For the years ended December 30, 2006 and December 31, 2005
($ millions except where otherwise indicated)

Note 1. Summary of Significant Accounting Policies

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

Basis of Consolidation The consolidated financial statements include the accounts of Loblaw Companies Limited and its subsidiaries, collectively referred to as the "Company" or "Loblaw". The Company's interest in the voting share capital of its subsidiaries is 100%. The Company also consolidates variable interest entities ("VIEs") that are subject to control on a basis other than through ownership of a majority of voting interest (see Note 2).

Fiscal Year The fiscal year of the Company ends 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 5 to 6 years. The years ended December 30, 2006 and December 31, 2005 each contained 52 weeks.

Revenue Recognition Sales include revenues, net of estimated returns, from customers through corporate stores operated by the Company and independent franchisee stores that are consolidated by the Company pursuant to Accounting Guideline 15, "*Consolidation of Variable Interest Entities*", ("AcG 15"). In addition, sales include sales to and service fees from associated stores and independent account customers and franchised stores excluding VIE stores. The Company recognizes revenue at the time the sale is made to its customers.

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

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

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

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

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

Securitization *PC* Bank securitizes credit card receivables through the sale of a portion of the total interest in these receivables to independent trusts and does not exercise any control over the trusts' management, administration or assets. The credit card receivables are removed from the consolidated balance sheet when *PC* Bank has surrendered control and are considered sold for accounting purposes pursuant to Accounting Guideline 12, "*Transfers of Receivables*". When *PC* Bank sells credit card receivables in a securitization transaction, it has a retained interest in the securitized receivables represented by the rights to future cash flows after obligations to

investors have been met. Although *PC* Bank remains responsible for servicing all credit card receivables, it does not receive additional compensation for servicing those credit card receivables sold to the trusts and accordingly a service liability is recorded. Gains or losses on the sale of these receivables depends, in part, on the previous carrying amount of receivables involved in the securitization, allocated between the receivables sold and the retained interest, based on their relative fair values at the date of securitization. When quoted market values are not available, the fair values are determined using management's best estimate of the net present value of expected future cash flows using key assumptions for monthly payment rates, weighted average life, expected annual credit losses and discount rates. Any gain or loss on a sale is recognized in operating income at the time of the securitization. The carrying value of retained interests is periodically reviewed and when a decline in value is identified that is other than temporary, the carrying value is written down to fair value.

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

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

Fixed Assets Fixed assets are recorded at cost including capitalized interest. Depreciation commences when the assets are put into use and is recognized on a straight-line basis to depreciate the cost of these assets over their estimated useful lives. Estimated useful lives range from 20 to 40 years for buildings, 10 years for building improvements and from 3 to 10 years for equipment and fixtures. Leasehold improvements are depreciated over their estimated useful lives and may include renewal options when an improvement is made after inception of the lease to a maximum of 25 years, which approximates economic life. Equipment under capital leases is depreciated over the term of the lease.

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

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

Goodwill Goodwill represents the excess of the purchase price of a business acquired over the fair value of the underlying net assets acquired at the date of acquisition. Goodwill is not amortized and its carrying value is tested at least annually for impairment. Any impairment in the carrying value of goodwill is recognized in operating income. Additional disclosure regarding the results of the 2006 annual goodwill impairment test is provided in Note 3.

Financial Derivative Instruments The Company uses financial derivative agreements in the form of cross currency basis swaps, interest rate swaps and equity forwards to manage its current and anticipated exposure to fluctuations in foreign currency exchange rates, interest rates and the market price of the Company's common shares. The Company does not enter into financial derivative agreements for trading or speculative purposes.

The Company formally identifies, designates and documents the relationships between hedging instruments and hedged items including cross currency basis swaps and interest rate swaps as cash flow hedges against its exposure to fluctuations in the foreign currency exchange rate and variable interest rates on a portion of its United States dollar denominated assets, principally cash equivalents and short term investments; and interest rate swaps as a cash flow hedge of the variable interest rate exposure on commercial paper. Effectiveness tests are performed to evaluate hedge effectiveness at inception and on an ongoing basis, both retrospectively and prospectively.

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

Financial derivative instruments not designated within an effective hedging relationship are measured at fair value with changes in fair value recorded in interest expense.

