estimated fair value at the date of the transaction using the residual fair value method.

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

Interest income on credit card loans, service fees and other revenue related to financial services are recognized on an accrual basis.

Income Taxes The asset and liability method of accounting is used for income taxes. Under the asset and liability method, deferred income tax assets and liabilities are recognized for the deferred income tax consequences attributable to temporary differences between the financial statement carrying values of existing assets and liabilities and their respective income tax bases. Current and deferred taxes are charged or credited in the statements of earnings, except when it relates to a business combination, or items charged or credited directly to equity or to other comprehensive income (loss). Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Deferred tax is measured using enacted or substantively enacted income tax rates expected to apply in the years in which those temporary differences are expected to be recovered or settled. A deferred tax asset is recognized for unused tax losses and credits to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis. Deferred tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

Cash Equivalents Cash equivalents consist of highly liquid marketable investments with a maturity of 90 days or less from the date of acquisition.

Short Term Investments Short term investments primarily consist of government treasury bills, corporate commercial paper, bankers' acceptances and government agency securities.

Security Deposits Security deposits consist primarily of cash, government treasury bills, bankers' acceptances and government agency securities, which are required to be placed with counterparties as collateral to enter into and maintain certain outstanding letters of credit and certain financial derivative contracts. The amount of the required security deposits will fluctuate primarily as a result of the change in market value of the derivatives.

Accounts Receivable Accounts receivable consist mainly of receivables from Loblaw's vendors, independent franchisees, associated stores, independent accounts and receivables from Weston Foods customers and suppliers, and are recorded net of allowances.

Credit Card Receivables Loblaw, 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. Interest income is recorded in revenue and interest expense is recorded in net interest expense and other financing charges using the effective interest method. The effective interest rate is the rate that discounts the estimated future cash receipts through the expected life of the credit card receivable or, where appropriate, a shorter period, to the carrying amount. When calculating the effective interest rate, Loblaw estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

PC Bank considers evidence of impairment losses on a portfolio basis for which losses cannot be determined on an item-by-item basis. The allowance is based upon a statistical analysis of past and current 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. Interest on the impaired asset continues to be recognized. The net credit loss experience for the year is recognized in operating income.

Periodically PC Bank transfers credit card receivables by selling them to and repurchasing them from independent securitization trusts. Due to the retention of substantially all of the risks and rewards relating to these assets, Loblaw continues to recognize these assets in credit card receivables and the transferred receivables are accounted for as secured financing transactions. The Company consolidates one of the independent securitization trusts, *Eagle* Credit Card Trust ("*Eagle*"), as an SPE. The associated liabilities secured by these assets are included in either short term debt or long term debt, based on their characteristics, and are carried at amortized cost.

Franchise Loans Receivable Franchise loans receivable are comprised of amounts due from independent franchisees for loans issued through an independent funding trust consolidated under SIC-12. Each independent franchisee provides security to the independent funding trust for its obligations by way of a general security agreement. In the event that an independent franchisee defaults on its loan and Loblaw has not, within a specified time period, assumed the loan, or the default is not otherwise remedied, the independent funding trust would assign the loan to Loblaw and draw upon this standby letter of credit. Loblaw has agreed to reimburse the issuing bank for any amount drawn on the standby letter of credit.

Inventories The Company values inventories at the lower of cost and net realizable value. Costs include the costs of purchases net of vendor allowances plus other costs, such as transportation, that are directly incurred to bring inventories to their present location and condition. Loblaw's seasonal general merchandise, Loblaw's inventories at distribution centres and Weston Foods inventories are measured at weighted average cost. Loblaw uses the retail method to measure the cost of the majority of retail store inventories. Under this method, Loblaw estimates net realizable value as the amount that inventories are expected to be sold taking into consideration fluctuations in retail prices due to seasonality less estimated costs necessary to make the sale. Inventories are written down to net realizable value when the cost of inventories is estimated to be unrecoverable due to obsolescence, damage or declining selling prices. When circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in selling prices, the amount of the write-down previously recorded is reversed. Storage costs, indirect

administrative overhead and certain selling costs related to inventories are expensed in the period that these costs are incurred.

Vendor Allowances The Company receives allowances from certain of its vendors whose products it purchases. 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 merchandise inventories sold and the related inventory when recognized in the consolidated statement of earnings and the consolidated balance sheet, respectively. 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. The consideration is then recognized as a reduction of the cost incurred in the consolidated statement of earnings.

Fixed Assets Fixed assets are recorded at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset, expenditures to prepare the asset for its intended use and capitalized borrowing costs. The commencement date for capitalization of costs occurs when the Company first incurs expenditures for the qualifying assets and undertakes the required activities to prepare the assets for their intended use.

Depreciation commences when the assets are available for use and is recognized on a straight-line basis to depreciate the cost of these assets to their estimated residual value over their estimated useful lives. When significant parts of a fixed asset have different useful lives, they are accounted for as separate components of the asset and depreciated over their estimated useful life. Depreciation methods, useful lives and residual values are reviewed each year end and are adjusted if appropriate. Estimated useful lives of fixed assets, including component parts, are as follows:

- Buildings – 10 to 40 years
- Equipment and fixtures – 3 to 17 years
- Building improvements – up to 10 years

Leasehold improvements are depreciated over the lesser of the lease term, which may include renewal options, and their estimated useful lives to a maximum of 25 years. Fixed assets held under finance leases are depreciated over the lesser of their expected useful lives, the same basis as owned assets, or the term of the lease, unless it is reasonably certain that the Company will obtain ownership by the end of the lease term in which case it would be depreciated over the life of the asset.

Fixed assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. Refer to the Impairment of Non-Financial Assets significant accounting policy below.

Investment Properties Investment properties are properties owned by Loblaw that are held to either earn rental income, for capital appreciation, or both. Loblaw's investment properties include single tenant properties held to earn rental income and certain multiple tenant properties. Land and buildings leased to franchisees are not accounted for as investment properties as these properties are related to Loblaw's operating activities.

Investment property assets are recognized at cost less accumulated depreciation and any accumulated impairment losses. The depreciation policies for investment properties are consistent with those described in the significant accounting policy for fixed assets.

Investment properties are reviewed quarterly for any indication of impairment. Refer to the Impairment of Non-Financial Assets significant accounting policy below.

Borrowing Costs Borrowing costs directly attributable to the acquisition, construction, or production of fixed assets, that necessarily take a substantial period of time to prepare for their intended use and a proportionate share of general borrowings is capitalized to the cost of those fixed assets, until such time as the fixed assets are substantially ready for their intended use based on the weighted average cost of borrowing during the quarter.

Goodwill Goodwill arising in a business combination is recognized as an asset at the date that control is acquired. Goodwill is measured as the excess of the fair value of the consideration transferred over the fair

value of the identifiable assets acquired less the fair value of the liabilities assumed. Goodwill is tested for impairment at least annually and whenever there is an indication that the asset may be impaired. Refer to the Impairment of Non-Financial Assets significant accounting policy below.

Intangible Assets Acquired intangible assets that have definite useful lives are measured at cost less accumulated amortization and accumulated impairment losses. The Company assesses each intangible asset for legal, regulatory, contractual, competitive or other factors to determine if the useful life is definite. Intangible assets with a definite life are amortized on a straight-line basis over their estimated useful lives, ranging from 10 to 30 years.

Indefinite life intangible assets are measured at cost less any accumulated impairment losses. Indefinite life intangible assets are tested for impairment at least annually and whenever there is an indication that the asset may be impaired. Refer to the Impairment of Non-Financial Assets significant accounting policy below.

Impairment of Non-Financial Assets At each balance sheet date, the Company reviews the carrying amounts of its definite life non-financial assets including fixed assets, investment properties and intangible assets to determine whether there is any indication of impairment. Goodwill and intangible assets with indefinite useful lives are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired. If any indication of impairment exists, the recoverable amount of the cash generating unit ("CGU") or CGU grouping is estimated in order to determine the extent of the impairment loss, if any.

For the purposes of reviewing definite life non-financial assets for impairment, asset groups are reviewed at the lowest level for which identifiable cash inflows are largely independent of cash inflows of other assets or groups of assets. This grouping is referred to as a CGU. Weston Foods' manufacturing assets are grouped together at the level of production categories which are capable of servicing their customers independently of other production categories. Loblaw has determined that each retail location and each investment property is a separate CGU for purposes of impairment testing.

The Company's corporate assets, which include the head office facilities and Loblaw distribution centres, do not generate separate cash inflows. Corporate assets are tested for impairment at the minimum collection of CGUs to which the corporate asset can be allocated reasonably and consistently. For Loblaw distribution centres, the corporate assets are allocated to the operating stores that are serviced from the distribution centre.

Various impairment indicators relating to expectations of future cash flows are used to determine the need to test a CGU for an impairment loss.

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

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

An impairment loss is recognized if the carrying amount of a CGU exceeds its recoverable amount. Impairment losses are recognized in operating income in the period in which they occur. When impairment subsequently reverses, the carrying amount of the asset is increased to the extent that the carrying value of the underlying assets does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment had been recognized. Impairment reversals are recognized in operating income in the period in which they occur.

Goodwill and intangible assets with indefinite lives are assessed for impairment based on the group of CGUs expected to benefit from the synergies of the business combination and the lowest level at which management monitors the goodwill. Any potential impairment is identified by comparing the recoverable amount of the CGU grouping to which the assets are allocated to its carrying value. If the recoverable amount, calculated as the higher of the fair value less costs to sell and the value in use, is less than its carrying amount, an impairment loss is recognized in operating income in the period in which it occurs. Impairment losses on goodwill are not subsequently reversed if conditions change.

Provisions Provisions are recognized when there is a legal or constructive obligation for which it is probable that a transfer of resources will be required to settle the obligation. The amount recognized as a provision is the present value of the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

Financial Instruments Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognized when the contractual rights to receive cash flows and benefits from the financial asset expire, or if the Company transfers the control or substantially all the risks and rewards of ownership of the financial asset to another party. Financial liabilities are derecognized when obligations under the contract expire, are discharged or cancelled. Financial instruments upon initial recognition are measured at fair value and classified as either financial assets or financial liabilities at fair value through profit or loss, held-to-maturity investments, loans and receivables or other financial liabilities. Financial instruments are included on the consolidated balance sheet and measured after initial recognition at fair value, except for loans and receivables, held-to-maturity financial assets and other financial liabilities which are measured at amortized cost. Fair values are based on quoted market prices where available from active markets, otherwise fair values are estimated using valuation methodologies, primarily discounted cash flows taking into account external market inputs where possible. Gains and losses on fair value through profit or loss financial assets and financial liabilities are recognized in net earnings before income taxes in the period in which they are incurred. Settlement date accounting is used to account for the purchase and sale of financial assets. Gains or losses between the trade date and settlement date on fair value through profit or loss financial assets and on available-for-sale financial assets are recorded in net earnings before income taxes and other comprehensive income, respectively. Transaction costs other than those related to financial instruments classified as fair value through profit or loss, which are expensed as incurred, are capitalized to the carrying amount of the instrument and amortized using the effective interest method.

Impairment of Financial Instruments An assessment of whether there is objective evidence that a financial asset or a group of financial assets is impaired is performed at each balance sheet date. A financial asset or group of financial assets is considered to be impaired if one or more loss events that have an impact on the future cash flows of the financial asset or group of assets occur after initial recognition of the financial asset and the loss can be reliably measured. This assessment is performed on an individual financial asset basis or on a portfolio of financial assets basis. If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has occurred, the loss is based on the difference between the carrying amount of the financial asset, or portfolio of financial assets, and the respective estimated future cash flows discounted at the financial instrument's original effective interest rate and is recorded as an allowance for losses. If, in a subsequent period, the impairment loss reverses, the previously recognized impairment is also reversed to the extent of the impairment.

Derivative Instruments Financial derivative instruments in the form of cross currency swaps, interest rate swaps, foreign exchange forwards, and equity swaps and forwards as well as non-financial derivatives in the form of futures contracts, options contracts and forward contracts are recorded at fair value on the consolidated balance sheet. Any embedded derivative instruments that are identified are separated from their host contract and recorded on the consolidated balance sheet at fair value. Fair values are based on quoted market prices where available from active markets, otherwise fair values are estimated using valuation methodologies, primarily discounted cash flows taking into account external market inputs.

Derivative instruments are recorded in current or non-current assets and liabilities based on their remaining terms to maturity. All changes in fair value of the derivative instruments are recorded in net earnings unless the derivative qualifies and is effective as a hedging instrument in a designated hedging relationship.

Foreign Currency Translation The functional currency of the Company is the Canadian dollar.

The assets and liabilities of foreign operations that have a functional currency different from that of the Company, including goodwill and fair value adjustments arising on acquisition, are translated into Canadian dollars at the foreign currency exchange rate in effect at the balance sheet date. The resulting foreign currency exchange gains or losses are recognized in the foreign currency translation adjustment as part of comprehensive income starting January 1, 2010, the date of transition to IFRS (see note 34(g)). When such foreign operation is disposed of, the related foreign currency translation reserve is recognized in net earnings as part of the gain or loss on disposal. On the partial disposal of such foreign operation, the relevant proportion is reclassified to net earnings.

Assets and liabilities of foreign operations that have the same functional currency as the Company are translated into Canadian dollars at the foreign currency exchange rate in effect at the balance sheet date. The resulting foreign currency exchange gains or losses are recognized in operating income.

Revenues and expenses of foreign operations are translated into Canadian dollars at the foreign currency exchange rates that approximate the rates in effect at the dates when such items are transacted.

Short Term Employee Benefits Short term employee benefits include wages, salaries, compensated absences, profit-sharing and bonuses. Short term employee benefit obligations are measured on an undiscounted basis and are recognized in operating income as the related service is provided or capitalized if the service rendered is in connection with the creation of a tangible or intangible asset. A liability is recognized for the amount expected to be paid under short term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

Defined Benefit Plans The Company has a number of contributory and non-contributory defined benefit plans providing pension and other benefits to eligible employees. The defined benefit pension plans provide a pension based on length of service and eligible pay. The other defined benefits include health care, life insurance and dental benefits provided to eligible employees who retire at certain ages having met certain service requirements. The Company's net obligation in respect of defined benefits is calculated separately for each plan. Defined benefit plan obligations are actuarially calculated by a qualified actuary at the balance sheet date using the projected unit credit method. The actuarial valuations are determined based on management's best estimate of the discount rate, the expected long term rate of return on plan assets, the rate of compensation increase, retirement rates, termination rates, mortality rates and expected growth rate of health care costs. The discount rate used to value the defined benefit plan obligation for accounting purposes is based on the yield on a portfolio of Corporate AA bonds denominated in the same currency in which the benefits are expected to be paid and with terms to maturity that, on average, match the terms of the defined benefit plan obligations. The expected long term rate of return on plan assets is based on current market conditions, the asset mix, the active management of defined benefit pension plan assets and historical returns. The expected growth rate in health care costs for 2011 was based on external data and the Company's historical trends for health care costs. Unrecognized past service costs (see below) and the fair value of plan assets are deducted from the defined benefit plan obligations to arrive at the net defined benefit plan obligations.

Past service costs arising from plan amendments are recognized in operating income in the year that they arise to the extent that the associated benefits are fully vested. Unvested past service costs are recognized in operating income on a straight-line basis over the vesting period of the associated benefits. The interest cost on the defined benefit plan obligation and the expected return on plan assets as determined by the actuarial valuations are recognized in net interest expense and other financing charges.

For plans that resulted in a net defined benefit asset, the recognized asset is limited to the total of any unrecognized past service costs plus the present value of economic benefits available in the form of future refunds from the plan or reductions in future contributions to the plan (the "asset ceiling"). In order to calculate the present value of economic benefits, consideration is given to minimum funding requirements that apply to the plan. If it is anticipated that the Company will not be able to recover the value of the net defined benefit asset, after considering minimum funding requirements for future service, the net defined benefit asset

is reduced to the amount of the asset ceiling. The effect of the asset ceiling is recognized in other comprehensive loss.

When the payment in the future of minimum funding requirements related to past service would result in a net defined benefit surplus or an increase in a surplus, the minimum funding requirements are recognized as a liability to the extent that the surplus would not be fully available as a refund or a reduction in future contributions. Remeasurement of this liability is recognized in other comprehensive loss in the period in which the remeasurement occurs.

At each balance sheet date, plan assets are measured at fair value and defined benefit plan obligations are measured using assumptions which approximate their values at the reporting date, with the resulting actuarial gains and losses from both of these measurements recognized in other comprehensive loss.

Defined Contribution Plans The Company maintains a number of defined contribution pension plans for employees in which the Company pays fixed contributions for eligible employees into a registered plan and has no further significant obligation to pay any further amounts. The amount of the pension benefit is based on accumulated Company contributions and in most plans, employee contributions and investment gains and losses. The costs of benefits for defined contribution plans are expensed as contributions are due.

Multi-Employer Pension Plans The Company participates in multi-employer pension plans which are accounted for as defined contribution plans. The Company's responsibility to make contributions to these plans is established pursuant to its collective agreements. The Company does not administer these plans, but rather, the administration and the investment of their assets are controlled by a board of independent trustees generally consisting of an equal number of union and employer representatives. The contributions made by the Company to multi-employer plans are expensed as contributions are due. In the United States, the Company's contributions may be increased in the future depending on the funded status of the plans.

Other Long Term Employee Benefit Plans The Company offers other long term employee benefits including contributory long term disability benefits and non-contributory continuation of health care and dental benefits to employees who are on long term disability leave. As the amount of the long term disability benefit does not depend on length of service, the obligation is recognized when an event occurs that gives rise to an obligation to make payments. The amount of other long term employee benefits is actuarially calculated by a qualified actuary at the balance sheet date using the projected unit credit method. The discount rate used to value the other long term employee benefit plan obligation is based on the yield on a portfolio of Corporate AA bonds denominated in the same currency in which the benefits are expected to be paid and with terms to maturity that, on average, match the terms of the other long term employee benefit plan obligations. The interest cost on the other long term employee benefit plan obligation and the expected return on plan assets as determined by the actuarial valuations are recognized in net interest expense and other financing charges. At each balance sheet date, plan assets are measured at fair value and other long term employee benefit plan obligations are measured using assumptions which approximate their values at the reporting date, with the resulting actuarial gains and losses from both of these measurements recognized immediately in operating income. Past service costs are recognized immediately in operating income in the period in which they arise.

Termination Benefits Termination benefits are recognized as an expense when the Company is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if the Company has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. Benefits payable are discounted to their present value when the effect of the time value of money is material.

Stock Option Plan Prior to February 22, 2011, stock options could be settled in shares or in the share appreciation value in cash at the option of the employee. These options were accounted for as cash-settled stock options and vested in tranches over a three to five year vesting period; accordingly, each tranche was valued separately using a Black-Scholes option pricing model. The fair value of the amount payable to employees in respect of these plans was remeasured at each balance sheet date, and a compensation expense

was recognized in operating income over the vesting period for each tranche with a corresponding change in the liability. Forfeitures were estimated at the grant date and were revised to reflect a change in expected or actual forfeitures.

Commencing February 22, 2011, stock options allow for settlement only in shares. These grants are accounted for as equity-settled stock options and vest in tranches over a three to five year vesting period. The fair value of each tranche of options granted to employees is measured separately at the grant date using a Black-Scholes option pricing model, and the grant date fair value net of expected forfeitures at the grant date is recognized as an expense in operating income over the vesting period of each tranche, with a corresponding increase in contributed surplus. During the vesting period the amount recognized as an expense is adjusted to reflect revised expectations about the number of options expected to vest, such that the amount ultimately recognized as an expense is based on the number of options that meet the vesting conditions. Upon exercise of vested options, the amount recognized in contributed surplus for the award plus the cash received upon exercise is recognized as an increase in share capital.

Restricted Share Unit ("RSU") Plan RSU grants entitle employees to a cash payment equal to the weighted average price of a GWL or Loblaw common share after the end of a performance period, ranging from three to five years following the date of the award. The Company recognizes a compensation expense in operating income for each RSU granted equal to the market value of a GWL or Loblaw common share less the net present value of the expected dividend stream at the date on which RSUs are awarded to each participant. The compensation expense is prorated over the performance period reflecting changes in the market value of a GWL or Loblaw common share until the end of the performance period. Forfeitures are estimated at the grant date and are revised to reflect a change in expected or actual forfeitures.

Director Deferred Share Unit ("DSU") Plan Members of GWL's and Loblaw's Boards of Directors, who are not management, may elect annually to receive all or a portion of their annual retainer(s) and fees in the form of fully vested DSUs. Holders of the DSUs earn dividends in the form of additional fractional DSUs during the holding period. The fractional DSUs issued during the holding period are treated as additional awards. The Company recognizes an expense for each DSU granted equal to the market value of a GWL or Loblaw common share at the date on which DSUs are awarded with a corresponding offset to equity. After the grant date, the DSU expense is not remeasured for subsequent changes in the market value of a GWL or Loblaw common share. The DSUs are settled upon termination of Board service.

Executive Deferred Share Unit ("EDSU") Plan Under this plan, eligible executives may elect to defer up to 100% of the Short Term Incentive Plan ("STIP") earned in any year into the EDSU plan, subject to an overall cap of three times the executive's base salary. Each EDSU entitles the holder to receive the cash equivalent of a GWL or Loblaw common share, payable by December 15 of the year following the year in which the executive's employment ceases for any reason. An election to participate in the plan in any year must be made before the beginning of the year and is irrevocable. The number of EDSUs granted in respect of any year will be determined by dividing the STIP compensation that is subject to the EDSU plan election by the market value of GWL or Loblaw common shares on the date the STIP compensation would otherwise be payable. For this purpose, and for purposes of determining the value of an EDSU upon conversion of the EDSUs into cash, the value of the EDSUs is calculated by using the weighted average of the trading prices of GWL or Loblaw common shares on the Toronto Stock Exchange for the five trading days prior to the valuation date. After the grant date, any change in fair value is recognized in operating income in the period of the change with a corresponding offset to the liability.

Employee Share Ownership Plan ("ESOP") GWL and Loblaw maintain ESOPs for their employees, which allow employees to acquire GWL and Loblaw common shares through regular payroll deductions of up to 5% of their gross regular earnings. GWL and Loblaw contribute an additional 25% of each employee's contribution to their respective plans, which is recognized in operating income as a compensation cost when the contribution is made. The ESOPs are administered through a trust which purchases GWL and Loblaw common shares in the open market on behalf of employees.

Critical Accounting Estimates and Assumptions The preparation of consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions in applying the Company's accounting policies, which have an effect on the reported amounts and disclosures made in the consolidated financial statements and accompanying notes. Management continually evaluates the estimates and assumptions it uses. These judgments, estimates and assumptions are based on management's historical experience, best knowledge of current events and conditions and other factors that are believed to be reasonable under the circumstances.

Material estimates and assumptions are made with respect to establishing the valuation of credit card receivables, inventories, goodwill and intangible assets, financial instruments, income and other taxes, impairment of fixed assets and other non-financial assets, and parameters used in the measurement of post-employment and other long term employee benefits. These estimations depend upon subjective or complex judgments about matters that may be uncertain, and changes in those estimates could materially impact the consolidated financial statements. Illiquid credit markets, volatile equity, foreign currency and energy markets and declines in consumer spending have combined to increase the uncertainty inherent in such estimates and assumptions. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates.

Future Accounting Standards

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

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

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

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

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

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

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

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

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

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

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

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

Note 3. BUSINESS ACQUISITIONS

Weston Foods' acquisitions of ACE Bakery Ltd. ("ACE") and Keystone Bakery Holdings, LLC ("Keystone") were accounted for using the acquisition method of accounting. Accordingly, the consolidated financial statements include the results of operations since the date of the acquisition and are reported in the Weston Foods segment.

ACE Bakery

On November 1, 2010, Weston Foods (Canada) Inc., a subsidiary of GWL, acquired all of the outstanding shares of ACE, for total consideration of $110, including nominal transaction costs. ACE is a Canadian manufacturer and supplier of artisan and European-style rustic bread varieties.

During 2011, the Company finalized the acquisition method of accounting and the net assets acquired are summarized as follows:

Accounts receivable	$	13
Inventories		3
Fixed assets		22
Goodwill		62
Definite life intangible assets (note 14)		35
Trade and other payables		(13)
Income taxes		(2)
Deferred income taxes		(10)
Cash consideration, net of cash acquired	$	110

The goodwill associated with the above transaction is not deductible for tax purposes.