Equity forwards are used to manage exposure to fluctuations in the Company's stock-based compensation cost because they change in value as the market price of the underlying common shares changes. The market price adjustments on the equity forwards are recognized in operating income as gains or losses and the cumulative unrealized gains or losses are recorded in other assets or other liabilities, respectively. Interest on the equity forwards is recognized on an accrual basis in interest expense.

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

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

Employee Future Benefits The Company sponsors a number of pension plans including registered funded defined benefit pension plans, defined contribution pension plans and supplemental unfunded arrangements providing pension benefits in excess of statutory limits. The Company also offers certain employee post-retirement and post-employment benefit plans and a long term disability benefit plan. Post-retirement and post-employment benefit plans are not funded, are mainly non-contributory and include health care, life insurance and dental benefits. The Company also contributes to various multi-employer pension plans which provide pension benefits.

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

Past service costs arising from plan amendments are amortized over the expected average remaining service period of the active employees. The unamortized net actuarial gain or loss that exceeds 10% of the greater of the accrued benefit plan obligation or the fair value of the benefit plan assets at the beginning of the year is amortized over the expected average remaining service period of the active employees for defined benefit pension and post-retirement benefit plans. The unamortized net actuarial gain or loss for post-employment and long term disability benefits is amortized over periods not exceeding three years. The expected average remaining service period of the active employees covered by the defined benefit pension plans ranges from 6 to 17 years, with a weighted average of 13 years. The expected average remaining service period of the employees covered by the post-retirement benefit plans ranges from 6 to 22 years, with a weighted average of 18 years.

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

Defined Contribution and Multi-Employer Pension Plans The costs of pension benefits for defined contribution pension plans and multi-employer pension plans are expensed as contributions are due.

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

The Company accounts for stock options issued prior to December 30, 2001 that will be settled by issuing common shares as capital transactions. Consideration paid by employees on the exercise of this type of stock option is credited to common share capital. This type of option was last issued in 2001 and represents approximately 1.0% of all options outstanding at year end.

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

Employee Share Ownership Plan The Company maintains an Employee Share Ownership Plan which allows employees to acquire the Company's common shares through regular payroll deductions of up to 5% of their gross regular earnings. The Company contributes an additional 25% of each employee's contribution to the plan, which is recognized in operating income as a compensation cost when the contribution is made.

Deferred Share Units Members of the Company's Board of Directors may elect annually to receive all or a portion of their annual retainer(s) and fees in the form of deferred share units, which are accounted for using the intrinsic value method. Under the intrinsic value method, the deferred share unit compensation liability is the amount by which the market price of the common shares exceeds the initial value of the deferred share unit. The year-over-year change in the deferred share unit compensation liability is recognized in operating income.

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

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

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

Note 2. Implementation of New Accounting Standards

Accounting Standards Implemented in 2006

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

Prior to the implementation of EIC 156, the Company recorded certain sales incentives paid to independent franchisees, associates and independent accounts in cost of sales, selling and administrative expenses on the consolidated statements of earnings. Accordingly, the implementation of EIC 156, on a retroactive basis, resulted in a reduction in both sales and cost of sales, selling and administrative expenses of $174 for 2005. As reclassifications, these changes did not impact net earnings.

Accounting Standards Implemented in 2005

Effective January 2, 2005, the Company implemented AcG 15, retroactively without restatement of prior periods and as a result, the Company consolidates entities in which it has control through ownership of a majority of the voting interests as well as all VIEs for which it is the primary beneficiary.

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

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

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

As at year end 2006, 123 (2005 – 123) of the Company's independent franchise stores met the criteria for a VIE and were consolidated pursuant to AcG 15.

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

Accordingly, the Company has included the results of these independent franchisees and this third-party entity that provides distribution and warehousing services in its consolidated financial statements effective January 2, 2005.

An after-tax, one-time charge of $29 (net of income taxes of $12) was recorded upon implementation and resulted mainly from delaying the recognition of vendor monies to when the related inventories of the independent franchisees are sold to their customers, the excess of the independent franchisees' accumulated losses over the allowance for doubtful accounts previously recorded by the Company and the reversal of initial franchise fees initially recognized upon the sale of franchises to third parties.

Independent Trust The Company has also identified that it holds a variable interest, by way of a standby letter of credit, in an independent trust which is used to securitize credit card receivables for *PC* Bank. In these securitizations, *PC* Bank sells a portion of its credit card receivables to the independent trust in exchange for cash. Although this independent trust has been identified as a VIE, it was determined that the Company is not the primary beneficiary and therefore this VIE is not subject to consolidation by the Company. The Company's maximum exposure to loss as a result of its involvement with this independent trust is disclosed in Notes 11 and 21.

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

Note 3. Goodwill

Goodwill is assessed for impairment at the reporting unit level at least annually. Any potential goodwill impairment is identified by comparing the fair value of a reporting unit to its carrying value. If the fair value of the reporting unit exceeds its carrying value, goodwill is considered not to be impaired. If the carrying value of the reporting unit exceeds its fair value, a more detailed goodwill impairment assessment must be undertaken. A goodwill impairment charge is recognized to the extent that, at the reporting unit level, the carrying value of goodwill exceeds the implied fair value.

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

In 2006, the Company performed the annual goodwill impairment test and it was determined that the carrying value of the goodwill established on the acquisition of Provigo Inc. in 1998 exceeded its respective fair value. As a result, the Company recorded in operating income a non-cash goodwill impairment charge of $800 relating to this goodwill. The Company expects no income tax deduction from this non-cash goodwill impairment charge. The determination that the fair value of goodwill was less than its carrying value resulted from a decline in market multiples, both from an industry and Company perspective, and a reduction of fair value as determined using the discounted cash flow methodology, incorporating both current Company and market assumptions, which in combination resulted in the goodwill impairment. This non-cash goodwill impairment charge is expected to be adjusted if necessary in the first half of 2007 and may result in a charge or credit to operating income in the consolidated statement of earnings and in the carrying value of goodwill on the balance sheet.

In the normal course of business, the Company may acquire from time to time franchisee stores and convert them to corporate stores. In 2006, the Company acquired 7 franchisee businesses (2005 – 7 franchisee businesses). The acquisitions were accounted for using the purchase method of accounting with the results of the business acquired included in the consolidated financial statements from the date of acquisition. The fair value of the net assets acquired consisted of fixed assets of $2 (2005 – nominal), other assets principally inventory of $2 (2005 – $3) and goodwill of $7 (2005 – $3) for cash consideration of $9 (2005 – $5), net of accounts receivable due from the franchisees of $2 (2005 – $1).

The consolidated balance sheet as at year end 2006 includes $4 (2005 – $4) of goodwill of independent franchisees that were consolidated by the Company pursuant to the requirements of AcG 15.

During 2005, the Company reduced goodwill by $41 due to the resolution of certain income tax matters previously accrued for as part of the Provigo Inc. purchase equation.

The following table discloses the changes in goodwill over 2006 and 2005.

	2006	2005
Balance, beginning of year	**$ 1,587**	$ 1,621
Goodwill acquired	**7**	7
Goodwill impairment	**(800)**	–
Other adjustments	–	(41)
Balance, end of year	**$ 794**	$ 1,587

Note 4. Restructuring and Other Charges

Store Operations

During 2006, the Company completed assessments of its store operations, and approved and communicated plans to restructure certain of its store operations. The total restructuring cost under these plans is estimated to be approximately $54. Of the $54 total estimated costs, approximately $10 is attributable to employee termination benefits which include severance resulting from the termination of employees, $25 to fixed asset impairment and accelerated depreciation of assets relating to these restructuring activities and $19 to site closing and other costs including lease obligations. In 2006, the Company recognized $35 of these restructuring costs, which are composed of $9 for employee termination benefits, $25 for fixed asset impairment and accelerated depreciation and $1 for other costs directly associated with those initiatives. The components of the store operations restructuring plan are described below.

As part of a review of the Quebec store operations, the Company approved and communicated a plan in 2006 to close 19 underperforming stores, mainly within the *Provigo* banner. This initiative is expected to be completed during 2007 and the total restructuring cost under this initiative is estimated to be approximately $40, of which $28 was recognized in 2006.

Based on the Company's review of the impact on the Cash & Carry and wholesale club network of the loss in tobacco sales following the decision by a major tobacco supplier to sell directly to certain customers of the Company, the Company approved and communicated a plan in 2006 to close 24 wholesale outlets which were impacted most significantly by this change. This initiative is expected to be completed during 2007 and the total restructuring cost under this initiative is estimated to be approximately $10, of which $6 was recognized in 2006.

As part of a review of the Atlantic store operations, the Company approved and communicated a plan in 2006 to close 8 stores in the Atlantic region. This initiative is expected to be completed during 2007 and the total restructuring cost under this initiative is estimated to be approximately $4, of which $1 was recognized in 2006.