Keystone Bakery

On September 24, 2010, Maplehurst Bakeries, LLC, a subsidiary of GWL, acquired all of the outstanding shares of Keystone, for total consideration of approximately $188 (U.S. $186), including $1 of transaction costs. Keystone is a U.S manufacturer and supplier of frozen cupcakes, doughnuts and cookies.

During 2010, the Company finalized the acquisition method of accounting and the net assets acquired are summarized as follows:

Accounts receivable	$	9
Inventories		6
Fixed assets		20
Goodwill		94
Definite life intangible assets (note 14)		66
Trade and other payables		(8)
Net assets acquired	$	187
Transaction costs recorded in operating income		1
Cash consideration, net of cash acquired	$	188

The goodwill associated with the above transaction is deductible for tax purposes.

Other

During 2011, Weston Foods purchased the assets of Colonial Cookies, a biscuit manufacturer in Ontario, Canada for cash consideration of $12. Weston Foods acquired net assets of $12.

During 2011, Loblaw completed an acquisition for total consideration of $16. Loblaw acquired net assets of $8 and goodwill and intangible assets of $8.

During 2010, Weston Foods purchased a frozen bakery manufacturing facility in Ontario, Canada for cash consideration of $11. Weston Foods acquired net assets of $4 and goodwill of $7.

Notes to the Consolidated Financial Statements

Note 4. NET INTEREST EXPENSE AND OTHER FINANCING CHARGES

The components of net interest expense and other financing charges were as follows:

	2011	2010
Long term debt	$ 368	$ 376
Defined benefit and other long term employee benefit plan obligations	108	109
Borrowings related to credit card receivables	41	42
Franchise Trust II loans	16	16
Financial derivative instruments	3	2
Other financing charges(1)		42
Dividends on capital securities (note 20)	14	14
Less: interest capitalized to fixed assets (capitalization rate 6.4% (2010 – nil))	(1)	
	549	601
Interest income:		
Expected return on pension benefit plan assets	(97)	(93)
Other financing income(1)	(40)	
Accretion income	(20)	(15)
Financial derivative instruments	(8)	
Security deposits	(1)	(1)
Short term interest income	(17)	(21)
	(183)	(130)
Net interest expense and other financing charges	$ 366	$ 471

(1) Other financing charges (income) for 2011 includes non-cash income of $18 (2010 – a non-cash charge of $62) related to the fair value adjustment of Weston Holdings Limited's ("WHL"), a subsidiary of GWL, forward sale agreement for 9.6 million Loblaw common shares. The fair value adjustment of the forward contract is a non-cash item resulting from fluctuations in the market price of the underlying Loblaw common shares that WHL owns. WHL does not record any change in the market price associated with the Loblaw common shares it owns. Any cash paid under the forward contract could be offset by the sale of the Loblaw common shares. Also included in other financing charges (income) is forward accretion income of $39 (2010 – $37) and the forward fee of $17 (2010 – $17) associated with WHL's forward sale agreement.

Note 5. INCOME TAXES

The components of income taxes were as follows:

	2011	2010
Current income taxes		
Current period	$ 238	$ 271
Adjustment in respect of prior periods	(12)	(4)
Deferred income taxes		
Origination and reversal of temporary differences	88	127
Adjustment in respect of prior periods	10	
Income taxes	$ 324	$ 394

Income tax recoveries recognized in other comprehensive loss were as follows:

	2011	2010
Loss on derivatives designated as cash flow hedges		$ (1)
Reclassification of loss on derivatives designated as cash flow hedges to net earnings		(3)
Defined benefit plan actuarial losses (note 24)	$ (83)	(34)
Other comprehensive income	$ (83)	$ (38)

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

	2011	2010
Weighted average basic Canadian federal and provincial statutory income tax rate	**27.7%**	30.8%
Net (decrease) increase resulting from:		
Earnings in jurisdictions taxed at rates different from the Canadian statutory income tax rates	**(0.1)**	(1.5)
Unrecognized benefit of foreign currency translation losses and the utilization of realized foreign currency losses	**(0.9)**	0.7
Non-taxable and non-deductible amounts (including capital gains/losses and cash-settled stock options)	**0.1**	3.9
Impact of resolution of certain income tax matters from a previous year and other	**(0.7)**	2.0
Effective income tax rate applicable to earnings before income taxes	**26.1%**	35.9%

Deferred income tax assets as at December 31, 2011 and December 31, 2010 which were not recognized on the consolidated balance sheets were as follows:

	2011	2010
Deductible temporary differences	**$ 22**	$ 23
Income tax losses and credits	**32**	19
	$ 54	$ 42

The income tax losses and credits expire in the years 2012 to 2031. The deductible temporary differences do not expire under current income tax legislation. Deferred income tax assets were not recognized in respect of these items because it is not probable that future taxable income will be available to the Company to utilize the benefits.

Deferred income tax assets and liabilities were attributable to the following:

		As at	
	Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010
Trade and other payables	**$ 76**	$ 90	$ 111
Other liabilities	**338**	279	278
Fixed assets	**(238)**	(248)	(207)
Goodwill and intangible assets	**(16)**	(7)	11
Other assets	**(136)**	(130)	(123)
Losses carried forward (expiring 2028 to 2031)	**90**	112	122
Other	**21**	53	58
Net deferred income tax assets	**$ 135**	$ 149	$ 250
Recorded on the consolidated balance sheets as follows:			
Deferred income tax assets	**$ 295**	$ 311	$ 390
Deferred income tax liabilities	**(160)**	(162)	(140)
Net deferred income tax assets	**$ 135**	$ 149	$ 250

Note 6. BASIC AND DILUTED NET EARNINGS PER COMMON SHARE

	2011	2010
Net earnings attributable to shareholders of the Company	**$ 635**	$ 452
Prescribed dividends on preferred shares in share capital	**(44)**	(44)
Net earnings available to common shareholders	**$ 591**	$ 408
Impact of GWL equity swaps		(20)
Reduction in net earnings due to dilution at Loblaw	**(4)**	(9)
Net earnings available to common shareholders for diluted earnings per share	**$ 587**	$ 379
Weighted average common shares outstanding (in millions)	**129.0**	129.1
Dilutive effect of share-based compensation[1] (in millions)	**0.1**	
Dilutive effect of GWL equity swaps[1] (in millions)		0.6
Diluted weighted average common shares outstanding (in millions)	**129.1**	129.7
Basic net earnings per common share ($)	**$ 4.58**	$ 3.16
Diluted net earnings per common share ($)	**$ 4.55**	$ 2.92

(1) In 2011, 1,915,191 (2010 – 1,266,666) outstanding potentially dilutive instruments were not included in the computation of diluted net earnings per common share as their impact would be anti-dilutive.

Note 7. CASH AND CASH EQUIVALENTS, SHORT TERM INVESTMENTS AND SECURITY DEPOSITS

The components of cash and cash equivalents, short term investments and security deposits were as follows:

Cash and Cash Equivalents

	As at		
	Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010
Cash	**$ 259**	$ 125	$ 249
Government treasury bills	**248**	244	265
Corporate commercial paper	**247**	427	405
Bankers' acceptances	**287**	252	349
Bank term deposits	**220**	287	70
Government agency securities	**4**	40	88
Other	**107**	78	64
Total cash and cash equivalents	**$ 1,372**	$ 1,453	$ 1,490

Short Term Investments

	As at		
	Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010
Government treasury bills	**$ 921**	$ 1,659	$ 2,305
Corporate commercial paper	**615**	1,228	833
Bankers' acceptances	**239**	1	
Government agency securities	**586**	274	174
Other	**1**	91	108
Total short term investments	**$ 2,362**	$ 3,253	$ 3,420

Security Deposits

	As at		
	Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010
Cash	**$ 125**		$ 51
Government treasury bills	**159**	$ 296	277
Bankers' acceptances		92	
Government agency securities	**83**	47	20
Total security deposits	**$ 367**	$ 435	$ 348

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

As at December 31, 2011 – U.S. $2,212, December 31, 2010 – U.S. $2,151 and January 1, 2010 – U.S. $2,220 (December 31, 2011 – $2,260; December 31, 2010 – $2,147; January 1, 2010 – $2,338) was included in cash and cash equivalents, short term investments and security deposits on the consolidated balance sheets.

Note 8. ACCOUNTS RECEIVABLE

The following is an aging of the Company's accounts receivable:

	As at							
	Dec. 31, 2011				Dec. 31, 2010			
	Current	**> 30 days**	**> 60 days**	**Total**	Current	> 30 days	> 60 days	Total
Accounts receivable	**$ 454**	**$ 46**	**$ 59**	**$ 559**	$ 383	$ 27	$ 52	$ 462

The following are continuities of the Company's allowances for uncollectable accounts receivable:

	2011	2010
Allowance, beginning of year	**$ (112)**	$ (117)
Net (additions) reversals	**(7)**	5
Allowance, end of year	**$ (119)**	$ (112)

Accounts receivable of $25 that were past due as at year end 2011 (December 31, 2010 – $22; January 1, 2010 – $32) were not classified as impaired as their past due status was reasonably expected to be remedied.

Note 9. CREDIT CARD RECEIVABLES

Loblaw, through PC Bank, participates in various securitization programs that provide the primary source of funds for the operation of its credit card business. Under these securitization programs, a portion of the total interest in the credit card receivables is sold to several independent securitization trusts pursuant to co-ownership agreements. PC Bank purchases receivables from and sells receivables to the trusts from time to time depending on PC Bank's financing requirements. The trusts fund these purchases by issuing debt securities in the form of asset-backed commercial paper or asset-backed term notes to third-party investors.

During 2011, PC Bank securitized $370 (2010 − $600) credit card receivables and repurchased $500 (2010 − $690) of co-ownership interests in the securitized receivables from certain independent securitization trusts. The $500 repurchase was related to the March 17, 2011 maturity of five-year $500 senior and subordinated notes issued by *Eagle*.

The components of credit card receivables were as follows:

	As at		
	Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010
Credit card receivables	**$ 633**	$ 396	$ 419
Securitized to *Eagle*	**600**	1,100	500
Securitized to other independent securitization trusts	**905**	535	1,225
Total credit card receivables	**2,138**	2,031	2,144
Allowance for credit card receivables	**(37)**	(34)	(49)
Net credit card receivables	**$ 2,101**	$ 1,997	$ 2,095

The following are continuities of Loblaw's allowance for credit card receivables:

	2011	2010
Allowance, beginning of year	**$ (34)**	$ (49)
Provision for losses	**(87)**	(95)
Recoveries	**(14)**	(11)
Write-offs	**98**	121
Allowance, end of year	**$ (37)**	$ (34)

The allowance for credit card receivables recorded in credit card receivables on the consolidated balance sheets is maintained at a level which is considered adequate to absorb credit related losses on credit card receivables.

The following is an aging of Loblaw's credit card receivables:

	As at							
				Dec. 31, 2011				Dec. 31, 2010
	Current	**> 30 days**	**> 60 days**	**Total**	Current	> 30 days	> 60 days	Total
Credit card receivables	**$ 2,056**	**$ 15**	**$ 30**	**$ 2,101**	$ 1,953	$ 15	$ 29	$ 1,997

Of the balance of credit card receivables that were past due as at year end 2011, $24 (December 31, 2010 – $23; January 1, 2010 – $35) were not classified as impaired as they were less than 90 days past due and their past due status was reasonably expected to be remedied. Any credit card receivable balances with a payment that is contractually 180 days in arrears or where the likelihood of collection is considered remote, are written off. Concentration of credit risk with respect to credit card receivables is negligible due to Loblaw's diverse credit card customer base.

The time period beyond the contractual due date during which a cardholder is permitted to make a payment without the receivables being classified as past due, is incorporated above.

Note 10. INVENTORIES

The components of inventories were as follows:

	As at		
	Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010
Raw materials and supplies	**$ 46**	$ 39	$ 36
Finished goods	**2,101**	2,011	2,044
Inventories	**$ 2,147**	$ 2,050	$ 2,080

For inventories recorded as at year end 2011, Loblaw recorded $20 (2010 – $17) as an expense for the write-down of inventories below cost to net realizable value. The write-down was included in cost of inventories sold in the consolidated statements of earnings. There were no reversals of previously recorded write-downs of inventories during 2011 and 2010.

Cost of inventories sold included a charge in 2011 of $31 (2010 – income of $39) related to a commodity derivatives fair value adjustment at Weston Foods.

Note 11. ASSETS HELD FOR SALE

Loblaw holds land and buildings that it intends to dispose of in the next 12 months as assets held for sale. These assets were previously used in Loblaw's retail business segment. Impairment and other charges of $3 were recognized in 2011 (2010 – $26) on these properties. In 2011, Loblaw recorded a gain of $19 (2010 – $2) from the sale of these assets.

Note 12. FIXED ASSETS

The following is a continuity of the cost and accumulated depreciation of fixed assets for the year ended December 31, 2011:

	Land	Buildings	Equipment and fixtures	Buildings and leasehold improvements	Finance leases - land, buildings, equipment and fixtures	Assets under construction	Total
Cost, beginning of year	$ 1,563	$ 6,056	$ 5,532	$ 621	$ 436	$ 1,087	$ 15,295
Additions		5	46	16	76	957	1,100
Disposals		(6)	(91)	(7)			(104)
Transfer from (to) assets held for sale	5	(9)					(4)
Transfer to investment properties	(1)	(3)			(1)		(5)
Transfer to (from) assets under construction	117	501	654	106		(1,378)	
Business acquisitions (note 3)	2	3	9				14
Foreign exchange		2	7				9
Cost, end of year	$ 1,686	$ 6,549	$ 6,157	$ 736	$ 511	$ 666	$ 16,305
Accumulated depreciation and impairment losses, beginning of year	$ 6	$ 2,053	$ 3,844	$ 357	$ 205	$ 7	$ 6,472
Depreciation		188	476	39	37		740
Impairment losses	3	23	5	7	3		41
Reversal of impairment losses	(3)	(30)	(1)				(34)
Disposals		(6)	(74)	(6)			(86)
Transfer from (to) assets held for sale	2	(3)					(1)
Transfer to investment properties		(2)					(2)
Transfer to (from) assets under construction	1	13	(17)	3			
Foreign exchange			3				3
Accumulated depreciation and impairment losses, end of year	$ 9	$ 2,236	$ 4,236	$ 400	$ 245	$ 7	$ 7,133
Carrying amount as at:							
December 31, 2011	$ 1,677	$ 4,313	$ 1,921	$ 336	$ 266	$ 659	$ 9,172

The following is a continuity of the cost and accumulated depreciation of fixed assets for the year ended December 31, 2010:

	Land	Buildings	Equipment and fixtures	Buildings and leasehold improvements	Finance leases - land, buildings, equipment and fixtures	Assets under construction	Total
Cost, beginning of year	$ 1,648	$ 5,952	$ 5,140	$ 591	$ 317	$ 621	$ 14,269
Additions		32	86	3	119	1,083	1,323
Disposals	(4)	(20)	(190)	(1)			(215)
Transfer to assets held for sale	(32)	(60)					(92)
Transfer to investment properties	(9)	(4)					(13)
Transfer (from) to assets under construction	(44)	152	484	25		(617)	
Business acquisitions (note 3)	4	10	29	3			46
Foreign exchange		(6)	(17)				(23)
Cost, end of year	$ 1,563	$ 6,056	$ 5,532	$ 621	$ 436	$ 1,087	$ 15,295
Accumulated depreciation and impairment losses, beginning of year	$ 8	$ 1,904	$ 3,586	$ 318	$ 185	$ 7	$ 6,008
Depreciation		186	426	34	20		666
Impairment losses		22	3	5			30
Reversal of impairment losses		(34)	(2)				(36)
Disposals		(12)	(160)				(172)
Transfer to assets held for sale	(2)	(11)					(13)
Foreign exchange		(2)	(9)				(11)
Accumulated depreciation and impairment losses, end of year	$ 6	$ 2,053	$ 3,844	$ 357	$ 205	$ 7	$ 6,472
Carrying amount as at:							
December 31, 2010	$ 1,557	$ 4,003	$ 1,688	$ 264	$ 231	$ 1,080	$ 8,823
January 1, 2010	$ 1,640	$ 4,048	$ 1,554	$ 273	$ 132	$ 614	$ 8,261

Assets Held under Finance Leases The Company leases various land and buildings and equipment and fixtures under a number of finance lease arrangements. As at year end 2011, the net carrying amount of leased land and buildings was $223 (December 31, 2010 – $175; January 1, 2010 – $131) and the net carrying amount of leased equipment and fixtures was $43 (December 31, 2010 – $56; January 1, 2010 – $1).

Assets under Construction The cost of additions to properties held for or under construction for 2011 was $957 (2010 – $1,083). Included in this amount were capitalized borrowing costs of $1 (2010 – nil), with a weighted average capitalization rate of 6.4% (2010 – nil).

Security and Assets Pledged As at year end 2011, Loblaw had fixed assets with a carrying amount of $194 (December 31, 2010 – $190; January 1, 2010 – $196) which were encumbered by mortgages of $96 (December 31, 2010 – $99; January 1, 2010 – $103).

Fixed Asset Commitments As at year end 2011, the Company had entered into commitments of $60 (2010 – $96) for the construction, expansion and renovation of buildings and the purchase of real property.

Impairment Losses In 2011, Loblaw recorded impairment losses on fixed assets of $39 (2010 – $29) in respect of 21 CGUs (2010 – 18 CGUs) in the retail operating segment. The impairment losses were recorded where the carrying amount of the retail location exceeded its recoverable amount. The recoverable amount was based on the greater of the CGU's fair value less cost to sell and its value in use. Approximately 52% (2010 – 50%) of impaired CGUs had carrying values which were $24 (2010 – $13) greater than their fair value less costs to sell. The remaining 48% (2010 – 50%) of impaired CGUs had carrying values which were $15 (2010 – $16) greater than their value in use.

Loblaw recorded impairment reversals on fixed assets of $34 (2010 − $36) in respect of 17 CGUs (2010 − 23 CGUs) in the retail operating segment. The impairment reversals were recorded where the recoverable amount of the

retail location exceeded its carrying amount. The recoverable amount was based on the greater of the CGU's fair value less costs to sell and its value in use. Approximately 71% (2010 − 65%) of CGUs with impairment reversals had fair value less costs to sell which were $24 (2010 − $21) greater than their carrying values. The remaining 29% (2010 − 35%) of Loblaw CGUs with impairment reversals had values in use which were $10 (2010 − $15) greater than their carrying values.

When determining the value in use of a retail location, Loblaw develops a discounted cash flow model for each CGU. The duration of the cash flow projections for individual CGUs varies based on the remaining useful life of the significant asset within the CGUs. Sales forecasts for cash flows are based on actual operating results, operating budgets, and long term growth rates that were consistent with industry averages, all of which is consistent with strategic plans presented to Loblaw's Board of Directors. The estimate of the value in use of the relevant CGUs was determined using a pre-tax discount rate of 8.75% to 9.25% as at year end 2011 (December 31, 2010 – 9.5% to 10.0%; January 1, 2010 – 9.5% to 10.0%).

In 2011, Weston Foods recorded a fixed asset impairment charge of $2 (2010 – $1) and accelerated depreciation of $3 (2010 – nil).

Note 13. INVESTMENT PROPERTIES

The following is a continuity of investment properties:

	2011	2010
Cost, beginning of year	**$ 151**	$ 142
Disposals	**(1)**	(4)
Transfer from fixed assets	**5**	13
Transfer from assets held for sale	**3**	
Cost, end of year	**$ 158**	$ 151
Accumulated depreciation and impairment losses, beginning of year	**$ 77**	$ 67
Depreciation	**1**	2
Impairment losses	**2**	8
Reversal of impairment losses	**(6)**	
Transfer from fixed assets	**2**	
Accumulated depreciation, end of year	**$ 76**	$ 77

As at	**Carrying Amount**	**Fair Value**
December 31, 2011	$ 82	$ 109
December 31, 2010	$ 74	$ 94
January 1, 2010	$ 75	$ 88

During 2011, Loblaw recognized in operating income $5 (2010 – $5) of rental income and incurred direct operating costs of $3 (2010 – $3) related to its investment properties. In addition, Loblaw recognized direct operating costs of $1 (2010 – $1) related to its investment properties for which no rental income was earned.

An external, independent valuation company, having appropriate recognized professional qualifications and recent experience in the location and category of property being valued, provided appraisals for certain of Loblaw's investment properties. For the other investment properties, Loblaw determined the fair value by relying on comparable market information and the independent manager of Loblaw's investment properties.

Where available, the fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly.

Where market values are not available, valuations are prepared using the income approach by considering the estimated cash flows expected from renting out the property based on existing lease terms and where appropriate, the ability to renegotiate the lease terms once the initial term or option term(s) expire plus the net proceeds from a sale of the property at the end of the investment horizon.

The valuations of investment properties using the income approach include assumptions as to market rental rates for properties of similar size and condition located within the same geographical areas, recoverable operating costs for leases with tenants, non-recoverable operating costs, vacancy periods, tenant inducements and capitalization rates for the purposes of determining the estimated net proceeds from the sale of the property. As at year end 2011, the pre-tax discount rates used in the valuations for investment properties ranged from 6.0% to 10.0% (December 31, 2010 – 6.75% to 10.0%) and the terminal capitalization rates ranged from 5.75% to 9.25% (December 31, 2010 – 6.0% to 9.25%).

In 2011, Loblaw recorded impairment losses on investment properties of $2 (2010 – $8) in operating income as the carrying amount of all impaired properties was higher than their recoverable amounts. Loblaw also recorded reversals of impairment losses on investment properties of $6 (2010 – nil) in operating income where the carrying amount of these properties was less than their fair values less costs to sell. The main factor contributing to the impairment of investment properties was external economic factors.

Note 14. GOODWILL AND INTANGIBLE ASSETS

The following is a continuity of the cost and accumulated amortization of goodwill and intangible assets for the year ended December 31, 2011:

	Indefinite Life Intangible Assets and Goodwill		Definite Life Intangible Assets			
	Goodwill	Trademarks and brand names	Internally generated intangible assets	Trademarks and brand names	Other intangible assets	Total
Cost, beginning of year	$ 2,415	$ 51	$ 18	$ 23	$ 143	$ 2,650
Additions			2		4	6
Business acquisitions (note 3)	7					7
Write-off cost of fully amortized assets					(3)	(3)
Impact of foreign currency translation	3				2	5
Cost, end of year	$ 2,425	$ 51	$ 20	$ 23	$ 146	$ 2,665
Accumulated amortization and impairment losses, beginning of year	$ 1,062		$ 2	$ 3	$ 29	$ 1,096
Amortization			6	1	10	17
Write-off amortization of fully amortized assets					(3)	(3)
Accumulated amortization and impairment losses, end of year	$ 1,062		$ 8	$ 4	$ 36	$ 1,110
Carrying amount as at:						
December 31, 2011	$ 1,363	$ 51	$ 12	$ 19	$ 110	$ 1,555

The following is a continuity of the cost and accumulated amortization of goodwill and intangible assets for the year ended December 31, 2010:

	Indefinite Life Intangible Assets and Goodwill			Definite Life Intangible Assets		
	Goodwill	Trademarks and brand names	Internally generated intangible assets	Trademarks and brand names	Other intangible assets	Total
Cost, beginning of year	$ 2,254	$ 51	$ 8	$ 16	$ 45	$ 2,374
Additions			10		6	16
Business acquisitions (note 3)	164			7	94	265
Impact of foreign currency translation	(3)				(2)	(5)
Cost, end of year	$ 2,415	$ 51	$ 18	$ 23	$ 143	$ 2,650
Accumulated amortization and impairment losses, beginning of year	$ 1,062			$ 3	$ 16	$ 1,081
Amortization			$ 2		13	15
Accumulated amortization and impairment losses, end of year	$ 1,062		$ 2	$ 3	$ 29	$ 1,096
Carrying amount as at:						
December 31, 2010	$ 1,353	$ 51	$ 16	$ 20	$ 114	$ 1,554
January 1, 2010	$ 1,192	$ 51	$ 8	$ 13	$ 29	$ 1,293

Indefinite Life Intangible Assets and Goodwill

For purposes of goodwill impairment testing, the Company's CGUs were grouped at the lowest level at which goodwill was monitored for internal management purposes. The carrying amount of goodwill attributed to each CGU grouping was as follows:

		As at	
	Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010
Fresh and Frozen – Weston Foods	**$ 255**	$ 253	$ 92
Quebec – Loblaw	**700**	700	700
T&T Supermarket Inc.	**129**	129	131
Other	**279**	271	269
Carrying amount of goodwill	**$ 1,363**	$ 1,353	$ 1,192

The indefinite life trademark and brand names recorded by Loblaw were a result of the acquisition of T&T Supermarket Inc. ("T&T").