Supply Chain Network

During 2005, the Company approved a comprehensive plan to restructure its supply chain operations nationally. The restructuring plan is now expected to be completed by the first quarter of 2009 and the total restructuring cost under this plan is estimated to be approximately $90. Of the $90 total estimated cost, approximately $57 is attributable to employee termination benefits which include severance and additional pension costs resulting from the termination of employees, $13 to fixed asset impairment and accelerated depreciation of assets relating to this restructuring activity and $20 to site closing and other costs directly attributable to the restructuring plan. In 2006, the Company recognized $8 (2005 – $62) of restructuring costs resulting from this plan which is composed of $4 (2005 – $45) for employee termination benefits resulting from planned involuntary terminations, $2 (2005 – $11) for fixed asset impairment and accelerated depreciation and $2 (2005 – $6) for other costs directly associated with those initiatives.

Office Move and Reorganization of the Operation Support Functions

During 2005, the Company consolidated several administrative and operating offices from across southern Ontario into a new National Head Office and Store Support Centre in Brampton, Ontario and reorganized the merchandising, procurement and operations groups which included the transfer of the general merchandise operations from Calgary, Alberta to the new office. Of the expected $25 of costs related to these initiatives, $24 were recognized in 2005 and $1 was recognized in 2006.

The following table provides a summary of the costs recognized and cash payments made, as well as the corresponding net liability as at December 30, 2006 and December 31, 2005:

	Employee Termination Benefits	Site Closing Costs and Other	Total Net Liability	Fixed Asset Impairment and Accelerated Depreciation	2006 Total	2005 Total
Net liability, beginning of year	$ 41	$ –	$ 41	$ –	$ –	$ –
Costs recognized:						
Store operations	9	1	10	25	35	–
Supply chain network	4	2	6	2	8	62
Office move and reorganization of the operation support functions	–	1	1	–	1	24
	$ 13	$ 4	$ 17	$ 27	$ 44	$ 86
Cash payments:						
Store operations	$ –	$ 1	$ 1		$ 1	$ –
Supply chain network	4	2	6		6	13
Office move and reorganization of the operation support functions	1	1	2		2	18
	$ 5	$ 4	$ 9		$ 9	$ 31
Charges against other assets [1]	$ 9	$ –	$ 9		$ 9	$ –
Net liability, end of year	$ 40	$ –	$ 40		$ 40	$ 41
Recorded in the consolidated balance sheet as follows:						
Other assets [1] (note 15)	$ –		$ –		$ –	$ 9
Accounts payable and accrued liabilities	19		19		19	7
Other liabilities (note 17)	21		21		21	25
Net liability, end of year	$ 40		$ 40		$ 40	$ 41

(1) Represents defined benefit pension plan cost applied to other assets. Charges against other assets relates to the contractual termination benefits cost recognized in 2005 which reduced the accrued benefit plan asset.

Note 5. Goods and Services Tax ("GST") and Provincial Sales Taxes ("PST")

During 2005, the Company recorded a charge relating to an audit and proposed assessment by the Canada Revenue Agency relating to GST on certain products sold on which GST was not appropriately charged and remitted. In light of this proposed assessment, the Company assessed and estimated the potential liabilities for GST and PST in other areas of its operations for various periods. Accordingly, a charge of $40 was recorded in operating income in 2005. Approximately $1 was paid in 2006 (2005 – $15) and approximately $24 remains accrued as at December 30, 2006. The ultimate remaining amount to be paid will depend on the outcome of audits performed by, or settlements reached with the various tax authorities and therefore may differ from this estimate. Management will continue to assess the remaining accrual as progress towards resolution with the various tax authorities is made and will adjust the remaining accrual accordingly.

Note 6. Collective Agreement

During 2006, members of certain Ontario locals of the United Food and Commercial Workers union ratified a new four-year collective agreement. The new agreement enables the Company to convert 44 stores in Ontario to the *Real Canadian Superstore* banner or food stores with equivalent labour economics, and the flexibility to invest in additional store labour where appropriate. As a result of securing this agreement, the Company recognized a one-time charge of $84 in operating income, including a $36 amount due to a multi-employer pension plan and a payment of $38 which was due upon ratification.

Note 7. Interest Expense

	2006	2005
Interest on long term debt	**$ 284**	$ 290
Interest expense (income) on financial derivative instruments	**7**	(6)
Net short term interest	**(11)**	(11)
Capitalized to fixed assets	**(21)**	(21)
Interest expense	**$ 259**	$ 252

Net interest paid in 2006 was $278 (2005 – $263).

Note 8. Income Taxes

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

	2006	2005
Weighted average basic Canadian federal and provincial statutory income tax rate	**33.7%**	34.4%
Net (decrease) increase resulting from:		
Earnings in jurisdictions taxed at rates different from the Canadian statutory income tax rates	**(0.6)**	0.5
Non-taxable amounts	**(1.1)**	(0.7)
Large corporation tax	**–**	0.5
Statutory income tax rate changes on future income tax balances	**(2.1)**	0.3
Successful resolution of certain income tax matters from a previous year and other	**–**	(0.2)
Effective income tax rate before impact of non-deductible goodwill impairment charge	**29.9%**	34.8%
Non-deductible goodwill impairment charge	**796.8**	–
Effective income tax rate	**826.7%**	34.8%

Net income taxes paid in 2006 were $325 (2005 – $387).

The cumulative effects of changes in Canadian federal and certain provincial statutory income tax rates on future income tax assets and liabilities are included in the consolidated financial statements at the time of substantive enactment. Accordingly, in 2006 a $16 reduction to future income tax expense was recognized as a result of the reduction in the Canadian federal and certain provincial statutory income tax rates, compared to a $3 charge to future income tax expense in 2005 as a result of statutory income tax rate changes in certain provinces.

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

	2006	2005
Accounts payable and accrued liabilities	**$ 55**	$ 55
Other liabilities	**117**	86
Fixed assets	**(278)**	(278)
Other assets	**(103)**	(64)
Losses carried forward (expiring 2026)	**20**	6
Other	**40**	30
Net future income tax liabilities	**$ (149)**	$ (165)

	2006	2005
Recorded in the consolidated balance sheets as follows:		
Current future income tax assets	**$ 85**	$ 72
Non-current future income tax liabilities	**(234)**	(237)
Net future income tax liabilities	**$ (149)**	$ (165)

Note 9. Basic and Diluted Net (Loss) Earnings per Common Share ($, except where otherwise indicated)

	2006	2005
Net (loss) earnings ($ millions)	**$ (219)**	$ 746
Weighted average common shares outstanding (in millions)	**274.1**	274.2
Dilutive effect of stock-based compensation (in millions)	**.2**	.8
Diluted weighted average common shares outstanding (in millions)	**274.3**	275.0
Basic net (loss) earnings per common share	**$ (.80)**	$ 2.72
Dilutive effect of stock-based compensation per common share	**–**	(.01)
Diluted net (loss) earnings per common share	**$ (.80)**	$ 2.71

Stock options outstanding with an exercise price greater than the market price of the Company's common shares at December 30, 2006 were not recognized in the computation of diluted net (loss) earnings per common share. Accordingly, for 2006, 4,027,406 (2005 – 2,254,639) stock options, with a weighted average exercise price of $61.55 (2005 – $69.58) per common share, were excluded from the computation of diluted net (loss) earnings per common share.

Note 10. Cash, Cash Equivalents and Short Term Investments

At year end, the Company had $864 (2005 – $837) in cash, cash equivalents and short term investments held by Glenhuron Bank Limited ("Glenhuron"), a wholly owned subsidiary of the Company in Barbados. The $40 (2005 – $27) of income from cash, cash equivalents and short term investments was recognized in net short term interest.

The Company recognized an unrealized foreign currency exchange gain of $2 (2005 – $31 loss) as a result of translating its United States dollar denominated cash, cash equivalents and short term investments, of which $1 income (2005 – $31 loss) related to cash and cash equivalents. The resulting gain or loss on cash, cash equivalents and short term investments is offset in operating income by the unrealized foreign currency exchange gain on the cross currency basis swaps. A cumulative unrealized foreign currency exchange receivable of $165 (2005 – $168) relating to these swaps is recorded in other assets on the balance sheet.

Note 11. Credit Card Receivables

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

During 2006, $240 (2005 – $225) of credit card receivables were securitized through the sale of a portion of the total interest in these receivables to independent trusts, yielding a nominal net loss (2005 – nominal net loss) on the initial sale inclusive of nil (2005 – $1) servicing liability. Servicing liabilities expensed during the year were $14 (2005 – $13) and the fair value at year end of recognized servicing liabilities was $8 (2005 – $8). The trusts' recourse to *PC* Bank's assets is limited to *PC* Bank's retained interests and is further supported by the Company through a standby letter of credit for 9% (2005 – 9%) on a portion of the securitized amount.