The Company performs its goodwill and indefinite life intangible assets impairment assessment on an annual basis or more frequently if there are any indications that impairment may have arisen. The recoverable amounts of the Quebec – Loblaw and T&T CGUs were based on fair value less costs to sell and were determined by discounting the future cash flows to be generated from the continuing use of the CGUs. The Company completed its 2011 and 2010 annual goodwill and indefinite life intangible assets impairment tests and concluded that there was no impairment.

Key Assumptions The key assumptions used to calculate the recoverable amount for the fair value less costs to sell calculation are those regarding discount rates, growth rates and expected changes in margins.

Cash flow projections have been discounted using a range of rates derived from the Company's after-tax weighted average cost of capital adjusted for specific risks relating to each CGU. The after-tax discount rates

used in the recoverable amount calculations ranged from 7.0% to 9.5%. The pre-tax discount rates ranged from 9.4% to 12.8%.

The Company included a minimum of five years of cash flows in its discounted cash flow model. The cash flow forecasts were extrapolated beyond the five year period using estimated long term growth rates ranging from 1.5% to 2.0%. The budgeted adjusted EBITDA[1] growth is based on the budget and the Company's five year strategic plan approved by GWL's and Loblaw's Boards of Directors.

Sensitivity to Changes in Key Assumptions For the T&T CGU, two key assumptions were identified by Loblaw that, if changed, could cause the carrying amount to exceed its recoverable amount. A change in the discount rate or terminal growth rate of approximately 75 basis points or 125 basis points, respectively, would cause the estimated recoverable amount to equal the carrying amount. The values assigned to the key assumptions represent Loblaw's assessment of the future performance of T&T and were based on both external and internal sources of information.

The Company does not believe that any changes in other key assumptions would have a significant impact on the determination of the recoverable amount of the Company's other CGUs to which goodwill is allocated.

Definite Life Intangible Assets
Internally generated definite life intangible assets recorded by Loblaw predominantly consisted of software development costs and have an estimated useful life of 3 years. Other Loblaw definite life intangible assets have estimated useful lives of up to a maximum of 17 years. The remaining definite life intangible assets included customer relationships and brands acquired as part of Weston Foods' 2010 acquisitions of Keystone and ACE. The customer relationships and brands have estimated useful lives of 20 and 30 years, respectively. Amortization of definite life intangible assets was recognized in operating income.

The Company completed its assessments of impairment indicators for definite life intangible assets and concluded that there were no indications of impairment during 2011 and 2010.

Note 15. OTHER ASSETS

The components of other assets were as follows:

		As at	
	Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010
WHL's unrealized equity forward (note 28)	**$ 478**	$ 421	$ 446
Sundry investments and other receivables	**166**	160	138
Unrealized cross currency swaps (note 28)	**103**	172	142
Defined benefit plan asset (note 24)		5	11
Other	**42**	50	50
Other assets	**$ 789**	$ 808	$ 787

(1) See non-GAAP financial measures beginning on page 54 of the Company's Management's Discussion and Analysis.

Note 16. PROVISIONS

Provisions consist primarily of amounts recorded in respect of self-insurance, commodity taxes, environmental and decommissioning liabilities and onerous lease arrangements.

The following are continuities relating to the Company's provisions:

	2011	2010
Provisions, beginning of year	**$ 187**	$ 206
Additions	**72**	80
Payments	**(74)**	(67)
Reversals	**(26)**	(28)
Impact of foreign currency translation	**2**	(4)
Provisions, end of year	**$ 161**	$ 187

		As at	
	Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010
Carrying amount of provisions recorded in:			
Current provisions	**$ 67**	$ 92	$ 96
Non-current provisions	**94**	95	110
Provisions	**$ 161**	$ 187	$ 206

The Company's accrued insurance liabilities were $85 (2010 – $91), of which $59 (2010 – $68) was included in non-current provisions and $26 (2010 – $23) in current provisions. Included in total accrued insurance liabilities were $45 (2010 – $52) of United States workers' compensation liabilities. The related cost and accrued workers' compensation liabilities are based on actuarial valuations which are dependent on assumptions determined by management. The discount rate used in determining the 2011 workers' compensation cost and liability was 3.5% (2010 – 4.0%). The total workers' compensation liability is equal to the ultimate actuarial loss estimate less any actual losses paid to date. Any change in the workers' compensation liability is recognized immediately in operating income.

The United States workers' compensation cost associated with the worker's compensation liabilities was $5 in 2011 (2010 – $4).

Note 17. SHORT TERM DEBT

The components of short term debt were as follows:

		As at	
	Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010
Independent securitization trusts(1)	**$ 905**	$ 535	$ 1,225
Series B debentures(2)	**375**	336	300
Short term debt	**$ 1,280**	$ 871	$ 1,525

(1) The outstanding balances relate to the liability of the independent securitization trusts excluding *Eagle* which is included in long term debt (see note 18). During 2011, PC Bank amended and extended the maturity date of one of its independent securitization trust agreements from the third quarter of 2012 to the third quarter of 2014, with no material impact to the other terms and conditions of the agreement.

During 2011, PC Bank securitized $370 (2010 – nil) of credit card receivables and repurchased nil (2010 – $690) of co-ownership interests in the securitized credit card receivables from independent securitization trusts. In addition to PC Bank's securitized credit card receivables, the independent securitization trusts' recourse is limited to standby letters of credit arranged by Loblaw as at year end 2011 of $81 (December 31, 2010 – $48; January 1, 2010 – $116) which is based on a portion of the securitized amount (see note 31).

(2) Series B Debentures issued by GWL are due on demand, and pay a current weighted average interest rate of 1.78%. The Series A, 7.00% (see note 18) and Series B Debentures are secured by a pledge of 9.6 million Loblaw common shares.

Note 18. LONG TERM DEBT

The components of long term debt were as follows:

		As at	
	Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010
George Weston Limited			
Debentures			
Series A, 7.00%, due 2031(i)	**$ 466**	$ 466	$ 466
Notes			
6.45%, due 2011(ii)		300	300
5.05%, due 2014	**200**	200	200
3.78%, due 2016(iii)	**350**		
7.10%, due 2032	**150**	150	150
6.69%, due 2033	**100**	100	100
Loblaw Companies Limited			
Notes			
7.10%, due 2010(iv)			300
6.50%, due 2011(v)		350	350
5.40%, due 2013	**200**	200	200
6.00%, due 2014	**100**	100	100
4.85%, due 2014	**350**	350	350
7.10%, due 2016	**300**	300	300
5.22%, due 2020(vi)	**350**	350	
6.65%, due 2027	**100**	100	100
6.45%, due 2028	**200**	200	200
6.50%, due 2029	**175**	175	175
11.40%, due 2031			
Principal	**151**	151	151
Effect of coupon repurchase	**(85)**	(81)	(67)
6.85%, due 2032	**200**	200	200
6.54%, due 2033	**200**	200	200
8.75%, due 2033	**200**	200	200
6.05%, due 2034	**200**	200	200
6.15%, due 2035	**200**	200	200
5.90%, due 2036	**300**	300	300
6.45%, due 2039	**200**	200	200
7.00%, due 2040	**150**	150	150
5.86%, due 2043	**55**	55	55
Private placement notes			
6.48%, due 2013 (U.S. $150)	**153**	150	158
6.86%, due 2015 (U.S. $150)	**153**	150	158
Long term debt secured by mortgage			
5.49%, due 2018 (note 12)	**91**	93	96
Guaranteed investment certificates ("GICs")(vii)			
due 2012 – 2016, (0.90% – 3.78%)	**276**	18	
Independent securitization trust(viii)			
Eagle, 4.47%, due 2011		500	500
Eagle, 2.88%, due 2013	**250**	250	
Eagle, 3.58%, due 2015	**350**	350	
Independent funding trusts(ix)	**424**	395	381
Finance lease obligations (note 27)	**334**	296	194
Transaction costs and other	**1**	(2)	1
Total long term debt	**6,844**	7,316	6,568
Less – amount due within one year	**(87)**	(1,202)	(312)
Long term debt	**$ 6,757**	$ 6,114	$ 6,256

The schedule of repayment of long term debt, based on maturity, is as follows: 2012 − $87; 2013 − $670; 2014 − $1,140; 2015 − $544; 2016 − $778; thereafter − $3,634. See note 28 for the fair value of long term debt.

(i) The Series A, 7.00% and Series B Debentures (see note 17) are secured by a pledge of 9.6 million Loblaw common shares.

(ii) During 2011, GWL's $300 6.45% Medium Term Notes ("MTN") due October 24, 2011, was repaid.

(iii) During 2011, GWL issued $350 principal amount of unsecured MTN, Series 2-A pursuant to its MTN, Series 2 program. Series 2-A notes pay a fixed rate of interest of 3.78% per annum payable semi-annually until maturity on October 25, 2016. The notes are unsecured obligations of GWL and rank equally with all the unsecured indebtedness of Loblaw that has not been subordinated. The notes may be redeemed at the option of GWL, in whole at any time or in part from time to time, upon not less than 30 days and not more than 60 days notice to the holders of the notes.

(iv) During 2010, Loblaw's $300 7.10% MTN matured and was repaid.

(v) During 2011, Loblaw's $350 6.5% MTN due January 19, 2011, was repaid.

(vi) During 2010, Loblaw issued $350 principal amount of unsecured MTN, Series 2-B pursuant to its MTN, Series 2 program. The Series 2-B notes pay a fixed rate of interest of 5.22% payable semi-annually commencing on December 18, 2010 until maturity on June 18, 2020. The notes are subject to similar terms and conditions as Loblaw's other MTNs.

(vii) During 2011, PC Bank issued $264 (2010 – $18), before commissions of $2 (2010 – nil), in GICs through independent brokers. In addition, during 2011, $6 (2010 – nil) of GICs matured and were repaid. As at year end 2011, Loblaw recorded in long term debt $276 (December 31, 2010 – $18; January 1, 2010 – nil) before commissions of $2 (December 31, 2010 – nil; January 1, 2010 – nil) of outstanding GICs, of which $46 (December 31, 2010 – $5; January 1, 2010 – nil) was recorded as long term debt due within one year.

(viii) The notes issued by *Eagle* are MTNs which are collateralized by PC Bank's credit card receivables (see note 9). During 2011, *Eagle* repaid the $500 senior and subordinated notes due March 17, 2011. During 2010, *Eagle* issued $250 of Series 2010-1 and $350 of Series 2010-2 notes due in 2013 and 2015, respectively.

(ix) Certain independent franchisees of Loblaw obtain financing through a structure involving independent funding trusts, which were created to provide loans to the independent franchisees to facilitate their purchase of inventory and fixed assets consisting mainly of fixtures and equipment. These independent funding trusts are administered by a major Canadian chartered bank. During 2011, the $475 revolving committed credit facility was renewed and extended for a 3-year period. As a result of the renewal, Loblaw's credit enhancement was reduced from 15% to 10%. Other terms and conditions remain substantially the same. As at year end 2011, the independent franchisees had drawn $424 (December 31, 2010 – $395; January 1, 2010 – $381) at variable interest rates from this committed credit facility which expires in 2014.

Loblaw Committed Credit Facility

Loblaw has an $800 committed credit facility expiring in March of 2013 provided by a syndicate of third-party lenders. Interest is based on a floating rate, primarily the bankers' acceptance rate and an applicable margin based on Loblaw's credit rating. As at year end 2011, Loblaw was in compliance with all of its covenants (see note 23). Also, as at year end 2011, Loblaw had not drawn on the $800 committed credit facility.

Note 19. OTHER LIABILITIES

The components of other liabilities were as follows:

	As at		
	Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010
Defined benefit plan liability (note 24)	**$ 674**	$ 417	$ 358
Other long term employee benefit liability	**130**	131	127
Deferred vendor allowances	**32**	40	48
Unrealized interest rate swap (note 28)	**16**	24	31
Share-based compensation liability (note 25)	**24**	50	31
Other	**157**	151	165
Other liabilities	**$ 1,033**	$ 813	$ 760

Note 20. CAPITAL SECURITIES ($ except where otherwise indicated)

Loblaw has 9.0 million 5.95% non-voting Second Preferred Shares, Series A, outstanding (authorized – 12.0 million), with a face value of $225 million, which were issued for net proceeds of $218 million, and entitle the holder to a fixed cumulative preferred cash dividend of $1.4875 per share per annum which will, if declared, be payable quarterly. These preferred shares which were presented as capital securities on the consolidated balance sheet were classified as other financial liabilities, and measured using the effective interest method.

On and after July 31, 2013, 2014 and 2015, Loblaw may, at its option, redeem for cash, in whole or in part, these outstanding preferred shares at $25.75, $25.50 and $25.00 per share, respectively. On and after July 31, 2013, Loblaw may, at its option, convert these preferred shares into that number of common shares of Loblaw determined by dividing the then applicable redemption price, together with all accrued and unpaid dividends to but excluding the date of conversion, by the greater of $2.00 per share and 95% of the then current market price of the common shares. On and after July 31, 2015, these outstanding preferred shares are convertible, at the option of the holder, into that number of common shares of Loblaw determined by dividing $25.00 per share, together with accrued and unpaid dividends to but excluding the date of conversion, by the greater of $2.00 per share and 95% of the then current market price of the common shares. This option is subject to Loblaw's right to redeem the preferred shares for cash or arrange for their sale to substitute purchasers.

Dividends on capital securities are presented in net interest expense and other financing charges in the consolidated statements of earnings (see note 4).

Note 21. SHARE CAPITAL ($ except where otherwise indicated)

The components of share capital were as follows:

	As at		
	Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010
Common share capital	**$ 133**	$ 133	$ 133
Preferred shares, Series I	**228**	228	228
Preferred shares, Series III	**196**	196	196
Preferred shares, Series IV	**197**	197	197
Preferred shares, Series V	**196**	196	196
Share capital	**$ 950**	$ 950	$ 950

Common Share Capital (authorized – unlimited)
The changes in the common shares issued and outstanding for the years ended December 31, 2011 and December 31, 2010 were as follows:

			2011		2010
	Number of Common Shares		Common Share Capital	Number of Common Shares	Common Share Capital
Issued and outstanding, beginning of year	**129,073,662**	**$**	**133**	129,073,662	$ 133
Issued from treasury[(1)]	**17,560**	**$**	**1**		
Purchased for cancellation	**(902,379)**	**$**	**(1)**		
Issued and outstanding, end of year	**128,188,843**	**$**	**133**	129,073,662	$ 133
Weighted average outstanding	**129,015,579**			129,073,662	

(1) Share capital includes $1 million (2010 – nil) issued for stock options exercised (see note 25).

Preferred Shares, Series I (authorized – 10.0 million)
GWL has 9.4 million 5.80% non-voting Preferred Shares, Series I outstanding, with a face value of $235 million, which entitle the holder to a fixed cumulative preferred cash dividend of $1.45 per share per annum which will, if declared, be payable quarterly. GWL may, at its option, redeem for cash, in whole or in part, these outstanding preferred shares at $25.00 per share, together with all accrued and unpaid dividends to the redemption date.

At any time after issuance, GWL 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 GWL on a share-for-share basis on a date specified by GWL.

Preferred Shares, Series III (authorized – 10.0 million)
GWL has 8.0 million 5.20% non-voting Preferred Shares, Series III outstanding, with a face value of $200 million, which entitle the holder to a fixed cumulative preferred cash dividend of $1.30 per share per annum which will, if declared, be payable quarterly. On or after July 1, 2010, GWL may, at its option, redeem for cash, in whole or in part, these outstanding preferred shares as follows:

On or after July 1, 2011 at $25.75 per share, together with all accrued and unpaid dividends to the redemption date;
On or after July 1, 2012 at $25.50 per share, together with all accrued and unpaid dividends to the redemption date;
On or after July 1, 2013 at $25.25 per share, together with all accrued and unpaid dividends to the redemption date; and
On or after July 1, 2014 at $25.00 per share, together with all accrued and unpaid dividends to the redemption date.

At any time after issuance, GWL 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 GWL on a share-for-share basis on a date specified by GWL.

Preferred Shares, Series IV (authorized – 8.0 million)
GWL has 8.0 million 5.20% non-voting Preferred Shares, Series IV outstanding, with a face value of $200 million, which entitle the holder to a fixed cumulative preferred cash dividend of $1.30 per share per annum which will, if declared, be payable quarterly. On or after October 1, 2010, GWL may, at its option, redeem for cash, in whole or in part, these outstanding preferred shares as follows:

On or after October 1, 2011 at $25.75 per share, together with all accrued and unpaid dividends to the redemption date;
On or after October 1, 2012 at $25.50 per share, together with all accrued and unpaid dividends to the redemption date;
On or after October 1, 2013 at $25.25 per share, together with all accrued and unpaid dividends to the redemption date; and

On or after October 1, 2014 at $25.00 per share, together with all accrued and unpaid dividends to the redemption date.

At any time after issuance, GWL 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 GWL on a share-for-share basis on a date specified by GWL.

Preferred Shares, Series V (authorized – 8.0 million)
GWL has 8.0 million 4.75% non-voting Preferred Shares, Series V outstanding, with a face value of $200 million, which entitle the holder to a fixed cumulative preferred cash dividend of $1.1875 per share per annum which will, if declared, be payable quarterly. On or after July 1, 2011, GWL may, at its option, redeem for cash, in whole or in part, these outstanding preferred shares as follows:

On or after July 1, 2011 at $26.00 per share, together with all accrued and unpaid dividends to the redemption date;
On or after July 1, 2012 at $25.75 per share, together with all accrued and unpaid dividends to the redemption date;
On or after July 1, 2013 at $25.50 per share, together with all accrued and unpaid dividends to the redemption date;
On or after July 1, 2014 at $25.25 per share, together with all accrued and unpaid dividends to the redemption date; and
On or after July 1, 2015 at $25.00 per share, together with all accrued and unpaid dividends to the redemption date.

At any time after issuance, GWL 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 GWL on a share-for-share basis on a date specified by GWL.

Dividends
The declaration and payment of dividends and the amounts thereof are at the discretion of the Board of Directors (“the Board”), which takes into account the Company’s financial results, capital requirements, available cash flow and other factors the Board considers relevant from time to time. Over the long term, GWL’s objective is for its common dividend payment ratio to be in the range of 20% to 25% of the prior year’s basic net earnings per common share, adjusted as appropriate for items which are not regarded to be reflective of ongoing operations, giving consideration to the year end cash position, future cash flow requirements and investment opportunities. The Board of Directors declared dividends as follows:

($)	**2011**	2010
Common shares	**$ 1.44**	$ 9.19[(1)]
Preferred shares – Series I	**$ 1.45**	$ 1.45
– Series III	**$ 1.30**	$ 1.30
– Series IV	**$ 1.30**	$ 1.30
– Series V	**$ 1.19**	$ 1.19

(1) Includes a special one-time common share dividend of $7.75 per common share declared in 2010 and paid in January 2011.

Normal Course Issuer Bid (“NCIB”) Program
In 2011, GWL renewed its NCIB program to purchase on the Toronto Stock Exchange (“TSX”), or enter into equity derivatives to purchase, up to 6,454,276 of its common shares representing approximately 5% of common shares outstanding. In accordance with the rules and regulations of the TSX, any purchases must be at the then market prices of such shares. During 2011, GWL purchased for cancellation 902,379 (2010 – nil) of its common shares for $61 million (2010 – nil). The premium of $60 million paid on common shares purchased for cancellation was recorded in retained earnings.

Note 22. SUBSIDIARY CAPITAL TRANSACTIONS

During 2011, Loblaw issued 686,794 (2010 – nil) of its common shares in connection with its stock option plan (see note 25). As a result, contributed surplus increased by $9.

During 2011, Loblaw purchased for cancellation 1,021,986 (2010 – nil) of its common shares under its NCIB program. As a result, contributed surplus decreased by $10.

During 2011, Loblaw issued 938,984 (2010 – 3,620,906) common shares to GWL under the DRIP. As a result of the Company's participation in the DRIP, the Company's proportional ownership of Loblaw increased, resulting in a decrease to contributed surplus of $4 (2010 – $16). During 2011, the Loblaw Board of Directors approved the discontinuance of the DRIP following the dividend payment on April 1, 2011.

Note 23. CAPITAL MANAGEMENT

The Company manages its capital and capital structure with the objective of:

- ensuring sufficient liquidity is available to support its financial obligations and to execute its operating and strategic plans;
- maintaining financial capacity and flexibility through access to capital to support future development of the business;
- minimizing the after-tax cost of its capital while taking into consideration current and future industry, market and economic risks and conditions; and
- utilizing short term funding sources to manage its working capital requirements and long term funding sources to match the long term nature of the fixed assets of the business.

In order to manage its capital structure, the Company may adjust the amount of dividends paid to shareholders, purchase shares for cancellation pursuant to its NCIB, issue new common shares, issue new debt, repay indebtedness, or redeem preferred shares.

On May 25, 2011, GWL filed a Short Form Base Shelf Prospectus ("Prospectus") allowing for the issuance of up to $1.5 billion in unsecured debentures and/or preferred shares over a 25-month period subject to the availability of funding by capital markets. On June 15, 2011, GWL filed a Prospectus Supplement to this Prospectus creating an MTN program pursuant to which it may issue unsecured debentures of up to $1.0 billion. During 2011, GWL issued $350 principal amount of five-year unsecured MTN, Series 2-A pursuant to this MTN, Series 2 program (see note 18).

During 2010, Loblaw filed a Prospectus allowing for the issuance of up to $1.0 billion of unsecured debentures and/or preferred shares over a 25-month period subject to the availability of funding by capital markets which expires in December of 2012. As at December 31, 2011 and 2010, Loblaw had not issued any instruments under this Prospectus.

As at December 31, 2011, December 31, 2010 and January 1, 2010, the items that the Company includes in its definition of capital and the key measures it uses to manage capital and capital structure were as follows:

		As at	
	Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010
Bank indebtedness	**$ 3**	$ 11	$ 10
Short term debt	**1,280**	871	1,525
Long term debt due within one year	**87**	1,202	312
Long term debt	**6,757**	6,114	6,256
Certain other liabilities	**39**	35	36
Fair value of financial derivatives related to the above	**(425)**	(352)	(327)
Total debt	**7,741**	7,881	7,812
Capital securities	**222**	221	220
Equity attributable to shareholders of the Company	**5,459**	5,224	6,104
Total capital under management	**$ 13,422**	$ 13,326	$ 14,136

The Company considers the following interest coverage[1], adjusted debt[1] to adjusted EBITDA[1] and adjusted debt[1] to equity ratios as measures of its ability to service its debt, meet other financial obligations as they become due, and meet its capital structure objectives:

	2011	2010
Interest coverage[1]	**4.4x**	3.3x
Adjusted debt[1] to adjusted EBITDA[1]	**2.4x**	2.7x
Adjusted debt[1] to equity attributable to shareholders of the Company	**1.09**	1.19

(1) See non-GAAP financial measures beginning on page 54 of the Company's Management's Discussion & Analysis.

Covenants and Regulatory Requirements

Loblaw has certain key financial and non-financial covenants under its existing committed credit facility, certain MTNs and U.S. Private Placement notes, and certain letters of credit. The key financial covenants include interest coverage ratios as well as leverage ratios, as defined in the respective agreements. These ratios are measured by Loblaw on a quarterly basis to ensure compliance with the agreements.

During 2011, Loblaw amended these agreements to include certain relevant IFRS adjustments in computing the financial metrics used in calculating Loblaw's financial covenants. These amendments largely served to neutralize the impact of IFRS on covenant calculations as at the date of conversion to IFRS. As at year end 2011, Loblaw was in compliance with the covenants under these agreements.

Loblaw is also subject to externally imposed capital requirements from the Office of the Superintendent of Financial Institutions ("OSFI"), as the primary regulator of PC Bank. PC Bank's capital management objectives are to maintain a consistently strong capital position while considering the Bank's economic risks generated by its credit card receivables portfolio and to meet all regulatory capital requirements as defined by OSFI. PC Bank is subject to the Basel II regulatory capital management framework which includes a Tier 1 capital ratio of 7.0% and a total capital ratio of 10.0%. PC Bank has exceeded all applicable capital requirements as at year end 2011.