	2006	2005
Credit card receivables	**$ 1,571**	$ 1,257
Amount securitized	**(1,250)**	(1,010)
Net credit card receivables	**$ 321**	$ 247
Net credit loss experience	**$ 9**	$ 5

The net credit loss experience of $9 (2005 – $5) includes $45 (2005 – $33) of credit losses on the total portfolio of credit card receivables net of credit losses of $36 (2005 – $28) relating to securitized credit card receivables. The following table displays the sensitivity of the current fair value of retained interests to an immediate 10% and 20% adverse change in the 2006 key economic assumptions. The sensitivity analysis provided in the table is hypothetical and should be used with caution. The sensitivities of each key assumption have been calculated independently of any changes in other key assumptions. Actual experience may result in changes in a number of key assumptions simultaneously. Changes in one factor may result in changes in another, which could amplify or reduce the impact of such assumptions.

	2006	Change in Assumptions 10%	20%
Carrying value of retained interests	**$ 5**		
Payment rate (monthly)	**44.0%**		
Weighted average life (years)	**.7**		
Expected credit losses (annual)	**3.14%**	**$ (.7)**	**$ (1.4)**
Discount rate applied to residual cash flows (annual)	**14.83%**	**$ (2.4)**	**$ (4.9)**

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

	2006	2005
Proceeds from new securitizations	**$ 240**	$ 225
Net cash flows received on retained interests	**$ 116**	$ 106

In 2006, *PC* Bank restructured its credit card securitization program. Eagle Credit Card Trust ("Eagle"), a previously established independent trust, issued $500 of five year senior notes and subordinated notes due 2011 at a weighted average rate of 4.5% to finance the purchase of credit card receivables previously securitized by *PC* Bank through an independent trust. The subordinated notes provide credit support to those notes which are more senior. *PC* Bank will continue to service the credit card receivables on behalf of Eagle, but will not receive any fee for its servicing obligations and has a retained interest in the securitized receivables represented by the right to future cash flows after obligations to investors have been met. In accordance with Canadian GAAP, the financial statements of Eagle are not consolidated with those of the Company. The restructuring of the portfolio yielded a nominal net loss.

Note 12. Inventory Liquidation

As part of the Company's review of inventory levels, certain excess inventory, primarily general merchandise, was identified. The Company recognized a charge of $68 in operating income as a result of its decision to proceed with the liquidation of this inventory, reflecting the write-down of inventory to recovery values and the associated costs of facilitating the disposition incurred to date. Additional costs are to be recognized as appropriate criteria are met.

Note 13. Fixed Assets

	2006			2005		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Properties held for development	$ 500		$ 500	$ 442		$ 442
Properties under development	226		226	231		231
Land	1,699		1,699	1,629		1,629
Buildings	4,955	$ 1,012	3,943	4,579	$ 835	3,744
Equipment and fixtures	3,788	2,475	1,313	3,589	2,207	1,382
Building and leasehold improvements	611	269	342	647	290	357
	11,779	3,756	8,023	11,117	3,332	7,785
Capital leases – buildings and equipment	129	97	32	95	95	–
	$ 11,908	$ 3,853	$ 8,055	$ 11,212	$ 3,427	$ 7,785

Fixed asset impairment and accelerated depreciation charges of $32 (2005 – $7) were recognized in operating income. An additional $27 (2005 – $14) was recognized in restructuring and other charges in 2006 (see Note 4). The fair values were determined using quoted market prices where available, independent offers to purchase where available or prices for similar assets.

Note 14. Other Assets

	2006	2005
Franchise investments and other receivables	$ 195	$ 194
Accrued benefit plan asset (note 15)	182	139
Unrealized equity forwards receivable (note 20)	–	30
Unrealized cross currency basis swaps receivable (notes 10 and 20)	165	168
Deferred charges and other	147	157
	$ 689	$ 688

Note 15. Employee Future Benefits

Pension and Other Benefit Plans

The Company sponsors a number of pension plans, including registered funded defined benefit pension plans, defined contribution pension plans and supplemental unfunded arrangements providing pension benefits in excess of statutory limits. Certain obligations of the Company to 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.

A new 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 new salaried employees will participate only in the new national defined contribution pension plan.

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

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

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

Funding of Pension and Other Benefit Plans

The most recent actuarial valuations of the defined benefit pension plans for funding purposes ("funding valuations") are to be performed as at December 31, 2006 for all plans, except two plans which were as at December 31, 2004. The Company is required to file funding valuations at least every three years; accordingly, the next required funding valuations for the above mentioned plans will be performed no later than December 31, 2009 and 2007, respectively.

Total cash payments made by the Company during 2006, consisting of contributions to funded defined benefit pension plans, defined contribution pension plans, multi-employer pension plans, long term disability benefit plan and benefits paid directly to beneficiaries of the unfunded defined benefit pension plans and unfunded other benefit plans, were $166 (2005 – $134). The Company has accrued $36 relating to a one-time contribution to a multi-employer pension plan (see Note 6).

During 2007, the Company expects to contribute approximately $75 to its registered funded defined benefit pension plans. This estimate may vary subject to the completion of actuarial valuations, market performance and regulatory requirements. The Company also expects to make contributions in 2007 to defined contribution pension plans and multi-employer pension plans as well as benefit payments directly to beneficiaries of the unfunded defined benefit pension plans and unfunded other benefit plans.

Pension and Other Benefit Plans Status

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

	2006			2005		
	Pension Benefit Plans	Other Benefit Plans[(1)]	Total	Pension Benefit Plans	Other Benefit Plans[(1)]	Total
Benefit Plan Assets						
Fair value, beginning of year	$ 944	$ 42	$ 986	$ 838	$ 35	$ 873
Actual return (loss) on plan assets	74	(1)	73	98	2	100
Employer contributions	90	21	111	61	22	83
Employee contributions	2	–	2	2	–	2
Benefits paid	(58)	(18)	(76)	(53)	(17)	(70)
Other	–	–	–	(2)	–	(2)
Fair value, end of year	$ 1,052	$ 44	$ 1,096	$ 944	$ 42	$ 986
Accrued Benefit Plan Obligations						
Balance, beginning of year	$ 1,155	$ 243	$ 1,398	$ 937	$ 181	$ 1,118
Current service cost	50	9	59	37	4	41
Interest cost	62	13	75	60	11	71
Benefits paid	(58)	(18)	(76)	(53)	(17)	(70)
Actuarial loss	55	61	116	173	64	237
Past service costs	–	–	–	–	2	2
Contractual termination benefits[(2)]	–	–	–	9	–	9
Curtailment gain[(3)]	–	–	–	(6)	(2)	(8)
Other	(2)	–	(2)	(2)	–	(2)
Balance, end of year	$ 1,262	$ 308	$ 1,570	$ 1,155	$ 243	$ 1,398
Deficit of Plan Assets Versus Plan Obligations	$ (210)	$ (264)	$ (474)	$ (211)	$ (201)	$ (412)
Unamortized past service costs	5	(7)	(2)	6	(7)	(1)
Unamortized net actuarial loss	313	172	485	271	128	399
Net accrued benefit plan asset (liability)	$ 108	$ (99)	$ 9	$ 66	$ (80)	$ (14)
Recorded in the consolidated balance sheets as follows:						
Other assets (note 14)	$ 145	$ 37	$ 182	$ 102	$ 37	$ 139
Other liabilities (note 17)	(37)	(136)	(173)	(36)	(117)	(153)
Net accrued benefit plan asset (liability)	$ 108	$ (99)	$ 9	$ 66	$ (80)	$ (14)

(1) Other benefit plans include post-retirement, post-employment and long term disability benefit plans.

(2) Contractual termination benefits resulted from the 2005 plan to restructure the supply chain operations nationally and were recorded in restructuring and other charges in 2005 (see Note 4).

(3) Certain defined benefit pension plans and other benefit plans affected by the 2005 plan to restructure the supply chain operations nationally were remeasured as at March 31, 2005 and costs subsequent to April 1, 2005 were determined using a discount rate of 5.75%. This resulted in a nominal impact to 2005 net earnings and curtailment gains which were offset against unamortized net actuarial losses for those plans.