Loblaw is also subject to externally imposed capital requirements through its subsidiary Glenhuron Bank Limited ("Glenhuron"), a wholly owned subsidiary of Loblaw, which is regulated by the Central Bank of Barbados. Glenhuron is regulated under Basel I which requires Glenhuron's assets to be risk weighted and the minimum ratio of capital to risk weighted assets to be 8.0%. Glenhuron's ratio of capital to risk weighted assets exceeded the minimum requirements under Basel I as at year end 2011.

In addition, the Company has wholly owned subsidiaries that engage in insurance related activities. These subsidiaries each exceeded the minimum regulatory capital and surplus requirements as at year end 2011.

Note 24. POST-EMPLOYMENT AND OTHER LONG TERM EMPLOYEE BENEFITS

Post-Employment Benefits

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

The Company also offers certain other defined benefit plans other than pension plans. These other defined benefit plans are generally not funded, are mainly non-contributory and include health care, life insurance and dental benefits. Employees eligible for these other defined benefits are those who retire at certain ages having met certain service requirements. The majority of other defined benefit plans for current and future retirees include a limit on the total benefits payable by the Company.

In Canada, a national defined contribution pension plan for salaried employees was introduced by the Company during 2006. All eligible salaried employees were given the option to join this new plan and convert their past accrued pension benefits or to remain in their existing defined benefit pension plans. All salaried employees joining the Company after the date of introduction of the national defined contribution pension plan participate only in that plan.

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

Other Long Term Employee Benefits
The Company offers other long term employee benefit plans that include long term disability benefits and continuation of health care and dental benefits while on disability.

(i) Defined Benefit Pension Plans and Other Defined Benefit Plans
Information on the Company's defined benefit pension plans and other defined benefit plans, in aggregate, is summarized as follows:

	As at					
	Dec. 31, 2011		Dec. 31, 2010		Jan. 1, 2010	
	Defined Benefit Pension Plans	**Other Defined Benefit Plans**	Defined Benefit Pension Plans	Other Defined Benefit Plans	Defined Benefit Pension Plans	Other Defined Benefit Plans
Present value of funded obligations	**$ (1,942)**		$ (1,634)		$ (1,428)	
Fair value of plan assets	**1,621**		1,544		1,372	
Status of funded obligations	**$ (321)**		$ (90)		$ (56)	
Present value of unfunded obligations	**(117)**	**$ (235)**	(104)	$ (214)	(100)	$ (182)
Total funded status of obligations	**$ (438)**	**$ (235)**	$ (194)	$ (214)	$ (156)	$ (182)
Unrecognized past service credit		**(1)**		(1)		(1)
Asset not recognized due to "asset ceiling"			(1)		(1)	
Liability arising from minimum funding requirement for past service			(2)		(7)	
Total net defined benefit plan obligation	**$ (438)**	**$ (236)**	$ (197)	$ (215)	$ (164)	$ (183)
Recorded on the consolidated balance sheets as follows:						
Other assets (note 15)			$ 5		$ 11	
Other liabilities (note 19)	**$ (438)**	**$ (236)**	(202)	$ (215)	(175)	$ (183)
Total net defined benefit plan obligation	**$ (438)**	**$ (236)**	$ (197)	$ (215)	$ (164)	$ (183)

The following are the continuities of the fair value of plan assets and the present value of the defined benefit plan obligations:

			2011			2010
	Defined Benefit Pension Plans	**Other Defined Benefit Plans**	**Total**	Defined Benefit Pension Plans	Other Defined Benefit Plans	Total
Changes in the fair value of plan assets						
Fair value, beginning of year	**$ 1,544**		**$ 1,544**	$ 1,372		$ 1,372
Employer contributions	**124**	**$ 7**	**131**	125	$ 7	132
Employee contributions	**3**		**3**	4		4
Benefits paid	**(103)**	**(7)**	**(110)**	(96)	(7)	(103)
Expected return on plan assets	**97**		**97**	93		93
Actuarial (losses) gains in other comprehensive loss	**(45)**		**(45)**	50		50
Transfers to other pension plans				(1)		(1)
Other	**1**		**1**	(3)		(3)
Fair value, end of year	**$ 1,621**		**$ 1,621**	$ 1,544		$ 1,544
Changes in the present value of the defined benefit plan obligations						
Balance, beginning of year	**$ 1,738**	**$ 214**	**$ 1,952**	$ 1,528	$ 182	$ 1,710
Current service cost	**52**	**13**	**65**	44	11	55
Interest cost	**91**	**12**	**103**	91	12	103
Benefits paid	**(103)**	**(7)**	**(110)**	(96)	(7)	(103)
Employee contributions	**3**		**3**	4		4
Actuarial losses in other comprehensive loss	**273**	**6**	**279**	168	19	187
Transfers to other pension plans				(1)		(1)
Contractual termination benefits	**3**		**3**	3		3
Other	**2**	**(3)**	**(1)**	(3)	(3)	(6)
Balance, end of year	**$ 2,059**	**$ 235**	**$ 2,294**	$ 1,738	$ 214	$ 1,952

The actual return on plan assets was $52 in 2011 (2010 – $143).

During 2012, the Company expects to contribute approximately $170 (2011 – contributed $119) to its registered funded defined benefit pension plans. The actual amount paid may vary from the estimate based on actuarial valuations being completed, investment performance, volatility in discount rates, regulatory requirements and other factors. The Company also expects to make contributions in 2012 to its defined contribution plans and the multi-employer pension plans in which it participates as well as benefit payments to the beneficiaries of the supplemental unfunded defined benefit pension plans, other defined benefit plans and other long term employee benefit plans.

Composition of Plan Assets

The defined benefit pension plan assets are held in trust and consisted of the following asset categories:

	As at		
Percentage of plan assets	**Dec. 31, 2011**	Dec. 31, 2010	Jan. 1, 2010
Equity securities	**53%**	58%	59%
Debt securities	**46%**	40%	39%
Cash and cash equivalents	**1%**	2%	2%
Total	**100%**	100%	100%

The defined benefit pension plan assets did not include securities issued by Loblaw as at year end 2011 (December 31, 2010 – $4; January 1, 2010 – $3). The defined benefit pension plan assets do not include any GWL securities.

The cost recognized in other comprehensive loss for defined benefit plans was as follows:

			2011			2010
	Defined Benefit Pension Plans	**Other Defined Benefit Plans**	**Total**	Defined Benefit Pension Plans	Other Defined Benefit Plans	Total
Actuarial losses	**$ 318**	**$ 6**	**$ 324**	$ 118	$ 19	$ 137
Change in liability arising from asset ceiling	**(1)**		**(1)**			
Change in liability arising from minimum funding requirements for past service	**(2)**		**(2)**	(5)		(5)
Total net actuarial losses recognized in other comprehensive loss before income taxes	**$ 315**	**$ 6**	**$ 321**	$ 113	$ 19	$ 132
Income tax recoveries on actuarial losses (note 5)	**(82)**	**(1)**	**(83)**	(29)	(5)	(34)
Actuarial losses net of income tax recoveries	**$ 233**	**$ 5**	**$ 238**	$ 84	$ 14	$ 98

The cumulative actuarial losses before income taxes recognized in equity for the Company's defined benefit plans were as follows:

			2011			2010
	Defined Benefit Pension Plans	**Other Defined Benefit Plans**	**Total**	Defined Benefit Pension Plans	Other Defined Benefit Plans	Total
Cumulative amount, beginning of year	**$ 113**	**$ 19**	**$ 132**			
Net actuarial losses recognized in the year before income taxes	**315**	**6**	**321**	$ 113	$ 19	$ 132
Cumulative amount, end of year	**$ 428**	**$ 25**	**$ 453**	$ 113	$ 19	$ 132

Principal Actuarial Assumptions

The principal actuarial assumptions used in calculating the Company's defined benefit plan obligations and net defined benefit plan cost for the year were as follows (expressed as weighted averages):

	2011		2010	
	Defined Benefit Pension Plans	**Other Defined Benefit Plans**	Defined Benefit Pension Plans	Other Defined Benefit Plans
Defined Benefit Plan Obligations				
Discount rate	**4.25%**	**4.25%**	5.25%	5.25%
Rate of compensation increase	**3.50%**	**n/a**	3.50%	n/a
Mortality table	**UP94@Fully Generational**	**UP94@Fully Generational**	UP94@2020	UP94@2020
Net Defined Benefit Plan Cost				
Discount rate	**5.25%**	**5.25%**	6.00%	6.00%
Expected long term rate of return on plan assets	**6.25%**	**n/a**	6.75%	n/a
Rate of compensation increase	**3.50%**	**n/a**	3.50%	n/a
Mortality table	**UP94@2020**	**UP94@2020**	UP94@2020	UP94@2020

n/a – not applicable

The growth rate of health care costs, primarily drug and other medical costs, for the other defined benefit plan obligations as at year end 2011 was estimated at 5.75% and is assumed to gradually decrease to 4.50% by 2018, remaining at that level thereafter.

The overall expected long term rate of return on plan assets was 6.25%. The expected long term rate of return on plan assets is determined based on asset mix, active management and a review of historical returns. The expected long term rate of return is based on the portfolio as a whole and not on the sum of the individual asset categories.

Sensitivity of Key Actuarial Assumptions

The following table outlines the key assumptions for 2011 (expressed as weighted averages) and the sensitivity of a 1% change in each of these assumptions on the defined benefit plan obligations and the net defined benefit plan cost.

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.

	Defined Benefit Pension Plans		Other Defined Benefit Plans	
Increase (Decrease)	Defined Benefit Plan Obligations	Net Defined Benefit Plan Cost[1]	Defined Benefit Plan Obligations	Net Defined Benefit Plan Cost[1]
Expected long term rate of return on plan assets		6.25%		n/a
Impact of: 1% increase	n/a	$ (16)	n/a	n/a
1% decrease	n/a	$ 16	n/a	n/a
Discount rate	4.25%	5.25%	4.25%	5.25%
Impact of: 1% increase	$ (271)	$ (7)	$ (29)	$ (2)
1% decrease	$ 315	$ 6	$ 34	$ 2
Expected growth rate of health care costs[2]			5.75%	8.25%
Impact of: 1% increase	n/a	n/a	$ 29	$ 4
1% decrease	n/a	n/a	$ (26)	$ (3)

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 4.50% by 2018 for the defined benefit plan obligation, remaining at that level thereafter.

Historical Information

The history of defined benefit plans was as follows:

	As at		
	Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010
Fair value of plan assets	**$ 1,621**	$ 1,544	$ 1,372
Present value of defined benefit plan obligations	**(2,294)**	(1,952)	(1,710)
Deficit in the plans	**$ (673)**	$ (408)	$ (338)
Experience adjustments arising on plan assets[1]	**$ (45)**	$ 50	n/a
Experience adjustments arising on plan liabilities[1]	**$ (279)**	$ (187)	n/a

n/a – not applicable

(1) Experience adjustments arising on plan assets and plan liabilities were recognized in other comprehensive loss.

(ii) Post-Employment and Other Long Term Employee Benefit Costs

The net cost recognized in net earnings before income taxes for the Company's post-employment and other long term employee benefit plans was as follows:

			2011
	Defined Benefit Pension Plans	**Other Defined Benefit Plans**	**Total**
Current service cost	**$ 52**	**$ 13**	**$ 65**
Interest cost on defined benefit plan obligations[1]	**91**	**12**	**103**
Expected return on pension plan assets[1]	**(97)**		**(97)**
Contractual termination benefits	**3**		**3**
Other		**(3)**	**(3)**
Net post-employment defined benefit cost	**$ 49**	**$ 22**	**$ 71**
Defined contribution costs[2]			**20**
Multi-employer pension plan costs[2]			**53**
Total net post-employment benefit costs			**$ 144**
Other long term employee benefit costs[1]			**26**
Net post-employment and other long term employee benefit costs			**$ 170**

(1) Interest cost on defined benefit plan obligations, expected return on pension plan assets and $5 of other long term employee benefit costs were recognized in net interest expense and other financing charges.

(2) Amounts represent the Company's contributions made in connection with defined contribution plans and multi-employer pension plans.

	2010		
	Defined Benefit Pension Plans	Other Defined Benefit Plans	Total
Current service cost	$ 44	$ 11	$ 55
Interest cost on defined benefit plan obligations[(1)]	91	12	103
Expected return on pension plan assets[(1)]	(93)		(93)
Contractual termination benefits	3		3
Other		(1)	(1)
Net post-employment defined benefit cost	$ 45	$ 22	$ 67
Defined contribution costs[(2)]			19
Multi-employer pension plan costs[(2)]			58
Total net post-employment benefit costs			$ 144
Other long term employee benefit costs[(1)]			20
Net post-employment and other long term employee benefit costs			$ 164

(1) Interest cost on defined benefit plan obligations, expected return on pension plan assets and $6 of other long term employee benefit costs were recognized in net interest expense and other financing charges.
(2) Amounts represent the Company's contributions made in connection with defined contribution plans and multi-employer pension plans.

The net post-employment and other long term employee benefit costs presented in the consolidated statements of earnings were as follows:

	2011	2010
Operating income	**$ 159**	$ 148
Net interest expense and other financing charges	**11**	16
Net post-employment and other long term employee benefit costs	**$ 170**	$ 164

Note 25. SHARE-BASED COMPENSATION ($ except where otherwise indicated)

The following table summarizes the Company's cost recognized in selling, general and administrative expenses related to its stock option and share appreciation right plans, restricted share unit plans and GWL's and Glenhuron's equity derivatives:

($ millions)	**2011**	2010
Stock option plans/share appreciation right plan expense[(1)]	**$ 14**	$ 36
Restricted share unit plan expense[(1)]	**18**	19
Equity derivative contracts expense (income)	**15**	(42)
Net share-based compensation expense	**$ 47**	$ 13

(1) In connection with the $1.0 billion special one-time common share dividend paid during 2011, employees who held stock options and restricted share units were compensated for the decreased value of their awards resulting from the payment of the dividend. The related expense was included in the compensation expense recorded in 2011.

The following is the carrying amount of the Company's shared-based compensation arrangements including stock option, restricted share unit plans, director deferred share unit plans, and executive deferred share unit plans:

($ millions)	Dec. 31, 2011	As at Dec. 31, 2010	Jan. 1, 2010
Trade and other payables	**$ 17**	$ 52	$ 29
Other liabilities	**24**	50	31
Contributed surplus	**45**	2	
	$ 86	$ 104	$ 60

Stock Option Plan

GWL maintains a stock option plan for certain employees. Under this plan, GWL may grant options for up to 7 million of its common shares; however, these stock option plans limit the number of common shares available for stock option grants to a maximum of 5% of outstanding common shares at any time. Stock options have up to a 7-year term, vest 20% or 33% 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 GWL'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 GWL at the price specified in the terms of the option agreement.

Loblaw maintains a stock option plan for certain employees. Under this plan, Loblaw may grant options for up to 13.7 million common shares, which is Loblaw's guideline for the number of stock option grants up to a maximum of 5% of outstanding common shares at any time. Stock options have up to a 7-year term, vest 20% or 33% 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.

Commencing February 22, 2011, GWL and Loblaw amended their stock option plans whereby the right to receive a cash payment in lieu of exercising an option for shares was removed. As a result, $51 million previously recorded in trade and other payables and other liabilities was reclassified to contributed surplus.

The following is a summary of GWL's stock option and share appreciation right plan activity:

	2011 Options (number of shares)	2011 Weighted Average Exercise Price/Share	2010 Options/ Rights (number of shares)	2010 Weighted Average Exercise Price/Share
Outstanding options/rights, beginning of year	**1,533,443**	**$ 75.71**	1,761,345	$ 79.07
Granted	**250,628**	**$ 68.37**	300,573	$ 74.49
Exercised	**(17,560)**	**$ 51.00**	(129,917)	$ 63.26
Forfeited	**(352,007)**	**$ 72.83**	(53,947)	$ 84.36
Expired			(344,611)	$ 95.20
Outstanding options, end of year[1,2]	**1,414,504**	**$ 75.43**	1,533,443	$ 75.71
Options exercisable, end of year[2]	**684,118**	**$ 84.08**	674,062	$ 86.88
Share appreciation value paid ($ millions)			$ 1	

(1) Options outstanding of 1,414,504 (2010 – 1,533,443) represented approximately 1.1% (2010 – 1.2%) of GWL's issued and outstanding common shares, which was within GWL's guideline of 5%.

(2) There were no share appreciation rights outstanding as at year end 2011 and 2010.

The following table summarizes information about GWL's outstanding stock options:

	2011				
	Outstanding Options			Exercisable Options	
Range of Exercise Prices ($)	Number of Options Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price/Share	Number of Exercisable Options	Weighted Average Exercise Price/Share
$46.24 – $68.96	**533,152**	**5**	**$ 60.60**	**111,609**	**$ 53.97**
$68.97 – $73.91	**480,838**	**3**	**$ 71.37**	**275,623**	**$ 71.92**
$73.92 – $111.02	**400,514**	**2**	**$ 100.05**	**296,886**	**$ 106.69**
	1,414,504			**684,118**	

During 2011, GWL granted stock options with a weighted average exercise price of $68.37 (2010 – $74.49) per common share and a fair value of $3 million (2010 – $7 million). In addition, during 2011, GWL issued 17,560 common shares (2010 – nil) on the exercise of stock options and received cash consideration of $1 million (2010 – nil).

The assumptions used to measure the fair value of the GWL options granted during 2011 under the Black-Scholes model at the grant date were as follows:

	2011
Expected dividend yield(1)	**2.0% - 2.2%**
Expected share price volatility(2)	**24.3% - 26.0%**
Risk-free interest rate(3)	**1.4% - 2.8%**
Expected life of options(4)	**4.8 - 6.6 years**

The assumptions used to measure the fair value of GWL cash-settled options outstanding under the Black-Scholes model at the balance sheet dates as indicated were as follows:

	As at Dec. 31, 2010	As at Jan. 1, 2010
Expected dividend yield(1)	1.7%	2.0%
Expected share price volatility(2)	19.3% - 28.2%	23.4% - 31.7%
Risk-free interest rate(3)	1.2% - 2.6%	0.7% - 3.0%
Expected life of options(4)	0.5 - 6.4 years	1.0 - 6.6 years
Weighted average exercise price	$ 75.71	$ 79.07

(1) The expected dividend yield is estimated based on the annual dividend prior to the balance sheet date and the closing share price as at the balance sheet date.
(2) The expected share price volatility is estimated based on GWL's historical volatility over a period consistent with the expected life of the options.
(3) The risk-free interest rate is estimated based on the Government of Canada bond yield in effect at the reporting date for a term to maturity equal to the expected life of the options.
(4) The effect of expected exercise of options prior to expiry is incorporated into the weighted average expected life of the options, which is based on historical experience and general option holder behaviour.

Estimated forfeiture rates are incorporated into the measurement of fair value. The forfeiture rate applied as at year end 2011 was 4.6% (December 31, 2010 – 4.3%; January 1, 2010 – 4.0%).

The following is a summary of Loblaw's stock option plan activity:

	2011		2010	
	Options (number of shares)	**Weighted Average Exercise Price/Share**	Options (number of shares)	Weighted Average Exercise Price/Share
Outstanding options, beginning of year	**9,320,865**	**$ 38.56**	9,207,816	$ 40.14
Granted	**3,337,049**	**$ 39.20**	2,571,203	$ 36.52
Exercised	**(686,794)**	**$ 30.61**	(603,787)	$ 29.68
Forfeited	**(1,220,127)**	**$ 41.80**	(1,156,195)	$ 42.18
Expired			(698,172)	$ 53.60
Outstanding options, end of year[(1)]	**10,750,993**	**$ 38.90**	9,320,865	$ 38.56
Options exercisable, end of year	**3,671,069**	**$ 43.25**	2,938,014	$ 46.33
Share appreciation value paid ($ millions)			$ 6	

(1) Options outstanding of 10,750,993 (2010 – 9,320,865) represented approximately 3.8% (2010 – 3.3%) of Loblaw's issued and outstanding common shares, which was within Loblaw's guideline of 5%.

The following table summarizes information about Loblaw's outstanding stock options:

	2011				
	Outstanding Options			**Exercisable Options**	
Range of Exercise Prices ($)	**Number of Options Outstanding**	**Weighted Average Remaining Contractual Life (years)**	**Weighted Average Exercise Price/Share**	**Number of Exercisable Options**	**Weighted Average Exercise Price/Share**
$28.95 – $36.26	**3,188,525**	**4**	**$ 30.18**	**1,384,508**	**$ 29.88**
$36.27 – $40.09	**5,247,553**	**6**	**$ 38.04**	**377,849**	**$ 36.36**
$40.10 – $69.75	**2,314,915**	**2**	**$ 52.88**	**1,908,712**	**$ 54.31**
	10,750,993			**3,671,069**	

During 2011, Loblaw granted stock options with a weighted average exercise price of $39.20 (2010 – $36.52) per common share and a fair value of $26 million (2010 – $20 million). In addition, during 2011, Loblaw issued 686,794 common shares (2010 – nil) on the exercise of stock options and received cash consideration of $21 million (2010 – nil).

The assumptions used to measure the fair value of the Loblaw options granted during 2011 under the Black-Scholes model at the grant date were as follows:

	2011
Expected dividend yield[1]	**2.1% - 2.3%**
Expected share price volatility[2]	**22.1% - 24.7%**
Risk-free interest rate[3]	**1.2% - 2.9%**
Expected life of options[4]	**4.4 – 6.4 years**

The assumptions used to measure the fair value of Loblaw cash-settled options outstanding under the Black-Scholes model at the balance sheet dates as indicated were as follows:

	As at	
	Dec. 31, 2010	Jan. 1, 2010
Expected dividend yield[1]	2.1%	2.3%
Expected share price volatility[2]	16.0% - 27.0%	21.9% - 30.5%
Risk-free interest rate[3]	0.7% - 2.6%	0.5% - 3.0%
Expected life of options[4]	0.2 - 6.4 years	0.6 - 6.4 years
Weighted average exercise price	$ 38.56	$ 40.14

(1) The expected dividend yield is estimated based on the annual dividend prior to the balance sheet date and the closing share price as at the balance sheet date.
(2) The expected share price volatility is estimated based on Loblaw's historical volatility over a period consistent with the expected life of the options.
(3) The risk-free interest rate is estimated based on the Government of Canada bond yield in effect at the reporting date for a term to maturity equal to the expected life of the options.
(4) The effect of expected exercise of options prior to expiry is incorporated into the weighted average expected life of the options, which is based on historical experience and general option holder behaviour.

Estimated forfeiture rates are incorporated into the measurement of fair value. The forfeiture rate applied as at year end 2011 was 16.3% (December 31, 2010 – 16.2%; January 1, 2010 – 14.6%).

Restricted Share Unit Plans

GWL and Loblaw both maintain a RSU plan for certain senior employees. The RSUs entitle employees to a cash payment after the end of each performance period, of up to 3 to 5 years, following the date of the award. The RSU payment will be an amount equal to the weighted average price of a GWL or Loblaw common share on the last three trading days preceding the end of the performance period for the RSUs multiplied by the number of RSUs held by the employee.

The following is a summary of GWL's and Loblaw's RSU plan activity:

	GWL		Loblaw	
Number of Awards	**2011**	2010	**2011**	2010
Outstanding RSUs, beginning of year	**163,370**	152,555	**1,045,346**	973,351
Granted	**85,573**	49,056	**548,003**	381,712
Settled	**(93,356)**	(34,148)	**(398,532)**	(198,389)
Forfeited	**(15,774)**	(4,093)	**(75,321)**	(111,328)
Outstanding RSUs, end of year	**139,813**	163,370	**1,119,496**	1,045,346
RSUs settled ($ millions)	**$ 6**	$ 2	**$ 15**	$ 8

As at year end 2011, the intrinsic value of GWL's vested RSUs was $6 million (December 31, 2010 – $8 million; January 1, 2010 – $5 million). As at year end 2011, the intrinsic value of Loblaw's vested RSUs was $22 million (December 31, 2010 – $26 million; January 1, 2010 – $18 million).

Director Deferred Share Unit Plans

The following is a summary of GWL's and Loblaw's DSU plan activity:

	GWL		Loblaw	
Number of Awards	**2011**	2010	**2011**	2010
Outstanding DSUs, beginning of year	**105,015**	83,974	**147,358**	110,303
Granted	**24,569**	19,322	**36,438**	34,417
Reinvested	**14,170**	1,719	**3,209**	2,638
Settled			**(28,988)**	
Outstanding DSUs, end of year	**143,754**	105,015	**158,017**	147,358

The fair value of each DSU granted is equal to the market value of a GWL and Loblaw common share at the date on which DSUs are awarded. The weighted average grant date fair value of GWL's DSUs granted during 2011 was $68.93 (2010 – $76.97). The weighted average grant date fair value of Loblaw's DSUs granted during 2011 was $38.46 (2010 – $40.53). In 2011, the Company recorded a compensation cost of $5 million (2010 – $3 million) related to these plans in selling, general and administrative expenses.

Executive Deferred Share Unit Plans

The following is a summary of GWL's and Loblaw's EDSU plan activity:

	GWL		Loblaw	
Number of Awards	**2011**	2010	**2011**	2010
Outstanding EDSUs, beginning of year	**2,129**		**29,143**	
Granted	**1,691**	2,089	**14,733**	29,946
Reinvested	**310**	40	**877**	632
Settled			**(825)**	(1,435)
Outstanding EDSUs, end of year	**4,130**	2,129	**43,928**	29,143

In 2011, the Company recorded a compensation cost of $1 million (2010 – $1 million) related to these plans in selling, general and administrative expenses. As at year end 2011 and 2010, the intrinsic value of GWL's EDSUs was nominal (January 1, 2010 – nil). As at year end 2011, the intrinsic value of Loblaw's EDSUs was $2 million (December 31, 2010 – $1 million; January 1, 2010 – nil).

Equity Derivative Contracts

The following is a summary of GWL's equity swap contracts (see note 28):

		As at	
($ millions unless otherwise indicated)	**Dec. 31, 2011**	Dec. 31, 2010	Jan. 1, 2010
Outstanding contracts (in millions)	**0.8**	1.7	1.7
Forward price (2010 – average forward price) per share ($)	**$ 107.26**	$ 103.17	$ 103.17
Unrealized market loss recorded in trade and other payables	**$ 31**	$ 32	$ 61

The following is a summary of Glenhuron's equity forward contracts (see note 28):

		As at	
($ millions unless otherwise indicated)	**Dec. 31, 2011**	Dec. 31, 2010	Jan. 1, 2010
Outstanding contracts (in millions)	**1.1**	1.5	1.5
Average forward price per share ($)	**$ 56.38**	$ 56.26	$ 66.25
Interest (income) expense per share ($)	**$ (0.05)**	$ 0.04	$ 10.03
Unrealized market loss recorded in trade and other payables	**$ 20**	$ 24	$ 48

Note 26. EMPLOYEE COSTS

Included in operating income were the following employee costs:

	2011	2010
Wages, salaries and other short term employee benefits	**$ 3,256**	$ 3,309
Post-employment benefits (note 24)	**138**	134
Other long term employee benefits (note 24)	**21**	14
Share-based compensation (note 25)	**32**	56
Capitalized to fixed assets	**(21)**	(21)
Employee costs	**$ 3,426**	$ 3,492

Note 27. LEASES

The Company leases certain of its retail stores, distribution centres, corporate offices, and other assets under operating or finance lease arrangements. Substantially all of the retail store leases have renewal options for additional terms. The contingent rents under certain of the retail store leases are based on a percentage of retail sales. The Company also has properties which are sub-leased to third parties.

Determining whether a lease arrangement is classified as finance or operating requires judgment with respect to the fair value of the leased asset, the economic life of the lease, the discount rate and the allocation of leasehold interests between the land and building elements of property leases.

Operating Leases – As Lessee

Future minimum lease payments relating to the Company's operating leases are as follows:

	Payments due by year						As at	
	2012	2013	2014	2015	2016	Thereafter	**Dec. 31, 2011**	Dec. 31, 2010
Operating lease payments	$ 205	$ 189	$ 167	$ 140	$ 113	$ 428	**$ 1,242**	$ 1,159
Sub-lease income	(60)	(54)	(45)	(29)	(18)	(72)	**(278)**	(264)
Net operating lease payments	$ 145	$ 135	$ 122	$ 111	$ 95	$ 356	**$ 964**	$ 895

In 2011, the Company recorded $198 (2010 – $195) as an expense in the statement of earnings in respect of operating leases. Contingent rent recognized as an expense in respect of operating leases was $1 (2010 – $1), while sub-lease income earned was $63 (2010 – $58) which was recognized in operating income.

Operating Leases – As Lessor

As at year end 2011, Loblaw leased certain owned land and buildings with a cost of $1,681 (December 31, 2010 – $1,082; January 1, 2010 – $1,183) and related accumulated depreciation of $408 (December 31, 2010 – $309; January 1, 2010 – $291). Rental income for 2011 was $127 (2010 – $119) and was recognized in operating income. In addition, Loblaw recognized $1 (2010 – $4) of contingent rent in 2011.

Future rental income relating to Loblaw's operating leases is as follows:

	Payments to be received by year						As at	
	2012	2013	2014	2015	2016	Thereafter	**Dec. 31, 2011**	Dec. 31, 2010
Operating lease receivable	$ 128	$ 124	$ 106	$ 88	$ 67	$ 121	**$ 634**	$ 481

Finance Leases – As Lessee
Loblaw has finance leases for certain property, plant and equipment.

Future minimum lease payments relating to Loblaw's finance leases are as follows:

	Payments due by year						As at	
	2012	2013	2014	2015	2016	Thereafter	**Dec. 31, 2011**	Dec. 31, 2010
Finance lease payments	$ 62	$ 53	$ 35	$ 34	$ 33	$ 491	**$ 708**	$ 635
Less future finance charges	(26)	(22)	(21)	(20)	(19)	(266)	**(374)**	(339)
Present value of minimum lease payments	$ 36	$ 31	$ 14	$ 14	$ 14	$ 225	**$ 334**	$ 296

In 2011, contingent rent recognized by Loblaw as an expense in respect of finance leases was $1 (2010 – $1). As at year end 2011, the sub-lease payments receivable under finance leases was $16 (December 31, 2010 – $13; January 1, 2010 – $8).

Note 28. FINANCIAL INSTRUMENTS

The Company's financial assets and financial liabilities are classified as follows:

- cash and cash equivalents, short term investments and security deposits are designated as fair value through profit or loss;
- derivatives which are not designated in a hedge are classified as fair value through profit or loss;
- accounts receivable, credit card receivables and Loblaw franchise loans receivable and certain other assets are classified as loans and receivables and carried at amortized cost; and
- bank indebtedness, trade and other payables, short term debt, long term debt, finance lease obligations, certain other liabilities and capital securities are classified as other financial liabilities and carried at amortized cost.

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

Cash and Cash Equivalents, Short Term Investments and Security Deposits
As at year end 2011, the Company had cash and cash equivalents, short term investments and security deposits as discussed in note 7 and in the tables below. Of these amounts, $2.2 billion (December 31, 2010 – $2.2 billion; January 1, 2010 – $2.2 billion) is denominated in United States ("U.S.") dollars and is held primarily by Dunedin Holdings GmbH ("Dunedin") a subsidiary of GWL and certain of its affiliates and Glenhuron.

In 2011, foreign currency translation gains associated with the effect of foreign currency translation on a portion of the U.S. dollar denominated cash and cash equivalents and short term investments held by Dunedin and certain of its affiliates of $25 (2010 – losses of $56) were recognized in selling, general and administrative expenses. In addition, unrealized foreign currency translation gains associated with the effect of foreign currency translation on the Company's (excluding Loblaw's) U.S. net investment in foreign operations of $12 (2010 – losses of $27) were recognized in other comprehensive loss.

In addition, a gain of $25 (2010 – loss of $52) was recognized in Loblaw's operating income as a result of translating cash and cash equivalents, short term investments and security deposits of U.S. $1,073 (December 31, 2010 – U.S. $1,033; January 1, 2010 – U.S. $945). See cross currency swaps section below.

Cross Currency Swaps
Glenhuron entered into cross currency swaps (see note 29) to exchange U.S. dollars for $1,252 (December 31, 2010 – $1,206; January 1, 2010 − $1,149) Canadian dollars, which mature by 2018. These swaps are financial derivatives classified as fair value through profit or loss. Currency adjustments receivable or payable arising from these swaps are settled in cash on maturity. As at year end 2011, a cumulative unrealized

foreign currency exchange rate receivable of $89 (December 31, 2010 − $161; January 1, 2010 − $123) was recorded in other assets (see note 15), and a receivable of $48 (December 31, 2010 − $15; January 1, 2010 − $40) was recorded in prepaid expenses and other assets. In 2011, a foreign currency translation loss of $29 (2010 – gain of $62) was recognized in operating income relating to these cross currency swaps, of which $16 (2010 – $39) related to cross currency swaps that matured or were terminated.

In 2008, Loblaw entered into fixed cross currency swaps to exchange $296 Canadian dollars for U.S. $300, which mature by 2015. A portion of these cross currency swaps was originally designated in a cash flow hedge to manage the foreign exchange variability related to part of Loblaw's fixed-rate U.S. dollar private placement notes. In 2011, the designated swap was no longer classified as a cash flow hedge and as a result, the fair value changes were recorded in operating income. As at year end 2011, a cumulative unrealized foreign currency exchange rate receivable of $14 (December 31, 2010 − $11; January 1, 2010 − $19) was recorded in other assets (see note 15). In 2011, Loblaw recognized in operating income an unrealized fair value gain of $2 (2010 – loss of $12) on these cross currency swaps. In addition, during 2011 Loblaw recognized in operating income an unrealized foreign currency translation loss of $6 (2010 – gain of $16) related to the fixed rate U.S. $300 private placement notes.

Interest Rate Swaps
Loblaw maintains a notional $150 (December 31, 2010 − $150; January 1, 2010 − $150) in interest rate swaps, on which it pays a fixed rate of 8.38%. As at year end 2011, the fair value of these interest rate swaps of $16 (December 31, 2010 − $24; January 1, 2010 − $31) was recorded in other liabilities (see note 19). In 2011, Loblaw recognized a fair value gain of $8 (2010 − $7) in operating income.

Interest rate swaps previously held by Glenhuron converted a notional $200 of floating rate cash and cash equivalents, short term investments and security deposits to average fixed rate investments at 4.74%. These interest rate swaps matured in 2011. As at December 31, 2010, the fair value of these interest rate swaps of $7 (January 1, 2010 − $15) was recorded in other assets. In 2011, Glenhuron recognized a fair value loss of $7 (2010 − $8) on these interest rate swaps in operating income.

Equity Swaps and Forwards ($, except where otherwise indicated)
As at year end 2011, GWL had equity swap contracts to buy 0.8 million (December 31, 2010 – 1.7 million; January 1, 2010 – 1.7 million) GWL common shares at a forward price of $107.26 (December 31, 2010 – average forward price of $103.17; January 1, 2010 – average forward price of $103.17). As at year end 2011, the unrealized market loss of $31 million (December 31, 2010 – $32 million; January 1, 2010 – $61 million) was recorded in trade and other payables. In 2011, GWL recorded a fair value loss of $15 million (2010 – gain of $29 million) in operating income in relation to these equity swap contracts. Also during 2011, GWL paid $75 million (2010 – nil) to terminate equity swaps and purchase for cancellation the underlying 886,700 (2010 – nil) GWL common shares under its NCIB program (see note 21).

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

As at year end 2011, Glenhuron had equity forward contracts to buy 1.1 million (December 31, 2010 – 1.5 million; January 1, 2010 – 1.5 million) Loblaw common shares at an average forward price of $56.38 (December 31, 2010 – $56.26; January 1, 2010 – $66.25) including $0.05 of interest income (December 31, 2010 – $0.04 of interest expense; January 1, 2010 – $10.03 of interest expense) per common share. As at year end 2011, the cumulative interest, dividends and unrealized market loss of $20 million (December 31, 2010 – $24 million; January 1, 2010 – $48 million) was included in trade and other payables. In addition, Glenhuron recognized a fair value loss of $2 million (2010 – gain of $11 million) in operating income in relation to these equity forward contracts. During 2011, Glenhuron paid $7 million to terminate equity forwards representing 390,100 Loblaw common shares, which Loblaw purchased for cancellation for $15 million under its NCIB program (see note 22).

In 2001, WHL entered into an equity forward sale agreement based on 9.6 million Loblaw common shares at an original forward price of $48.50 per Loblaw common share which, under the terms of the agreement, had increased to a forward price of $88.14 (December 31, 2010 – $84.09; January 1, 2010 – $80.28) per Loblaw

common share as at year end 2011. The forward matures in 2031 and will be settled in cash as follows: WHL will receive the forward price and will pay the market value of the underlying Loblaw common shares at maturity. As at year end 2011, the fair value of this equity forward sale agreement based on 9.6 million Loblaw common shares of $478 million (December 31, 2010 – $421 million; January 1, 2010 – $446 million) was recorded in other assets (see note 15). In 2011, a fair value gain of $18 million (2010 – a fair value loss of $62 million) was recorded in net interest expense and other financing charges related to this equity forward sale agreement (see note 4).

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

As at year end 2011, the unrealized loss related to Weston Foods' commodity futures of $1 (December 31, 2010 – gain of $16; January 1, 2010 – loss of $5) was recorded in accounts receivable. As at year end 2011, a nominal cumulative fair value gain (December 31, 2010 – cumulative gain of $3; January 1, 2010 – nominal gain) related to Weston Foods' commodity options was recorded in accounts receivable.

Franchise Loans Receivable and Franchise Investments in Other Assets
The value of Loblaw franchise loans receivable of $331 (December 31, 2010 – $314; January 1, 2010 – $344) was recorded on the consolidated balance sheet. In 2011, Loblaw recorded an impairment loss of $11 (2010 – $49) in selling, general and administrative expenses.

The value of Loblaw franchise investments of $53 (December 31, 2010 – $34; January 1, 2010 – $22) was recorded in other assets. In 2011, Loblaw recorded an impairment loss of $4 (2010 – $15) in selling, general and administrative expenses.

Other Loblaw Derivatives
Loblaw also maintains other financial derivatives including foreign exchange forwards, electricity forwards and fuel exchange traded futures and options. As at year end 2011, a cumulative unrealized receivable of $1 was recorded in prepaid and other assets (December 31, 2010 – payable of $3 recorded in trade and other payables; January 1, 2010 – payable of $3 recorded in other liabilities).

Fair Value Measurement
The Company classifies financial assets and financial liabilities under the following fair value hierarchy. The different levels have been identified as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following describes the fair value determinations of financial instruments:

Cash and Cash Equivalents, Short Term Investments and Security Deposits Fair value is primarily based on interest rates for similar instruments. Due to the short term maturity of these instruments, the carrying amount approximates fair value.

Accounts Receivable, Credit Card Receivables, Bank Indebtedness, Trade and Other Payables and Short Term Debt Fair value is based on estimated cash flows, discounted at interest rates for similar instruments. Due to the short term maturity of these instruments, the carrying amount approximates fair value.

Franchise Loan Receivables Fair value is based on estimated cash flows, discounted at interest rates for similar instruments. The carrying amount approximates fair value due to the minimal fluctuations in the forward interest rate and the sufficient provisions recorded for all impaired receivables.

Derivative Financial Instruments The fair values for derivative assets and liabilities are estimated using industry standard valuation models. Where applicable, these models project future cash flows and discount the future amounts to a present value using market based observable inputs including interest rate curves, credit spreads, foreign exchange rates and forward and spot prices for currencies.

Long Term Debt, Capital Securities and Other Financial Instruments Fair value is based on the present value of contractual cash flows, discounted at the Company's current incremental borrowing rate for similar types of borrowing arrangements or, where applicable, quoted market prices.

The following tables provide a summary of carrying and fair values for each classification of financial instruments and an analysis of financial instruments carried at fair value by fair value hierarchy level:

As at Dec. 31, 2011

	Financial derivatives designated in a cash flow hedge	Financial instruments required to be classified as fair value through profit or loss	Financial instruments designated as fair value through profit or loss	Loans and receivables	Other financial liabilities	Total carrying amount	Total fair value
Cash and cash equivalents			$ 1,372			$ 1,372	$ 1,372
Short term investments			2,362			2,362	2,362
Derivatives included in accounts receivable		$ (1)				(1)	(1)
Other accounts receivable				$ 560		560	560
Credit card receivables				2,101		2,101	2,101
Security deposits			367			367	367
Franchise loans receivable				331		331	331
Derivatives included in other assets		630				630	630
Certain other assets				64		64	64
Total financial assets		$ 629	$ 4,101	$ 3,056		$ 7,786	$ 7,786
Fair value level 1		$ (1)	$ 384				$ 383
Fair value level 2		630	3,717				4,347
Fair value level 3							
Total fair value		$ 629	$ 4,101				$ 4,730
Bank indebtedness					$ 3	$ 3	$ 3
Short term debt					1,280	1,280	1,280
Derivatives included in trade and other payables		$ 53				53	53
Other trade and other payables					3,887	3,887	3,887
Long term debt					6,844	6,844	7,595
Derivatives included in other liabilities		19				19	19
Certain other liabilities					49	49	49
Capital securities					222	222	248
Total financial liabilities		$ 72			$ 12,285	$ 12,357	$ 13,134
Fair value level 1							
Fair value level 2		$ 70					$ 70
Fair value level 3		2					2
Total fair value		$ 72					$ 72

							As at Dec. 31, 2010
	Financial derivatives designated in a cash flow hedge	Financial instruments required to be classified as fair value through profit or loss	Financial instruments designated as fair value through profit or loss	Loans and receivables	Other financial liabilities	Total carrying amount	Total fair value
Cash and cash equivalents			$ 1,453			$ 1,453	$ 1,453
Short term investments			3,253			3,253	3,253
Derivatives included in accounts receivable		$ 19				19	19
Other accounts receivable				$ 443		443	443
Credit card receivables				1,997		1,997	1,997
Security deposits			435			435	435
Franchise loans receivable				314		314	314
Derivatives included in other assets	$ 5	613				618	618
Certain other assets				37		37	37
Total financial assets	$ 5	$ 632	$ 5,141	$ 2,791		$ 8,569	$ 8,569
Fair value level 1		$ 19	$ 125				$ 144
Fair value level 2	$ 5	610	5,016				5,631
Fair value level 3		3					3
Total fair value	$ 5	$ 632	$ 5,141				$ 5,778
Bank indebtedness					$ 11	$ 11	$ 11
Short term debt					871	871	871
Derivatives included in trade and other payables		$ 59				59	59
Other trade and other payables					4,740	4,740	4,740
Long term debt					7,316	7,316	7,891
Derivatives included in other liabilities		24				24	24
Certain other liabilities					46	46	46
Capital securities					221	221	252
Total financial liabilities		$ 83			$ 13,205	$ 13,288	$ 13,894
Fair value level 1							
Fair value level 2		$ 83					$ 83
Fair value level 3							
Total fair value		$ 83					$ 83

							As at Jan. 1, 2010
	Financial derivatives designated in a cash flow hedge	Financial instruments required to be classified as fair value through profit or loss	Financial instruments designated as fair value through profit or loss	Loans and receivables	Other financial liabilities	Total carrying amount	Total fair value
Cash and cash equivalents			$ 1,490			$ 1,490	$ 1,490
Short term investments			3,420			3,420	3,420
Derivatives included in accounts receivable		$ (5)				(5)	(5)
Other accounts receivable				$ 449		449	449
Credit card receivables				2,095		2,095	2,095
Security deposits			348			348	348
Franchise loans receivable				344		344	344
Derivatives included in other assets	$ 9	635				644	644
Certain other assets				22		22	22
Total financial assets	$ 9	$ 630	$ 5,258	$ 2,910		$ 8,807	$ 8,807
Fair value level 1		$ (5)	$ 300				$ 295
Fair value level 2	$ 9	634	4,958				5,601
Fair value level 3		1					1
Total fair value	$ 9	$ 630	$ 5,258				$ 5,897
Bank indebtedness					$ 10	$ 10	$ 10
Short term debt					1,525	1,525	1,525
Derivatives included in trade and other payables		$ 109				109	109
Other trade and other payables					3,567	3,567	3,567
Long term debt					6,568	6,568	6,935
Derivatives included in other liabilities		34				34	34
Certain other liabilities					47	47	47
Capital securities					220	220	244
Total financial liabilities		$ 143			$ 11,937	$ 12,080	$ 12,471
Fair value level 1							
Fair value level 2		$ 143					$ 143
Fair value level 3							
Total fair value		$ 143					$ 143

The financial instruments classified as level 3 are as follows:

- The fair value of the embedded foreign currency derivative of $2 was included in other liabilities (December 31, 2010 − $3 included in other assets; January 1, 2010 − $1 included in other assets), of which the fair value loss of $5 (2010 – gain of $2) was recognized in operating income. A 100 basis point increase (decrease) in foreign currency exchange rates would result in a $1 gain (loss) in fair value.

In 2011, the net loss on financial instruments designated as fair value through profit or loss recognized in net earnings before income taxes was $25 (2010 – net gain of $52). In addition, the net loss on financial instruments required to be classified as fair value through profit or loss recognized in net earnings before income taxes was $30 (2010 – net gain of $75).

During 2011, net interest expense of $418 (2010 – $433) was recorded related to financial instruments not classified or designated as fair value through profit and loss.

Note 29. FINANCIAL RISK MANAGEMENT

The Company is exposed to the following risks as a result of holding and issuing financial instruments: credit risk, market risk and liquidity risk. The following is a description of those risks and how the exposures are managed:

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

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

The Company's maximum exposure to credit risk as it relates to derivative instruments is approximated by the positive fair market value of the derivatives on the consolidated balance sheet (see note 28).

Refer to notes 8 and 9 for additional information on the credit quality performance of credit card receivables and other receivables from Weston Foods' customers and suppliers and Loblaw's vendors, independent franchisees, associated stores and independent accounts.

Market Risk
Market risk is the loss that may arise from changes in factors such as interest rates, foreign currency exchange rates, commodity prices, common share price and the impact these factors may have on other counterparties.

Foreign Currency Exchange Rate Risk The Company's consolidated financial statements are expressed in Canadian dollars, however a portion of the Company's (excluding Loblaw's) net assets are denominated in U.S. dollars through both its net investment in foreign operations in the United States and its foreign subsidiaries held by Dunedin and certain of its affiliates with a functional currency that is the same as that of the Company. The U.S. dollar denominated net assets are translated into Canadian dollars at the foreign currency exchange rate in effect at the balance sheet date. As a result, the Company is exposed to foreign currency translation gains

and losses. Those gains and losses arising from the translation of the U.S. dollar denominated assets of foreign subsidiaries with a functional currency that is the same as that of the Company are included in operating income, while translation gains and losses on the net investment in foreign operations in the United States are recorded in accumulated other comprehensive loss.

The Company estimates that based on the U.S. net assets held by Dunedin and certain of its affiliates at the end of 2011, an appreciation in the Canadian dollar of one cent relative to the U.S. dollar would result in a loss of $10 (2010 – $9) in earnings before income taxes.

Revenues and expenses of all foreign operations are translated into Canadian dollars at the foreign currency exchange rates that approximate the rates in effect at the dates when such items are recognized. An appreciating Canadian dollar relative to the U.S. dollar will negatively impact year-over-year changes in reported sales, operating income and net earnings, while a depreciating Canadian dollar relative to the U.S. dollar will have the opposite impact.

Loblaw is exposed to foreign currency exchange rate variability, primarily on its U.S. dollar denominated cash and cash equivalents, short term investments and security deposits held by Glenhuron, foreign denominated and foreign currency based purchases in trade and other payables, and U.S. dollar private placement notes included in long term debt. Loblaw and Glenhuron have cross currency swaps and cross currency forward contracts that partially offset their respective exposure to fluctuations in foreign currency exchange rates (see note 28).

Commodity Price Risk Weston Foods costs are directly impacted by fluctuations in the prices of commodity-linked raw materials such as wheat flours, sugars, vegetable oils, cocoa powders and chocolate. Loblaw is also exposed to fluctuations in the commodity prices as a result of the indirect link between commodities and the cost of consumer products. In addition, both Weston Foods and Loblaw are exposed to increases in the prices of energy in operating, in the case of Weston Foods, its bakeries and distribution networks, and, in the case of Loblaw, its stores and distribution networks. Both Weston Foods and Loblaw use purchase commitments and derivative instruments in the form of futures contracts, option contracts and forward contracts to manage their current and anticipated exposure to fluctuations in commodity prices. The Company estimates that based on the outstanding derivative contracts held by the Company at the end of 2011, a 10% decrease in relevant commodity prices, with all other variables held constant, would result in a net loss of $9 in earnings before income taxes. This amount excludes the offsetting impact of the commodity price risk inherent in the transactions being hedged.

Interest Rate Risk The Company is exposed to interest rate risk from fluctuations in interest rates on its floating rate debt and financial instruments, net of cash and cash equivalents, short term investments and security deposits. GWL and Loblaw manage interest rate risk by monitoring their respective mix of fixed and floating rate debt, net of cash and cash equivalents, short term investments and security deposits, and taking action as necessary to maintain an appropriate balance. The Company estimates that a 100 basis point increase in short term interest rates, with all other variables held constant, would result in an increase of $28 in net interest expense and other financing charges.

Common Share Price Risk GWL and Loblaw are exposed to common share market price risk as a result of issuance to certain employees of stock options, to the extent that they are repurchased by GWL and Loblaw on exercise, and RSUs. RSUs negatively impact operating income when the common share prices increase and positively impact operating income when the common share prices decline. GWL and Glenhuron are parties to equity derivative contracts, which allow for settlement in cash, common shares or net settlement. These derivatives change in value as the market prices of the GWL and Loblaw common shares change and provide a partial offset to fluctuations in RSU plan expense or income. The impact on the equity derivatives of a one dollar decrease in the market value in the underlying common shares, with all other variables held constant, would result in a loss of $2 in earnings before income taxes.

In addition, the obligation of WHL under the equity forward sale agreement based on 9.6 million Loblaw common shares, which matures in 2031, is secured by the underlying Loblaw common shares. If the market value of the underlying Loblaw common shares exceeds the obligation of WHL under this forward, a portion of the proceeds from a future sale of these shares may be used to satisfy the obligation under this forward contract upon termination or maturity. At maturity, if the forward price is greater than (less than) the market price of the Loblaw shares, WHL will receive (pay) cash equal to the difference between the notional value and the market value of the forward contract. A one dollar decrease in the market value of the underlying shares of the equity forward, with all other variables held constant, would result in a loss of $10 in net interest expense and other financing charges.

Liquidity and Capital Availability Risk
Liquidity risk is the risk that the Company cannot meet a demand for cash or fund its obligations as they come due. Liquidity risk also includes the risk of not being able to liquidate assets in a timely manner at a reasonable price. Difficulty accessing capital markets could impair the Company's capacity to grow, execute its business model and generate financial returns.

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

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

Maturity Analysis The following are the undiscounted contractual maturities of significant financial liabilities as at December 31, 2011:

	2012	2013	2014	2015	2016	Thereafter[6]	Total
Interest rate swaps payable[1]	$ 13	$ 6					$ 19
Equity forward contracts[2]	148						148
Long term debt including fixed interest payments[3]	431	1,005	$ 1,428	$ 798	$ 1,006	$ 7,044	11,712
Foreign exchange forward contracts	56						56
Short term debt[4]	1,280						1,280
Other liabilities[5]			35		4		39
	$ 1,928	$ 1,011	$ 1,463	$ 798	$ 1,010	$ 7,044	$ 13,254

(1) Based on the pay fixed interest which will be partially offset by the floating interest received.
(2) Based on the average cost base as at December 31, 2011.
(3) Based on the maturing face values and annual interest for each instrument, including guaranteed investment certificates, long term independent securitization trusts and an independent funding trust, as well as annual payment obligations for SPEs, mortgages and finance lease obligations.
(4) See note 17 for a breakdown of the components of short term debt.
(5) Contractual amount of Loblaw's obligation related to certain other liabilities.
(6) Loblaw capital securities and their related dividends have been excluded as Loblaw is not contractually obligated to pay these amounts. The Company also excluded bank indebtedness, trade payables and other liabilities, which are due within the next 12 months.

Note 30. CONTINGENCIES

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. 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 the consolidated financial statements with the exception of the items noted below.

Legal Proceedings
In 2007, pursuant to a transaction whereby Domtar was combined with the fine paper business of Weyerhaeuser Inc., Domtar common shares were exchanged for an equal number of either exchangeable shares of Domtar (Canada) Paper Inc. or common shares of New Domtar. The Company elected to receive exchangeable shares of Domtar (Canada) Paper Inc. in exchange for its Domtar common shares. The Share Purchase Agreement governing the June 1998 sale by GWL of E.B. Eddy Paper, Inc. to Domtar (the "SPA") contains a price adjustment clause. The SPA provides, subject to certain limited exceptions, that if any person subsequently acquired more than 50% of the outstanding voting shares of Domtar, the price adjustment clause applies. GWL believes that a price adjustment in the amount of $110 is payable to it by Domtar and it has demanded payment of such amount from Domtar. Domtar's position is that the purchase price adjustment does not apply because of the application of an exception contained in the SPA. GWL has commenced an action against Domtar for $110. The parties have exchanged legal pleadings.

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

Income and Other Taxes
The Company is involved in and potentially subject to tax audits from various governments and regulatory agencies relating to income, capital and commodity taxes on an ongoing basis. As a result, from time to time, taxing authorities may disagree with the positions and conclusions taken by the Company in its tax filings or change legislation, which could lead to assessments and reassessments. These assessments and reassessments may have a material impact on the Company's financial statements in future periods.

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

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, and 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 with 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.

Note 31. FINANCIAL GUARANTEES

The Company establishes letters of credit used in connection with certain obligations mainly related to real estate transactions, benefit programs, purchase orders and performance guarantees. The aggregate gross potential liability related to these letters of credit, not including the standby letters of credit for the benefit of the independent funding trusts and independent securitization trusts, is approximately $411 (2010 − $445). Other letters of credit related to the financing program for the Loblaw's independent franchisees and securitization of PC Bank's credit card receivables have been identified as guarantees and are discussed further below.

Independent Funding Trusts

The full balance relating to the debt of the independent funding trust has been consolidated on the balance sheets of the Company as at December 31, 2011, December 31, 2010, and January 1, 2010. Loblaw has agreed to provide credit enhancement of $48 (2010 − $66) in the form of a standby letter of credit for the benefit of the independent funding trust representing not less than 10% (2010 − 15%) of the principal amount of the loans outstanding. This credit enhancement allows the independent funding trust to provide financing to Loblaw's independent franchisees. As well, each independent franchisee provides security to the independent funding trust for its obligations by way of a general security agreement. In the event that an independent franchisee defaults on its loan and Loblaw has not, within a specified time period, assumed the loan, or the default is not otherwise remedied, the independent funding trust would assign the loan to Loblaw and draw upon this standby letter of credit. This standby letter of credit has never been drawn upon. Loblaw has agreed to reimburse the issuing bank for any amount drawn on the standby letter of credit.

Independent Securitization Trusts

Letters of credit for the benefit of other independent securitization trusts with respect to the securitization programs of PC Bank have been issued by major Canadian chartered banks. These standby letters 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 banks for any amount drawn on the standby letters of credit. The aggregate gross potential liability under these arrangements, which represented 9% (2010 – 9%) on a portion of the securitized credit card receivables amount, was approximately $81 (December 31, 2010 – $48; January 1, 2010 – $116) (see note 17). The undrawn commitments on the independent securitization trusts as at year end 2011 was $120 (December 31, 2010 – $490; January 1, 2010 – $250).

Lease Obligations

In connection with historical dispositions of certain of its assets, Loblaw has assigned leases to third parties. Loblaw 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, was in aggregate of $14 (2010 – $26). Additionally, Loblaw has guaranteed lease obligations of a third-party distributor in the amount of $17 (2010 – $22).

PC Bank

Loblaw has provided a guarantee on behalf of PC Bank to MasterCard® International Incorporated in the amount of U.S. $180 for accepting PC Bank as a card member and licensee of MasterCard®.

Note 32. RELATED PARTY TRANSACTIONS

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

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

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

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

Post-Employment Benefit Plans
Contributions made by the Company to the Company's post-employment benefit plans are disclosed in note 24.

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

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

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

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

Note 33. SEGMENT INFORMATION

The Company has two reportable operating segments: Weston Foods and Loblaw. The accounting policies of the reportable operating segments are the same as those described in the Company's summary of significant accounting policies (see note 2). The Company measures each reportable operating segment's performance based on adjusted EBITDA(1) and adjusted operating income(1). Neither reportable operating segment is reliant on any single external customer.

	2011	2010
Revenue		
Weston Foods	**$ 1,772**	$ 1,624
Loblaw	**31,250**	30,836
Intersegment	**(646)**	(613)
Consolidated	**$ 32,376**	$ 31,847
Adjusted EBITDA(1)		
Weston Foods	**$ 325**	$ 290
Loblaw	**2,134**	2,052
Total	**$ 2,459**	$ 2,342
Depreciation and Amortization(2)		
Weston Foods	**$ 60**	$ 55
Loblaw	**699**	628
Total	**$ 759**	$ 683
Adjusted Operating Income(1)		
Weston Foods	**$ 265**	$ 235
Loblaw	**1,435**	1,424
Impact of certain items(3)	**(116)**	(35)
Other(4)	**25**	(56)
Consolidated operating income	**$ 1,609**	$ 1,568

(1) Excludes certain items and is used internally by management when analyzing segment underlying operating performance.
(2) Excludes accelerated depreciation of $3 (2010 – nil) included in restructuring and other charges.
(3) The impact of certain items excluded by management includes restructuring and other charges, a commodity derivatives fair value adjustment at Weston Foods, share-based compensation net of equity derivatives, certain prior years' commodity tax matters at Loblaw, net insurance proceeds at Weston Foods and a gain on sale of a portion of a Loblaw property.
(4) Operating income for the year included a gain of $25 (2010 – a loss of $56) related to the effect of foreign currency translation on a portion of the U.S. dollar denominated cash and short term investments held by Dunedin and certain of its affiliates, which are foreign operations that have the same functional currency as that of the Company.

		As at	
	Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010
Total Assets			
Weston Foods	**$ 1,875**	$ 1,800	$ 1,622
Loblaw	**17,588**	17,001	16,250
Other(1)	**1,860**	2,895	3,318
Consolidated	**$ 21,323**	$ 21,696	$ 21,190

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

	2011	2010
Additions to Fixed Assets and Goodwill Purchases		
Weston Foods	**$ 39**	$ 188
Loblaw	**995**	1,190
Consolidated	**$ 1,034**	$ 1,378

The Company operates primarily in Canada and the United States.

	2011	2010
Revenue (excluding intersegment)		
Canada	**$ 31,653**	$ 31,217
United States	**723**	630
Consolidated	**$ 32,376**	$ 31,847

		As at	
	Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010
Fixed Assets and Goodwill			
Canada	**$ 10,210**	$ 9,849	$ 9,214
United States	**325**	327	239
Consolidated	**$ 10,535**	$ 10,176	$ 9,453

Note 34. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Company's consolidated financial statements for the year ended December 31, 2011 are the first annual consolidated financial statements that were prepared in accordance with the requirements of IFRS including the application of IFRS 1.

The significant accounting policies described in note 2 have been applied in preparing the consolidated financial statements for the year ended December 31, 2011, the comparative information for the year ended December 31, 2010 and the preparation of the opening IFRS balance sheet as at January 1, 2010.

In preparing the opening IFRS balance sheet as at January 1, 2010 and the comparative consolidated financial statements and information for the year ended December 31, 2010, the Company adjusted amounts related to prior period balances. The Company determined that these amounts were not material to its consolidated financial statements for any prior interim or annual periods.

An explanation of how the transition from CGAAP to IFRS has affected the Company's financial position and financial performance and cash flows is set out in the following reconciliations and the explanatory notes that accompany the reconciliations. Reconciliations of the consolidated balance sheets, consolidated statements of earnings and consolidated statements of comprehensive income for the respective periods noted begin on page 139. Changes to cash flows were not material as a result of the conversion to IFRS.

IFRS 1 requires an entity to reconcile equity, net earnings and comprehensive income from CGAAP to IFRS for prior periods. The following represents the reconciliations as at and for the years ended as indicated for equity, net earnings and comprehensive income.

Reconciliation of Equity

	Explanatory Notes	As at Jan. 1, 2010	As at Dec. 31, 2010
Total Shareholders' Equity – CGAAP		$ 6,942	$ 6,132
Differences (decreasing) increasing reported shareholders' equity			
Share-based payments	b	(10)	(3)
Business combinations	c		(1)
Property, plant and equipment	d	(71)	(85)
Leases	e	(19)	(24)
Employee benefits	f	(389)	(456)
Borrowing costs	h	(199)	(216)
Consolidations	i	(79)	(80)
Impairment of assets	j	(187)	(146)
Provisions	k	(16)	(14)
Financial instruments	l	(331)	(374)
Customer loyalty programs	m	(14)	(25)
Subtotal of adjustments		$ (1,315)(1)	$ (1,424)(2)
Change in presentation of minority interest	a	2,379	2,596
Total Equity – IFRS		$ 8,006	$ 7,304

(1) Includes equity attributable to non-controlling interests of $477.
(2) Includes equity attributable to non-controlling interests of $516.

Reconciliation of Net Earnings

	Explanatory Notes	Year Ended Dec. 31, 2010
Net Earnings – CGAAP		$ 452
Differences increasing (decreasing) reported net earnings		
Share-based payments	b	5
Business combinations	c	(1)
Property, plant and equipment	d	(14)
Leases	e	(5)
Employee benefits	f	29
Borrowing costs	h	(17)
Consolidations	i	3
Impairment of assets	j	41
Provisions	k	2
Financial instruments	l	(54)
Customer loyalty programs	m	(11)
Subtotal of adjustments		$ (22)(1)
Change in presentation of minority interest	a	273
Net Earnings – IFRS		$ 703

(1) Includes a net loss attributable to non-controlling interests of $22.

Reconciliation of Comprehensive Income	Explanatory Notes	Year Ended Dec. 31, 2010
Comprehensive Income – CGAAP		$ 419
Differences (decreasing) increasing reported comprehensive income		
Net earnings		(22)
Foreign currency translation adjustment	f	1
Unrealized available for sale financial assets	l	(1)
Unrealized cash flow hedges	l	12
Net defined benefit plan actuarial losses	f	(98)
Subtotal of adjustments		$ (108)[1]
Change in presentation of minority interest	a	271
Comprehensive Income – IFRS		$ 582

(1) Includes comprehensive loss attributable to non-controlling interests of $52.

IFRS 1 - First-Time Adoption of International Financial Reporting Standards

IFRS 1 requires retroactive application for all IFRS standards effective at the reporting date except for certain mandatory exceptions from retrospective application that are relevant to the Company, or optional exemptions from retrospective application that were elected by the Company. Accordingly, these consolidated financial statements have been prepared based on the accounting policies described in note 2. The applicable mandatory exceptions and optional exemptions from retrospective application are described in this section, and the impact of these exceptions and exemptions and all other adjustments arising from IFRS policy choices and other requirements are described further in the "Explanatory notes for reconciliations of equity, net earnings, comprehensive income and balance sheet items" section below.

Mandatory Exceptions

IFRS 1 prescribes mandatory exceptions to the retrospective application requirements of IFRS. The following exceptions apply to the Company:

Estimates Estimates made in accordance with IFRS at the date of transition, and in the comparative period of the first audited IFRS annual consolidated financial statements, were consistent with those determined under CGAAP with adjustments made only to reflect any differences in accounting policies. Under IFRS 1, the use of hindsight is not permitted to adjust estimates made in the past under CGAAP that were based on the information that was available at the time the estimate was determined. Any additional estimates that were required under IFRS, that were not required under CGAAP, were based on the information and conditions that existed at the date of transition and in the comparative period of the first IFRS consolidated financial statements.

Hedge Accounting The designation of a hedging relationship cannot be made retrospectively. In order for a hedging relationship to qualify for hedge accounting at the date of transition, the relationship must have been fully designated and documented as effective at the transaction date in accordance with CGAAP, and that designation and documentation must be updated in accordance with IAS 39 at the date of transition to IFRS. Except as described in the section below, the Company's hedging relationships were fully documented and designated at the transaction dates under CGAAP and satisfied the hedge accounting criteria under IFRS at the date of transition.

Derecognition of Financial Assets and Financial Liabilities The derecognition requirements under IFRS are applied prospectively for transactions occurring on or after the date of transition. Accordingly, any derecognition of non-derivative financial assets or non-derivative financial liabilities in accordance with CGAAP as a result of transactions occurring prior to the date of transition, are not required to be recognized again on transition to IFRS.

Non-Controlling Interests The requirement of IAS 27 (as revised in 2008), "Consolidated and Separate Financial Statements" ("IAS 27") to account for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions on a prospective basis from the transition date or from the date IFRS 3 (as revised in 2008), "Business Combinations" ("IFRS 3") is first applied to past business combinations, if earlier than the transition date. As a result, previous changes in the Company's ownership interest in Loblaw due to Loblaw share issuances or repurchases, which were previously recorded as step acquisitions or dispositions and a portion of which was recognized in goodwill in accordance with CGAAP, will not be retroactively adjusted upon transition to IFRS.

Optional Exemptions

In addition to the mandatory exceptions listed above, the Company has elected to apply the following optional exemptions under IFRS 1. Where applicable, the quantitative impact of these exemptions is included in the "Explanatory notes for reconciliations of equity, net earnings, comprehensive income and balance sheet items" section below.

IFRS 2, "Share-Based Payment" ("IFRS 2") The Company has elected to not apply the requirements of IFRS 2 retrospectively to liabilities for cash-settled awards that were settled prior to the date of transition, and to equity-settled awards that vested prior to the date of transition.

IFRS 3, "Business Combinations" The Company has elected to not apply the requirements of IFRS 3 retrospectively to business combinations that occurred prior to the transition date. Under the business combinations exemption, the carrying amounts of the assets acquired and liabilities assumed under CGAAP at the date of the acquisition became their deemed carrying amounts under IFRS at that date.

Notwithstanding this exemption, the Company was required at the date of transition, to evaluate whether the assets acquired and liabilities assumed met the recognition criteria in the relevant IFRS, and whether there are any assets acquired or liabilities assumed that were not recognized under CGAAP for which recognition would be required under IFRS. The requirements of IFRS were then applied to the assets acquired and liabilities assumed from the date of acquisition to the date of transition. The Company applied these requirements, which resulted in no change to the carrying value of goodwill generated from business combinations occurring prior to the transition date. In addition, under the business combinations exemption, the Company tested goodwill for impairment at the date of transition and determined that there was no impairment of the carrying value of goodwill at that time.

IAS 19, "Employee Benefits" The Company has elected to recognize at the date of transition all cumulative unamortized actuarial gains and losses for all defined benefit plans which were previously deferred under CGAAP in opening retained earnings.

IAS 21, "The Effects of Changes in Foreign Exchange Rates" ("IAS 21") The Company has elected to not apply the requirements with respect to translations of foreign operations under IAS 21 retrospectively. Accordingly all foreign currency translation differences that arose prior to the adoption of IFRS were deemed to be nil at the date of transition and the cumulative foreign currency translation adjustment in accumulated other comprehensive loss was set to nil, with a corresponding adjustment to opening retained earnings at the date of transition.

IAS 23, "Borrowing Costs" ("IAS 23") The Company has elected to not apply the requirements of IAS 23 retrospectively and eliminated all previously capitalized interest costs as at the date of transition through opening retained earnings. The Company capitalizes borrowing costs for qualifying assets for which the commencement date for capitalization is on or after the date of transition.

IAS 39, "Financial Instruments: Recognition and Measurement" The Company has elected to designate, at the date of transition, certain short term investments previously designated in a hedging relationship at fair value through profit or loss.

Explanatory notes for reconciliations of equity, net earnings, comprehensive income and balance sheet items

a. Changes in Presentation

Non-Controlling Interests Under CGAAP, equity and earnings not attributable to the shareholders of the Company were considered to be "minority interest" such that effectively, equity and net earnings are only those attributable to the shareholders of the Company. Under IFRS, the term "minority interest" has been replaced by "non-controlling interests", and non-controlling interests are required to be presented as a component of equity. Net earnings attributable to the non-controlling interests are presented in the consolidated statements of earnings as an allocation of net earnings. As a result, the CGAAP balances of $2,379 and $2,596 were reclassified from minority interest to non-controlling interests on the consolidated balance sheets as at January 1, 2010 and December 31, 2010, respectively, the CGAAP balance of $273 was reclassified on the consolidated statements of earnings and the CGAAP balance of $271 was reclassified on the consolidated statements of comprehensive income for the year ended December 31, 2010 from minority interest to be presented as an allocation of net earnings.

Investment Properties Under IFRS, properties held to earn rental income or for capital appreciation, or both, are presented separately from fixed assets as investment properties. Accordingly, properties that met the definition of investment property amounting to $75 and $74, net of impairment, as at January 1, 2010 and December 31, 2010, respectively, were reclassified from fixed assets to investment properties on the consolidated balance sheets.

Income Taxes IFRS requires deferred income tax assets and liabilities to be presented on the balance sheet as non-current assets and liabilities. As a result, current future income tax assets of $87 and $61 were reclassified to non-current deferred income tax assets as at January 1, 2010 and December 31, 2010, respectively. As part of the adoption of IFRS, the term "future income taxes" has been replaced by the term "deferred income taxes".

Provisions Under IFRS, current and long term provisions are accounted for and disclosed separately from trade and other payables and other liabilities. Provisions were reclassified from trade and other payables and other liabilities to current provisions of $93 and $93 and long term provisions of $89 and $74 as at January 1, 2010 and December 31, 2010, respectively.

Consolidated Statements of Cash Flow The Company has chosen to separately present interest, income taxes and dividends received and paid on the consolidated statements of cash flow.

b. IFRS 2, "Share-Based Payment"

Cash-Settled Share-Based Payments Prior to February 22, 2011, the Company maintained various cash-settled share-based payment arrangements. Under both IFRS and CGAAP, liabilities for cash-settled share-based payment awards are measured at the grant date and are remeasured at each reporting date until the settlement date. However, the Company measured the liability for cash-settled awards at intrinsic value under CGAAP, whereas IFRS requires the liability to be measured at fair value. Under IFRS, the related liability is adjusted to reflect the fair value of the outstanding cash-settled share-based payments.

Awards Subject to Graded Vesting and Forfeitures Under IFRS, for share-based payment awards with graded vesting, each tranche of the award is valued separately. Under CGAAP, the value of these awards was determined for each grant as a whole. Additionally, under IFRS, an estimate of the impact of forfeitures is calculated at the grant date and is revised if subsequent information indicates that it is appropriate to do so. Under CGAAP, the Company followed a policy of recognizing forfeitures as they occurred.

As a result of the changes described above, the Company's liabilities as at January 1, 2010 and December 31, 2010 and net earnings for the year ended December 31, 2010 were higher under IFRS compared to CGAAP.

The cumulative impact arising from the changes described above is summarized as follows:

Consolidated Statement of Earnings

Increase (Decrease)	Year Ended Dec. 31, 2010
Operating income	$ 10
Income taxes	$ 5
Net earnings	$ 5

Consolidated Balance Sheets

	As at	
Increase (Decrease)	Jan. 1, 2010	Dec. 31, 2010
Deferred income tax assets	$ 5	
Trade and other payables	$ 18	$ 32
Other liabilities	$ (3)	$ (29)
Contributed surplus		$ 2
Retained earnings	$ (8)	$ (4)
Non-controlling interests	$ (2)	$ (1)

c. IFRS 3, "Business Combinations"

For business combinations that occurred subsequent to the transition to IFRS, transaction costs are included in the consolidated statement of earnings. Under CGAAP, these costs were included in the purchase price equation.

The impact arising from the change described above is summarized as follows:

Consolidated Statement of Earnings

Increase (Decrease)	Year Ended Dec. 31, 2010
Operating income	$ (2)
Income taxes	$ (1)
Net earnings	$ (1)

Consolidated Balance Sheets

	As at	
Increase (Decrease)	Jan. 1, 2010	Dec. 31, 2010
Goodwill and intangible assets	$	$ (2)
Deferred income tax assets	$	$ 1
Retained earnings	$	$ (1)

d. IAS 16, "Property, Plant and Equipment"

Component Accounting and Derecognition of Replaced Parts Under IFRS, when a fixed asset comprises of individual components for which different depreciation methods or rates are appropriate, each component is accounted for separately (component accounting). In addition, under IFRS, when an individual part of a fixed asset is replaced, the carrying amount of the replacement part is capitalized and the carrying amount of the replaced part is derecognized. Under CGAAP, the Company did not apply component accounting to the degree required by IFRS, and the Company did not derecognize the carrying value of replaced parts.

Depreciation of Site Dismantling and Restoration Costs Under IFRS, when the cost of land includes costs for site dismantling and restoration, this portion of the land is depreciated over the period of time in which the benefits will be obtained. Under CGAAP, such costs were not depreciated.

The cumulative impact arising from the changes described above is summarized as follows:

Consolidated Statement of Earnings

Increase (Decrease)	Year Ended Dec. 31, 2010
Operating income	$ (18)
Income taxes	$ (4)
Net earnings	$ (14)

Consolidated Balance Sheets

Increase (Decrease)	As at Jan. 1, 2010	Dec. 31, 2010
Fixed assets	$ (82)	$ (100)
Deferred income tax assets	$ 8	$ 12
Deferred income tax liabilities	$ (3)	$ (3)
Retained earnings	$ (49)	$ (58)
Non-controlling interests	$ (22)	$ (27)

e. IAS 17, "Leases" ("IAS 17")

The principles in IAS 17 underlying the classification and recognition of leases as finance leases (referred to as capital leases under CGAAP) or operating leases are consistent with CGAAP although there are certain differences in the application of the requirements. IFRS provides additional indicators of a finance lease that were not provided under CGAAP.

Land and Building Leases Both CGAAP and IFRS consider the leasehold interests in land and building separately for the purpose of classification of leases; however IFRS requires the allocation of minimum lease payments between the land and building elements of a lease to be in proportion to the relative fair values of the leasehold interests in the land and building. Under CGAAP, the allocation is based on the fair value of the land and building.

Sale and Leaseback Transactions In addition, IFRS permits the immediate recognition of gains and losses on sale leaseback transactions which result in an operating lease, provided the transaction is established at fair value. Under CGAAP, gains and losses are deferred and amortized in proportion to the lease payments over the lease term, unless the asset sold in the sale leaseback transaction is impaired, in which case the loss is recognized immediately.

In addition to the above, upon implementation the Company recorded additional total assets and liabilities of $50 and $61, respectively, with a corresponding impact to opening retained earnings of $7 and non-controlling interests of $4 related to immaterial unrecorded capital leases from prior periods. The Company has determined that these amounts were not material to its consolidated financial statements for any prior interim or annual periods.

The cumulative impact arising from the changes described above is summarized as follows:

Consolidated Statement of Earnings

Increase (Decrease)	Year Ended Dec. 31, 2010
Operating income	$ 8
Net interest expense and other financing charges	$ 14
Income taxes	$ (1)
Net earnings	$ (5)

Consolidated Balance Sheets

Increase (Decrease)	As at Jan. 1, 2010	Dec. 31, 2010
Fixed assets	$ 109	$ 139
Deferred income tax assets	$ 3	$ 4
Trade and other payables	$ (1)	$ (1)
Long term debt due within one year	$ 5	$ 8
Long term debt	$ 143	$ 175
Deferred income tax liabilities	$ (3)	$ (3)
Other liabilities	$ (13)	$ (12)
Retained earnings	$ (9)	$ (12)
Non-controlling interests	$ (10)	$ (12)

f. IAS 19, "Employee Benefits"

Actuarial Gains and Losses for Defined Benefit Plans Under IFRS, the Company recognizes actuarial gains and losses for defined benefit plans in other comprehensive loss in the period in which they arise, and the recognized actuarial gains and losses are presented in retained earnings. In addition, the Company recognizes actuarial gains and losses for other long term employee benefits immediately in net earnings. Under CGAAP, actuarial gains and losses for defined benefit plans were deferred and were subject to amortization under the 'corridor method', and actuarial gains and losses for other long term employee benefits were deferred and were amortized over a period that was linked to the type of benefit, which generally was three years.

As a result of retrospective application of these accounting policies, at the date of transition, all previously unrecognized actuarial gains and losses under CGAAP were recognized by decreasing opening retained earnings.

For defined benefit plans, the unrecognized actuarial gains and losses exceeding the corridor method that were recognized in net earnings under CGAAP were reversed, and all actuarial gains and losses arising in the year were recognized in other comprehensive loss.

For other long term employee benefits, the actuarial gains and losses arising in the year that were deferred under CGAAP were recognized in net earnings.

In addition, upon implementation the Company recorded additional total assets and liabilities of $14 and $56, respectively, with a corresponding impact to opening retained earnings of $28 and non-controlling interests of $14 related to immaterial adjustments of prior period balances. The Company has determined that these amounts were not material to its consolidated financial statements for any prior interim or annual periods.

Past Service Cost for Defined Benefit Plans Under IFRS, past service costs arising from benefit improvements are recognized on a straight-line basis over the vesting period until the benefits become vested, or, if the benefits vest immediately, the expense is recognized immediately in net earnings. Under CGAAP, the Company amortized past service costs on a straight-line basis over the expected average remaining service period of active employees under the plan, which is a longer period than the vesting period.

For unrecognized past service costs at the date of transition that related to vested benefits, the unrecognized amount was recognized as an adjustment to decrease opening retained earnings. In addition, the amortization of past service costs for benefits that were vested at the date of transition was reversed under IFRS.

For unrecognized past service costs at the date of transition that related to unvested benefits, an adjustment was recorded to decrease the unrecognized amount that would have existed had the IFRS policy always been applied. In addition, the amortization of past service costs in net earnings was increased to reflect the amortization of the unrecognized amount over the shorter vesting period.

Measurement Date Under CGAAP, the Company's policy was to measure its defined benefit plan obligations and related plan assets as at September 30 of each year. IFRS requires that the defined benefit plan obligation and the fair value of plan assets be determined with sufficient regularity, such that the amounts recognized in the financial statements do not differ materially from the amounts that would be determined at the reporting

date. As a result, the Company measured its defined benefit plan obligations and plan assets at the date of transition and at the end of the comparative annual period.

Attribution of Post-Employment Health and Dental Benefits The Company offers post-employment medical benefits, including health and dental benefits, for which employees are required to meet certain eligibility requirements, such as a specified number of consecutive years of service and or continuing to work until a specified age. Under CGAAP, the Company recognized an obligation and expense from the date of hire, and the obligation and expense were recognized on a straight-line basis until the eligibility criteria were met.

Under IFRS, the Company begins recognizing an obligation and expense when service first leads to benefits under the plan, and the obligation and expense are recognized on a straight-line basis until the eligibility criteria are met. The date when service first leads to benefits may be later than the date of hire, resulting in attribution of the obligation at a later date under IFRS and recognition of the obligation and expense over a shorter period. The defined benefit plan obligation as at January 1, 2010 reflected this change, with the resulting decrease in the defined benefit plan obligation recognized in opening retained earnings.

Asset Ceiling and Recognition of Additional Minimum Liability The Company has certain funded defined benefit plans for which the fair value of plan assets exceeds the defined benefit plan obligation. Under both CGAAP and IFRS, recognition of the net defined benefit asset is limited to the present value of the future economic benefits that the Company expects to realize from refunds from the plan or reductions in future contributions (the “asset ceiling”).

The methodology for calculating the asset ceiling differs under IFRS and in general, the asset ceiling is lower under IFRS than under CGAAP. In addition, the Company recognizes changes in the asset ceiling under IFRS in other comprehensive loss, whereas under CGAAP, changes in the asset ceiling were recognized in net earnings.

Under IFRS, when the Company has an obligation to make future contributions into plans in respect of services already received, a liability is recognized to the extent that the contributions will increase an existing net defined benefit surplus or will result in a net defined benefit surplus in the future, and the benefit of the surplus or expected future surplus will not be fully available as a refund from the plan or a reduction in future contributions. The Company recognizes changes in the additional minimum liability under IFRS in other comprehensive loss. No such liability was recognized under CGAAP.

As a result of the above requirements, as at January 1, 2010, the Company recognized a valuation allowance and an additional minimum liability, with the corresponding adjustments recognized in opening retained earnings.

For the year ended December 31, 2010, under IFRS the Company recognized an increase in the valuation allowance which was recognized in other comprehensive loss. The Company reversed the change in the valuation allowance that was recognized in net earnings under CGAAP, resulting in an increase in net earnings of that amount. In addition, at December 31, 2010, the Company recognized an increase in the additional minimum liability, and the change in the liability was recognized in other comprehensive loss.

The cumulative impact arising from the changes described above is summarized as follows:

Consolidated Statement of Earnings

Increase (Decrease)	Year Ended Dec. 31, 2010
Operating income	$ 55
Net interest expense and other financing charges	$ 16
Income taxes	$ 10
Net earnings	$ 29

Consolidated Statement of Comprehensive Income

Increase (Decrease)	Year Ended Dec. 31, 2010
Other comprehensive loss, net of income taxes	$ (97)

Consolidated Balance Sheets

Increase (Decrease)	As at Jan. 1, 2010	Dec. 31, 2010
Deferred income tax assets	$ 128	$ 149
Other assets	$ (367)	$ (422)
Deferred income tax liabilities	$ (14)	$ (17)
Other liabilities	$ 164	$ 200
Retained earnings	$ (275)	$ (320)
Accumulated other comprehensive loss		$ 1
Non-controlling interests	$ (114)	$ (137)

g. IAS 21, "The Effects of Changes in Foreign Exchange Rates"

The Company has elected to not apply the requirements with respect to foreign exchange under IAS 21 retrospectively. Accordingly, all foreign currency translation differences that arose prior to the date of transition were deemed to be nil at the date of transition and the cumulative foreign currency translation adjustment in accumulated other comprehensive loss was set to nil, with a corresponding adjustment to opening retained earnings at the date of transition. There was no impact on total equity as a result of this election.

The impact arising from the change described above is summarized as follows:

Consolidated Balance Sheets

Increase (Decrease)	As at Jan. 1, 2010	Dec. 31, 2010
Retained earnings	$ (103)	$ (103)
Accumulated other comprehensive loss	$ 103	$ 103

h. IAS 23, "Borrowing Costs"

The Company capitalized interest as part of the cost of qualifying assets under CGAAP; however, the capitalization methodology under CGAAP was not the same as that under IFRS.

The Company has elected to apply the requirements of IAS 23 prospectively from the date of transition. As a result, the Company derecognized the carrying amount of capitalized interest under CGAAP for qualifying assets to which IAS 23 has not been applied retrospectively. As such, the Company capitalizes borrowing costs for qualifying assets for which the commencement date for capitalization is on or after the transition date.

The impact arising from the change described above is summarized as follows:

Consolidated Statement of Earnings

Increase (Decrease)	Year Ended Dec. 31, 2010
Operating income	$ 1
Net interest expense and other financing charges	$ 21
Income taxes	$ (3)
Net earnings	$ (17)

Consolidated Balance Sheets

Increase (Decrease)	As at Jan. 1, 2010	Dec. 31, 2010
Fixed assets	$ (239)	$ (259)
Deferred income tax assets	$ 19	$ 22
Deferred income tax liabilities	$ (21)	$ (21)
Retained earnings	$ (125)	$ (136)
Non-controlling interests	$ (74)	$ (80)

i. IAS 27, "Consolidated and Separate Financial Statements" and Standing Interpretations Committee 12, "Consolidation – Special Purpose Entities"

Consolidation and Deconsolidation Under IAS 27 and SIC-12, consolidation is assessed based on the control model, and IFRS does not include the concept of a variable interest entity. Accordingly, Loblaw is no longer required to consolidate certain independent franchisees and other entities subject to warehouse and distribution service agreements that were previously consolidated under CGAAP pursuant to the requirements of Accounting Guideline 15, "Consolidation of Variable Interest Entities". The independent funding trust through which Loblaw franchisees obtain financing and *Eagle*, the independent securitization trust that finances certain PC Bank credit card receivables, are subject to consolidation under IFRS based on the indicators of control in SIC-12. As a result, Loblaw was required to remeasure the initial consideration received from each independent franchisee in the form of a loan receivable, to exclude the benefit of the credit enhancement provided to the independent funding trust by Loblaw. The consolidation of *Eagle* had the effect of decreasing net earnings for the year ended December 31, 2010.

In addition, upon implementation Loblaw recorded additional total assets and liabilities of $39 and $117, respectively, with a corresponding impact to opening retained earnings of $49 and non-controlling interests of $29 related to immaterial adjustments of prior period balances. The Company has determined that these amounts were not material to its consolidated financial statements for any prior interim or annual periods.

The impact arising from the change described above is summarized as follows:

Consolidated Statement of Earnings

Increase (Decrease)	Year Ended Dec. 31, 2010
Operating income	$ 45
Net interest expense and other financing charges	$ 47
Income taxes	$ (5)
Net earnings	$ 3

Consolidated Balance Sheets

Increase (Decrease)	As at Jan. 1, 2010	Dec. 31, 2010
Cash and cash equivalents	$ (45)	$ (75)
Short term investments	$ 49	$ 19
Accounts receivable	$ 91	$ 118
Credit card receivables	$ 500	$ 1,100
Inventories	$ (130)	$ (158)
Prepaid expenses and other assets	$ 9	$ 2
Fixed assets	$ (162)	$ (196)
Goodwill and intangible assets	$ (3)	$ (15)
Deferred income tax assets	$ 43	$ 39
Franchise loans receivable	$ 386	$ 399
Other assets	$ 39	$ 94
Bank indebtedness	$ 8	$ 7
Trade and other payables	$ 126	$ 114
Provisions	$ 2	$ 1
Income taxes payable	$ 1	$ (6)
Long term debt due within one year	$ (36)	$ 461
Long term debt	$ 736	$ 810
Deferred income tax liabilities	$ 9	$ 17
Other liabilities	$ 10	$ 3
Minority interest	$ (31)	$ (41)
Contributed surplus		$ (16)
Retained earnings	$ (30)	$ (16)
Non-controlling interests	$ (18)	$ (7)

j. IAS 36, “Impairment of Assets”

IFRS requires that assets be tested for impairment at the level of a CGU, which is defined as the smallest group of assets that generate independent cash inflows. Weston Foods’ manufacturing assets are grouped together at the level of production categories which are capable of servicing their customers independently of other production categories. Loblaw’s definite life non-financial assets impairment under IFRS is performed on a store-by-store basis. Under CGAAP, definite life assets were grouped together in asset groups defined as the lowest level of assets and liabilities for which identifiable cash flows were largely independent of the cash flows of other assets and liabilities. As a result, under this test when Loblaw stores were largely dependent on each other, the stores were grouped together by primary market areas. In addition, IFRS permits the reversal of an impairment loss recognized in prior periods for assets other than goodwill. CGAAP did not permit these reversals.

The methodology under IFRS to establish whether an impairment loss should be recognized is based on whether the recoverable amount of the individual asset or CGU is less than the carrying amount. The recoverable amount of a CGU is the greater of its value in use and its fair value less costs to sell. Under IFRS, value in use is based on discounted cash flows. Under CGAAP, impairment was evaluated using a two-step process whereby the recoverable amount was first assessed on an undiscounted basis. If the recoverable amount was less than its carrying value, then the impairment loss was measured and recognized based on the fair value of the asset or asset group.

As at the transition date, the Company reviewed its tangible and intangible assets with definite useful lives to determine whether there were indicators that these assets or CGUs were impaired or whether there were indications necessitating a reversal of impairments previously recorded. An impairment review under the IFRS methodology was also performed for the year ended December 31, 2010.

The impact arising from the changes described above is summarized as follows:

Consolidated Statement of Earnings

Increase (Decrease)	Year Ended Dec. 31, 2010
Operating income	$ 54
Income taxes	$ 13
Net earnings	$ 41

Consolidated Balance Sheets

	As at	
Increase (Decrease)	Jan. 1, 2010	Dec. 31, 2010
Assets held for sale		$ (2)
Fixed assets	$ (240)	$ (184)
Investment properties	$ (15)	$ (15)
Deferred income tax assets	$ 39	$ 31
Deferred income tax liabilities	$ (29)	$ (24)
Retained earnings	$ (117)	$ (91)
Non-controlling interests	$ (70)	$ (55)

k. IAS 37, "Provisions, Contingent Liabilities and Contingent Assets" ("IAS 37")

Change in Measurement Basis The guidance related to the recognition of provisions under IAS 37 contains certain differences in terminology, recognition requirements and basis of measurement. Accordingly, due to changes in the discount rate as required under IFRS, an adjustment related to the measurement of decommissioning liabilities, referred to as asset retirement obligations under CGAAP, was recognized on transition. The differences related to recognition requirements had the effect of decreasing net earnings for the year ended December 31, 2010.

Onerous Contracts IFRS also has requirements with respect to the recognition of provisions for onerous contracts which are not specifically addressed in CGAAP, except for certain onerous arrangements arising from a business combination. Consistent with CGAAP, future operating losses are not recognized as a liability since they do not result from a past transaction; however, a provision for an onerous contract is recognized under IFRS if the unavoidable costs under the contract exceed the benefits the Company will derive from it.

Accordingly, an additional provision for onerous lease contracts was recorded for certain leased properties at January 1, 2010. This change had the effect of increasing net earnings for the year ended December 31, 2010, as any expenses related to these properties that were recognized under CGAAP were offset against the provision that was recognized on transition to IFRS.

The cumulative impact arising from the changes described above is summarized as follows:

Consolidated Statement of Earnings

Increase (Decrease)	Year Ended Dec. 31, 2010
Operating income	$ 3
Income taxes	$ 1
Net earnings	$ 2

Consolidated Balance Sheets

Increase (Decrease)	As at Jan. 1, 2010	Dec. 31, 2010
Fixed assets	$ 1	$ 1
Deferred income tax assets	$ 2	$ 2
Provisions	$ 22	$ 19
Deferred income tax liabilities	$ (3)	$ (2)
Retained earnings	$ (9)	$ (8)
Non-controlling interests	$ (7)	$ (6)

l. IAS 39, "Financial Instruments: Recognition and Measurement" and IAS 18, "Revenue" *("IAS 18")*

Franchise Relationships As a result of Loblaw no longer consolidating certain independent franchisees, Loblaw was required to evaluate the sale of each franchise arrangement under IAS 18 at its inception. Based on the guidance in IAS 18, Loblaw concluded that each franchise arrangement contains separately identifiable components which were required to be measured at fair value. The impact of this requirement was that the fair value of certain consideration was less than the amounts recorded at inception.

Loblaw recognized and evaluated these additional financial assets and financial liabilities in accordance with IAS 39, which requires application retrospectively to the inception of each arrangement. Loblaw's evaluation identified events that provide objective evidence that the cash flows associated with certain of these financial assets are such that the fair value was impaired. As a result, upon implementation of IFRS, the Company recorded a decrease in certain financial assets and a corresponding decrease to total equity.

Hedging Relationships Historically, Loblaw's cross currency and interest rate swaps were designated to be in cash flow hedging relationships under CGAAP. The method of assessing hedge effectiveness used under CGAAP did not qualify these instruments for hedge accounting under IFRS and accordingly Loblaw elected to discontinue hedge accounting at the date of transition. This resulted in a transitional reclassification from accumulated other comprehensive loss to retained earnings. Subsequent changes in fair value will be recorded in the consolidated statements of earnings. The discontinuance of the hedging relationship had the effect of decreasing net earnings for the year ended December 31, 2010.

Recognition of Credit Card Receivables IFRS contains different criteria than CGAAP for derecognition of financial assets and requires an evaluation of the extent to which an entity retains the risks and rewards of ownership as well as control over the transferred assets. Under CGAAP, the sale of credit card receivables to certain independent securitization trusts administered by major Canadian banks qualified for sale treatment pursuant to the criteria defined in Accounting Guideline 12, "Transfers of Receivables". Given the revolving nature of these assets and the fact that substantially all the risks and rewards of ownership as defined in IAS 39 are retained by Loblaw, these financial assets do not qualify for derecognition under IFRS and therefore are recognized on the consolidated balance sheets.

The cumulative impact arising from the changes described above is summarized as follows:

Consolidated Statement of Earnings

Increase (Decrease)	Year Ended Dec. 31, 2010
Operating income	$ (56)
Net interest expense and other financing charges	$ (15)
Income taxes	$ 13
Net earnings	$ (54)

Consolidated Statement of Comprehensive Income

Increase (Decrease)	Year Ended Dec. 31, 2010
Other comprehensive loss, net of income taxes	$ 11

Consolidated Balance Sheets

	As at	
Increase (Decrease)	Jan. 1, 2010	Dec. 31, 2010
Accounts receivable	$ (94)	$ (96)
Credit card receivables	$ 1,192	$ 517
Prepaid expenses and other assets		$ 1
Deferred income tax assets	$ 54	$ 43
Franchise loans receivable	$ (42)	$ (85)
Other assets	$ (151)	$ (154)
Trade and other payables	$ (9)	$ (5)
Income taxes payable		
Short term debt	$ 1,225	$ 535
Other liabilities	$ 74	$ 70
Retained earnings	$ (197)	$ (231)
Accumulated other comprehensive loss	$ (10)	$ (2)
Non-controlling interests	$ (124)	$ (141)

m. International Financial Reporting Interpretations Committee 13, "Customer Loyalty Programs" ("IFRIC 13")

IFRIC 13 requires the fair value of customer loyalty programs to be recognized as a component of the related sales transaction, such that a portion of the revenue from the initial sales transaction in which the awards are granted is deferred. Under CGAAP, Loblaw recognized the net cost of the program in operating expenses. Accordingly, Loblaw recorded an adjustment to defer a portion of the revenue for the initial sales transaction in which awards were granted and remain outstanding, based on the fair value of the awards granted. Loblaw has elected to allocate the fair value of awards granted using the residual fair value method.

The impact arising from the change described above is summarized as follows:

Consolidated Statement of Earnings

Increase (Decrease)	Year Ended Dec. 31, 2010
Revenue	$ (126)
Selling, general and administrative expenses	$ (111)
Operating income	$ (15)
Income taxes	$ (4)
Net earnings	$ (11)

Consolidated Balance Sheets

	As at	
Increase (Decrease)	Jan. 1, 2010	Dec. 31, 2010
Accounts receivable	$ (1)	
Deferred income tax assets	$ 6	$ 10
Trade and other payables	$ 19	$ 35
Retained earnings	$ (9)	$ (16)
Non-controlling interests	$ (5)	$ (9)

Reconciliation of Consolidated Balance Sheet

(millions of Canadian dollars) — As at January 1, 2010

Accounts	CGAAP Balance	IFRS Reclassifications	IFRS Adjustments	IFRS Balance
Assets				
Current Assets				
Cash and cash equivalents	$ 1,535		$ (45)	$ 1,490
Short term investments	3,371		49	3,420
Accounts receivable	851	$ (403)	(4)	444
Credit card receivables		403	1,692	2,095
Inventories	2,210		(130)	2,080
Future income taxes	87	(87)		
Prepaid expenses and other assets	98		9	107
Assets held for sale		56		56
Total Current Assets	8,152	(31)	1,571	9,692
Fixed Assets	9,020	(146)	(613)	8,261
Investment Properties		90	(15)	75
Goodwill and Intangible Assets	1,296		(3)	1,293
Deferred Income Taxes		83	307	390
Future Income Taxes	61	(61)		
Security Deposits	348			348
Franchise Loans Receivable			344	344
Other Assets	1,266		(479)	787
Total Assets	$ 20,143	$ (65)	$ 1,112	$ 21,190
Liabilities				
Current Liabilities				
Bank indebtedness	$ 2		$ 8	$ 10
Trade and other payables	3,616	$ (93)	153	3,676
Provisions		93	3	96
Income taxes payable	78		1	79
Short term debt	300		1,225	1,525
Long term debt due within one year	343		(31)	312
Total Current Liabilities	4,339		1,359	5,698
Provisions		89	21	110
Long Term Debt	5,377		879	6,256
Deferred Income Taxes	269	(65)	(64)	140
Other Liabilities	617	(89)	232	760
Capital Securities	220			220
Minority Interest	2,379	(2,379)		
Total Liabilities	13,201	(2,444)	2,427	13,184
Equity				
Share Capital	950			950
Retained Earnings	6,084		(931)	5,153
Accumulated Other Comprehensive (Loss) Income	(92)		93	1
Total Equity Attributable to Shareholders of the Company	6,942		(838)	6,104
Non-Controlling Interests		2,379	(477)	1,902
Total Equity	6,942	2,379	(1,315)	8,006
Total Liabilities and Equity	$ 20,143	$ (65)	$ 1,112	$ 21,190

Reconciliation of Consolidated Statement of Earnings

(millions of Canadian dollars) For the year ended Dec. 31, 2010

Accounts	CGAAP Balance	IFRS Reclassifications	IFRS Adjustments	IFRS Balance
Revenue	$ 32,008		$ (161)	$ 31,847
Operating Expenses				
Cost of inventories sold	23,775		143	23,918
Selling, administrative and other expenses	6,084	$ (6,084)		
Depreciation and amortization	666	(666)		
Selling, general and administrative expenses		6,750	(389)	6,361
	30,525		(246)	30,279
Operating Income	1,483		85	1,568
Net interest expense and other financing charges	388		83	471
Earnings Before Income Taxes	1,095		2	1,097
Income Taxes	370		24	394
	725		(22)	703
Minority Interest	273	(273)		
Net Earnings	$ 452	$ 273	$ (22)	$ 703
Net Earnings Attributable to:				
Shareholders of the Company				452
Non-Controlling Interests			(22)	251
Net Earnings			$ (22)	$ 703
Net Earnings per Common Share Attributable to Shareholders of the Company ($)				
Basic	$ 3.16		$	$ 3.16
Diluted	$ 3.14		$ (0.22)	$ 2.92

Reconciliation of Consolidated Statement of Comprehensive Income

(millions of Canadian dollars) For the year ended Dec.31, 2010

Accounts	CGAAP Balance	IFRS Reclassifications	IFRS Adjustments	IFRS Balance
Net earnings	$ 452	$ 273	$ (22)	$ 703
Foreign currency translation adjustment	(28)		1	(27)
	(28)		1	(27)
Net unrealized (loss) gain on available-for-sale financial assets	(8)	(4)	12	
Reclassification of loss (gain) on available-for-sale financial assets to net earnings	8	5	(13)	
		1	(1)	
Net gain (loss) on derivatives designated as cash flow hedges	1		(3)	(2)
Reclassification of (gain) loss on derivatives designated as cash flow hedges to net earnings	(6)	(3)	15	6
	(5)	(3)	12	4
Net defined benefit plan actuarial losses			(98)	(98)
Other comprehensive loss	(33)	(2)	(86)	(121)
Comprehensive Income (Loss)	$ 419	$ 271	$ (108)	$ 582
Comprehensive Income Attributable to:				
Shareholders of the Company			$ (56)	$ 363
Non-Controlling Interests			$ (52)	$ 219

Reconciliation of Consolidated Balance Sheet

(millions of Canadian dollars) As at Dec. 31, 2010

Accounts	CGAAP Balance	IFRS Reclassifications	IFRS Adjustments	IFRS Balance
Assets				
Current Assets				
Cash and cash equivalents	$ 1,528		$ (75)	$ 1,453
Short term investments	3,234		19	3,253
Accounts receivable	820	$ (380)	22	462
Credit card receivables		380	1,617	1,997
Inventories	2,208		(158)	2,050
Income taxes recoverable	2	(2)		
Future income taxes	61	(61)		
Prepaid expenses and other assets	88		3	91
Assets held for sale		73	(2)	71
Total Current Assets	7,941	10	1,426	9,377
Fixed Assets	9,584	(162)	(599)	8,823
Investment Properties		89	(15)	74
Goodwill and Intangible Assets	1,571		(17)	1,554
Deferred Income Taxes		(2)	313	311
Future Income Taxes	33	(33)		
Security Deposits	435			435
Franchise Loans Receivable			314	314
Other Assets	1,290		(482)	808
Total Assets	$ 20,854	$ (98)	$ 940	$ 21,696
Liabilities				
Current Liabilities				
Bank indebtedness	$ 4		$ 7	$ 11
Trade and other payables	4,717	$ (93)	175	4,799
Provisions		93	(1)	92
Income taxes payable	20	(2)	(6)	12
Short term debt	336		535	871
Long term debt due within one year	733		469	1,202
Total Current Liabilities	5,810	(2)	1,179	6,987
Provisions		74	21	95
Long Term Debt	5,129		985	6,114
Deferred Income Taxes	311	(96)	(53)	162
Other Liabilities	655	(74)	232	813
Capital Securities	221			221
Minority Interest	2,596	(2,596)		
Total Liabilities	14,722	(2,694)	2,364	14,392
Equity				
Share Capital	950			950
Contributed Surplus			(14)	(14)
Retained Earnings	5,307		(996)	4,311
Accumulated Other Comprehensive (Loss) Income	(125)		102	(23)
Total Equity Attributable to Shareholders of the Company	6,132		(908)	5,224
Non-Controlling Interests		2,596	(516)	2,080
Total Equity	6,132	2,596	(1,424)	7,304
Total Liabilities and Equity	$ 20,854	$ (98)	$ 940	$ 21,696

Three Year Summary

CONSOLIDATED INFORMATION[1]

As at or for years ended December 31 (millions of Canadian dollars except where otherwise indicated)	2011	2010	2010 (CGAAP)[2]	2009 (CGAAP)[2]
Operating Results				
Sales	**32,376**	31,847	32,008	31,820
Operating income	**1,609**	1,568	1,483	1,009
Adjusted operating income[3]	**1,700**	1,659	n/a	n/a
Adjusted EBITDA[3]	**2,459**	2,342	n/a	n/a
Net Interest expense and other financing charges[4]	**366**	471	388	363
Net earnings from continuing operations attributable to shareholders of the Company	**635**	452	452	127
Net earnings attributable to shareholders of the Company[5]	**635**	452	452	1,035
Net earnings[5,6]	**919**	703	452	1,035
Financial Position				
Working capital	**3,355**	2,390	2,131	3,813
Fixed assets	**9,172**	8,823	9,584	9,020
Goodwill and intangible assets	**1,555**	1,554	1,571	1,296
Total assets	**21,323**	21,696	20,854	20,143
Adjusted debt[3]	**5,960**	6,228	n/a	n/a
Adjusted net debt[3]	**1,722**	900	n/a	n/a
Total equity attributable to shareholders of the Company	**5,459**	5,224	6,132	6,942
Total equity[6]	**7,680**	7,304	6,132	6,942
Cash Flows				
Cash flows from operating activities of continuing operations	**1,974**	2,279	1,741	1,987
Fixed asset purchases	**1,027**	1,214	1,304	1,011
Free cash flow[3]	**1,051**	967	n/a	n/a
Per Common Share ($)				
Basic net earnings from continuing operations	**4.58**	3.16	3.16	0.64
Basic net earnings	**4.58**	3.16	3.16	7.68
Adjusted basic net earnings[3]	**4.86**	4.09	n/a	n/a
Dividend rate at year end	**1.44**	9.19[7]	9.19[7]	1.44
Book value	**36.21**	34.14	41.17	47.44
Market value at year end	**68.09**	84.20	84.20	66.92
Financial Ratios				
Sales growth (%)	**1.7**	0.1[8]	0.6	(0.8)
Operating margin (%)	**5.0**	4.9	4.6	3.2
Adjusted operating margin (%)[3]	**5.3**	5.2	n/a	n/a
Adjusted EBITDA margin (%)[3]	**7.6**	7.4	n/a	n/a
Interest coverage[3]	**4.4x**	3.3x	3.6x	2.6x
Adjusted debt[3] to adjusted EBITDA[3]	**2.4x**	2.7x	n/a	n/a
Adjusted debt[3] to equity attributable to shareholders of the Company	**1.09**	1.19	n/a	n/a
Return on average net assets (%)[3]	**12.8**	13.0	13.3	9.3
Return on average common shareholders' equity attributable to shareholders of the Company (%)	**13.1**	8.4	7.1	1.5
Price/net earnings from continuing operations ratio at year end	**14.9**	26.6	26.6	104.6

(1) For financial definitions and ratios refer to the Glossary beginning on page 146.
(2) 2010 and 2009 comparative figures previously reported in accordance with CGAAP have been included above for reference. For information on the Company's transition to IFRS, refer to note 34 on page 124 of the consolidated financial statements.
(3) See non-GAAP financial measures beginning on page 54.
(4) 2011 includes non-cash income of $18 (2010 – a non-cash charge of $62) related to the fair value adjustment of WHL's forward sale agreement for 9.6 million Loblaw common shares (see note 4 to the consolidated financial statements).
(5) 2009 net earnings attributable to shareholders of the Company and 2009 net earnings include a gain on disposal of $939 ($901, net of tax) recorded in discontinued operations.
(6) 2010 and 2009 net earnings under CGAAP are net of minority interest of $273 and $260, respectively. 2010 and 2009 total equity under CGAAP are net of minority interest of $2,596 and $2,379, respectively, which was presented in liabilities under CGAAP.
(7) Includes the special one-time common share dividend of $7.75 per common share (see note 21 to the consolidated financial statements).
(8) Compared to 2009 sales reported under CGAAP.

SEGMENT INFORMATION[1]

As at or for the years ended December 31

(millions of Canadian dollars except where otherwise indicated)		2011	2010	2010[2] (CGAAP)	2009[2] (CGAAP)
OPERATING RESULTS					
Sales	Weston Foods	**1,772**	1,624	1,624	1,686
	Loblaw	**31,250**	30,836	30,997	30,735
	Intersegment	**(646)**	(613)	(613)	(601)
	Consolidated	**32,376**	31,847	32,008	31,820
Operating Income	Weston Foods	**208**	285	278	123
	Loblaw	**1,376**	1,339	1,261	1,197
	Other[3]	**25**	(56)	(56)	(311)
	Consolidated	**1,609**	1,568	1,483	1,009
Adjusted Operating Income[4]	Weston Foods	**265**	235	n/a	n/a
	Loblaw	**1,435**	1,424	n/a	n/a
	Consolidated	**1,700**	1,659	n/a	n/a
Adjusted EBITDA[4]	Weston Foods	**325**	290	n/a	n/a
	Loblaw	**2,134**	2,052	n/a	n/a
	Consolidated	**2,459**	2,342	n/a	n/a
FINANCIAL POSITION					
Fixed Assets	Weston Foods	**447**	446	461	461
	Loblaw	**8,725**	8,377	9,123	8,559
	Consolidated	**9,172**	8,823	9,584	9,020
Total Assets	Weston Foods	**1,875**	1,800	1,868	1,674
	Loblaw	**17,588**	17,001	16,091	15,151
	Other[5]	**1,860**	2,895	2,895	3,318
	Consolidated	**21,323**	21,696	20,854	20,143
CASH FLOWS					
Fixed Asset Purchases	Weston Foods	**40**	24	24	40
	Loblaw	**987**	1,190	1,280	971
	Consolidated	**1,027**	1,214	1,304	1,011
Operating Margin (%)	Weston Foods	**11.7**	17.5	17.1	7.3
	Loblaw	**4.4**	4.3	4.1	3.9
	Consolidated	**5.0**	4.9	4.6	3.2
Adjusted Operating Margin (%)[4]	Weston Foods	**15.0**	14.5	n/a	n/a
	Loblaw	**4.6**	4.6	n/a	n/a
	Consolidated	**5.3**	5.2	n/a	n/a
Adjusted EBITDA Margin (%)[4]	Weston Foods	**18.3**	17.9	n/a	n/a
	Loblaw	**6.8**	6.7	n/a	n/a
	Consolidated	**7.6**	7.4	n/a	n/a
Return on Average Net Assets (%)[4]	Weston Foods	**24.5**	40.8	38.1	19.2
	Loblaw	**11.7**	11.8	12.1	11.8
	Consolidated	**12.8**	13.0	13.3	9.3

(1) For financial definitions and ratios refer to the Glossary beginning on page 146.
(2) 2010 and 2009 comparative figures previously reported in accordance with CGAAP have been included above for reference. For information on the Company's transition to IFRS, refer to note 34 on page 124 of the consolidated financial statements.
(3) Operating income for the year included a gain of $25 million (2010 – a loss of $56 million) related to the effect of foreign currency translation on a portion of the U.S. dollar denominated cash and short term investments held by Dunedin and certain of its affiliates, which are foreign operations that have the same functional currency as that of the Company.
(4) See non-GAAP financial measures beginning on page 54.
(5) Other includes cash and cash equivalents and short term investments held by Dunedin and certain of its affiliates.

Earnings Coverage Exhibit to the Audited Annual Consolidated Financial Statements

The following is the Company's updated earnings coverage ratio for the year ended December 31, 2011 in connection with the Company's Short Form Base Shelf Prospectus dated May 25, 2011.

Earnings coverage on financial liabilities	2.78 times

The earnings coverage ratio on financial liabilities is equal to net earnings attributable to shareholders of the Company before interest on short term debt, interest on long term debt, dividends on capital securities and income taxes divided by interest on short term debt, interest on long term debt and dividends on capital securities and preferred shares as shown in the notes to the consolidated financial statements of the Company for the period.

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Glossary

Adjusted basic net earnings per common share
Basic net earnings available to common shareholders of the Company adjusted for items that are not necessarily reflective of the Company's underlying operating performance divided by the weighted average number of common shares outstanding during the year (see non-GAAP financial measures beginning on page 54).

Adjusted debt
Bank indebtedness, short term debt, long term debt, certain other liabilities and the fair value of certain financial derivative liabilities less independent securitization trusts in short term and long term debt and President's Choice Bank's guaranteed investment certificates (see non-GAAP financial measures beginning on page 54).

Adjusted debt to adjusted EBITDA
Adjusted debt divided by adjusted EBITDA (see non-GAAP financial measures beginning on page 54).

Adjusted debt to equity attributable to shareholders of the Company
Adjusted debt divided by total equity attributable to shareholders of the Company (see non-GAAP financial measures beginning on page 54).

Adjusted EBITDA
Adjusted operating income before depreciation and amortization (see non-GAAP financial measures beginning on page 54).

Adjusted EBITDA margin
Adjusted EBITDA divided by sales (see non-GAAP financial measures beginning on page 54).

Adjusted net debt
Adjusted debt less cash and cash equivalents, short term investments, security deposits and the fair value of certain financial derivative assets (see non-GAAP financial measures beginning on page 54).

Adjusted operating income
Operating income adjusted for items that are not necessarily reflective of the Company's underlying operating performance (see non-GAAP financial measures beginning on page 54).

Adjusted operating margin
Adjusted operating income divided by sales (see non-GAAP financial measures beginning on page 54).

Basic net earnings per common share
Net earnings available to common shareholders of the Company divided by the weighted average number of common shares outstanding during the period.

Book value per common share
Total equity attributable to shareholders of the Company less preferred shares outstanding divided by the number of common shares outstanding at year end.

Capital investment
Fixed asset purchases.

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 excluding gas bar sales divided by the average corporate stores' square footage at year end.

Diluted net earnings per common share attributable to shareholders of the Company
Net earnings available to common shareholders less the impact of dilutive items divided by the weighted average number of common shares outstanding during the period less the impact of dilutive items.

Dividend rate per common share at year end
Dividend per common share declared in the fourth quarter multiplied by four.

DRIP
Loblaw Dividend Reinvestment Plan.

Free Cash Flow
Cash flow from operating activities excluding the net increase (decrease) in credit card receivable less fixed asset purchases (see non-GAAP financial measures beginning on page 54).

Gross margin
Sales less cost of inventories sold including inventory shrinkage divided by sales.

Interest coverage
Operating income divided by net interest expense and other financing charges adding back interest capitalized to fixed assets (see non-GAAP financial measures beginning on page 54).

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.

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 earnings attributable to shareholders of the Company
Net earnings less non-controlling interests.

Net earnings available to common shareholders of the Company
Net earnings attributable to shareholders of the Company less preferred dividends.

New store
A newly constructed store, conversion or major expansion.

Operating income
Net earnings before net interest expense and other financing charges and income taxes.

Operating margin
Operating income divided by sales.

Price/net earnings ratio at year end
Market price per common share at year end divided by basic net earnings per common share for the year.

Renovation
A 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 attributable to shareholders of the Company
Net earnings available to common shareholders of the Company divided by average total equity attributable to common shareholders of the Company.

Return on average net assets
Operating income divided by average total assets excluding cash and cash equivalents, short term investments, security deposits, fair value of WHL's forward sale agreement for 9.6 million Loblaw shares and trade and other payables (see non-GAAP financial measures beginning on page 54).

Same-store sales
Retail sales from the same physical location for stores in operation in that location in both periods being compared by excluding sales from a store that has undergone a conversion or major expansion in the period.

Total equity attributable to common shareholders of the Company
Total equity less preferred shares outstanding and non-controlling interests.

Total equity attributable to shareholders of the Company
Total equity less non-controlling interests.

Weighted average common shares outstanding
The number of common shares outstanding determined by relating the portion of time within the year the common shares were outstanding to the total time in that year.

Working capital
Total current assets less total current liabilities.

Year
The Company's year end is December 31. 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. The years ended December 31, 2011 and December 31, 2010 contained 52 weeks.

Corporate Directory

Board of Directors

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

A. Charles Baillie, O.C., B.A., M.B.A., LL.D.(2*,3)
Corporate Director; Chair, Alberta Investment Management Corporation; Retired Chairman and Chief Executive Officer, Toronto Dominion Bank; Director, Canadian National Railway Company and TELUS Corporation; Chancellor Emeritus, Queen's University; Chair, Art Gallery of Ontario's Board of Trustees.

Warren Bryant, B.S., M.B.A.(2,5*)
Corporate Director; former Chairman, President and Chief Executive Officer, Longs Drug Stores; former Executive, Kroger Co.; Director, Dollar General Corporation and OfficeMax Incorporated; Member, Executive Advisory Committee of the Portland State University Food Industry Leadership Center.

Peter B.M. Eby, B. Comm., M.B.A.(1,3*)
Corporate Director; former Vice-Chairman and Director, Nesbitt Burns Inc.; former Executive, Nesbitt Burns Inc. and its predecessor companies; Director, Leon's Furniture Limited and TD Asset Management USA Funds Inc.

Darren Entwistle, B.A., M.B.A.(2)
President and Chief Executive Officer, TELUS Corporation; Director, Canadian Council of Chief Executives and McGill University.

Anne L. Fraser, O.C., C.M., B.Sc., LL.D.(5)
Corporate Director; Education Consultant, University of Victoria; Associate, Faculties of Education, Engineering, Law and Fine Arts, University of Calgary; President, EnerG Enterprises Inc.; Director, Pier 21 Foundation; active with The Victoria Foundation; former syndicated broadcaster, CBC.

Anthony R. Graham, LL.D.(1,3,4*)
President and Director, Wittington Investments, Limited; President and Chief Executive Officer, Sumarria Inc.; former Vice-Chairman and Director, National Bank Financial; Chairman and Director, President's Choice Bank; Director, Loblaw Companies Limited, Brown Thomas Group Limited, Holt, Renfrew & Co., Limited, Selfridges & Co. Ltd., De Bijenkorf B.V., Graymont Limited, Power Financial Corporation, Power Corporation of Canada and Grupo Calidra; Director, Art Gallery of Ontario, Canadian Institute for Advanced Research, Luminato, St. Michael's Hospital and Trans Canada Trail; Chair, Ontario Arts Foundation and Shaw Festival Theatre Endowment Foundation.

John S. Lacey, B.A.
Consultant to the Executive Chairman of the Corporation; Chairman of the Advisory Board, Brookfield Special Situations Funds; former President and Chief Executive Officer, The Oshawa Group (a major food retailer now a part of Sobeys Inc.); Director, Loblaw Companies Limited, TELUS Corporation and Ainsworth Lumber Co. Ltd.

Allan L. Leighton
Former Deputy Chairman of the Corporation; Former Deputy Chairman and President, Loblaw Companies Limited; Chairman, PANDORA A/S.

Isabelle Marcoux, B.A., LL.B.(5)
Chair, Board of Directors, Transcontinental Inc.; Director, Rogers Communications Inc. and Power Corporation of Canada; Board Member, the Montreal Museum of Fine Arts and the Board of Trade of Metropolitan Montreal.

J. Robert S. Prichard, O.C., O.Ont., LL.B., M.B.A., LL.M., LL.D.(3,4)
Chair, Torys LLP and Metrolinx; past President and Chief Executive Officer, Metrolinx and Torstar Corporation; President Emeritus, University of Toronto; Director, Bank of Montreal, Onex Corporation and Toronto Community Foundation; Chairman, the Visiting Committee for Harvard Law School; Vice Chair, Canada's Science Technology & Innovation Council; Trustee, Hospital for Sick Children.

Thomas F. Rahilly, B.A., M.A., LL.B.(2,4,5)
Corporate Director; Retired Vice-Chairman, RBC Capital Markets.

Barbara Stymiest, B.A., F.C.A.(2,4)
Chair, Research In Motion Limited; Director, Symcor Inc. and the Canadian Bankers Association; Director, Canadian Institute for Advanced Research, Royal Ontario Museum and Toronto Rehabilitation Institute; Fellow, Institute of Chartered Accountants of Ontario.

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

* Chair of the Committee

Corporate Officers (includes age and years of service)

W. Galen Weston, O.C. (71 and 40 years)
Executive Chairman

Paviter S. Binning (51 and 2 years)
President

Gordon A.M. Currie (53 and 7 years)
Executive Vice President and Chief Legal Officer

Robert G. Vaux (63 and 14 years)
Executive Vice President, Corporate Development

Robert A. Balcom (50 and 18 years)
Senior Vice President, General Counsel - Canada and Secretary

Khush Dadyburjor (45 and 1 year)
Senior Vice President, Corporate Development

J. Bradley Holland (48 and 18 years)
Senior Vice President, Taxation

Jeremy Roberts (49 and 3 years)
Senior Vice President, Finance

Geoffrey H. Wilson (56 and 25 years)
Senior Vice President, Financial Control and Investor Relations

David Farnfield (48 and 15 years)
Vice President, Commodities

Atulan Navaratnam (48 and 1 year)
Vice President, Corporate Development

John Poos (55 and 1 year)
Vice President, Pension and Benefits

Lina Taglieri (43 and 11 years)
Vice President, Controller

Adam Walsh (38 and 7 years)
Vice President, Legal Counsel

John Williams (46 and 1 year)
Vice President, 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.C", "WN.PR.D" and "WN.PR.E".

Common Shares
At year end 2011, there were 128,188,843 common shares outstanding, 880 registered common shareholders and 47,464,244 common shares available for public trading.

The average 2011 daily trading volume of the Company's common shares was 114,968.

Preferred Shares
At year end 2011, there were 9,400,000 preferred shares Series I, 8,000,000 preferred shares Series III, 8,000,000 preferred shares Series IV and 8,000,000 preferred shares Series V outstanding and 35 registered preferred shareholders. All outstanding preferred shares were available for public trading.

The average 2011 daily trading volume of the Company's preferred shares was:

Series I:	8,439
Series III:	8,408
Series IV:	7,166
Series V:	8,422

Common Dividend Policy
The declaration and payment of common dividends and the amount thereof are at the discretion of the Board of Directors (the "Board") which takes into account the Company's financial results, capital requirements, available cash flow and other factors the Board considers relevant from time to time. Over the long term, the Company's objective is for its dividend payment ratio to be in the range of 20% to 25% of the prior year's basic net earnings per common share from continuing operations adjusted as appropriate for items which are not regarded to be reflective of ongoing operations giving consideration to the year end cash position, future cash flow requirements and investment opportunities.

Common Dividend Dates
The declaration and payment of quarterly common dividends are made subject to approval by the Board. The anticipated record and payment dates for 2012 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

Toll Free Tel:	1.800.564.6253 (Canada and U.S.A.)
International Tel:	514.982.7555 (direct dial)
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 10, 2012, at 11:00 a.m. at The Royal Conservatory, TELUS Centre for Performance and Learning, Koerner Hall, Toronto, Ontario, 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, Financial Control and Investor Relations 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. These calls are archived in the Investor Centre section of the Company's website.

This Annual Report includes selected information on Loblaw Companies Limited, a 63.0%-owned public reporting subsidiary company with shares trading on the Toronto Stock Exchange.

Ce rapport est disponible en français.

Printing: TC Transcontinental Printing www.tcprinting.tc

This 2011 Annual Report was printed in Canada on
Enviro 100, which contains 100% post-consumer
waste and is processed chlorine-free, using biogas energy.

Insert FSC logo here

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