Funded Status of Plans in a Deficit

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

	2006		2005	
	Pension Benefit Plans	**Other Benefit Plans**	Pension Benefit Plans	Other Benefit Plans
Fair Value of Benefit Plan Assets	**$ 1,052**	**$ 44**	$ 944	$ –
Accrued Benefit Plan Obligations	**1,262**	**308**	1,155	202
Deficit of Plan Assets versus Plan Obligations	**$ 210**	**$ 264**	$ 211	$ 202

Asset Allocations

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

Percentage of Plan Assets	**2006**		2005	
Asset Category	**Pension Benefit Plans**	**Other Benefit Plans**	Pension Benefit Plans	Other Benefit Plans
Equity securities	**63%**	**–%**	64%	–%
Debt securities	**36%**	**93%**	34%	99%
Cash and cash equivalents	**1%**	**7%**	2%	1%
Total	**100%**	**100%**	100%	100%

Pension benefit plan assets include securities issued by the Company's majority shareholder, George Weston Limited ("Weston") having a fair value of $3 (2005 – $4) as at September 30. Other benefit plan assets do not include any Weston or Loblaw securities.

Pension and Other Benefit Plans Cost

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

	2006		2005	
	Pension Benefit Plans	Other Benefit Plans	Pension Benefit Plans	Other Benefit Plans
Current service cost, net of employee contributions	$ 48	$ 9	$ 35	$ 4
Interest cost on plan obligations	62	13	60	11
Actual (return) loss on plan assets	(74)	1	(98)	(2)
Actuarial loss	55	61	173	64
Past service costs	–	–	–	2
Contractual termination benefits [1]	–	–	9	–
Defined benefit plan cost, before adjustments to recognize the long term nature of employee future benefit costs	91	84	179	79
(Shortfall) excess of actual return over expected return on plan assets	(1)	(4)	30	–
Shortfall of amortized net actuarial loss over actual actuarial loss on accrued benefit obligation	(43)	(40)	(170)	(59)
Excess (shortfall) of amortized past service costs over actual past service costs	1	–	–	(2)
Net defined benefit plan cost	48	40	39	18
Defined contribution plan cost	6	–	6	–
Multi-employer pension plan cost [2]	85	–	45	–
Net benefit plan cost	$ 139	$ 40	$ 90	$ 18
Recognized in the consolidated statements of earnings as follows:				
Pension and other benefit plan costs	$ 139	$ 40	$ 81	$ 18
Restructuring and other charges [1]	–	–	9	–
Net benefit plan cost	$ 139	$ 40	$ 90	$ 18

(1) Contractual termination benefits resulted from the 2005 plan to restructure the supply chain operations nationally and were recorded in restructuring and other charges in 2005 (see Note 4).
(2) Included in 2006 is a $36 amount due relating to a one-time contribution to a multi-employer pension plan (see Note 6).

Plan Assumptions

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

	2006		2005	
	Pension Benefit Plans	**Other Benefit Plans**	Pension Benefit Plans	Other Benefit Plans
Accrued Benefit Plan Obligations				
Discount rate	**5.0%**	**5.0%**	5.25%	5.2%
Rate of compensation increase	**3.5%**		3.5%	
Net Defined Benefit Plan Cost				
Discount rate [1]	**5.25%**	**5.2%**	6.25%	6.1%
Expected long term rate of return on plan assets	**8.0%**	**5.0%**	8.0%	5.5%
Rate of compensation increase	**3.5%**		3.5%	

(1) Certain defined benefit pension plans and other benefit plans affected by the 2005 plan to restructure the supply chain operations nationally were remeasured as at March 31, 2005 and costs subsequent to April 1, 2005 were determined using a discount rate of 5.75%. This resulted in a nominal impact to 2005 net earnings and curtailment gains which were offset against unamortized net actuarial losses for those plans.

The growth rate of health care costs, primarily drug and other medical costs for other benefit plans, was estimated at 10.0% (2005 – 10.0%) and is assumed to gradually decrease to 5.0% by 2014 (2005 – 5.0% by 2013), remaining at that level thereafter.

Sensitivity of Key Assumptions

The following table outlines the key assumptions for 2006 and the sensitivity of a 1% change in each of these assumptions on the accrued benefit plan obligations and on the benefit plan cost for defined benefit pension plans and other benefit plans. The table reflects the impact on the current service and interest cost components for the discount rate and expected growth rate of health care costs assumptions.

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

	Pension Benefit Plans		Other Benefit Plans	
	Accrued Benefit Plan Obligations	Benefit Plan Cost[1]	Accrued Benefit Plan Obligations	Benefit Plan Cost[1]
Expected long term rate of return on plan assets		8.0%		5.0%
Impact of: 1% increase	n/a	$ (9)	n/a	$ –
1% decrease	n/a	$ 9	n/a	$ –
Discount rate	5.0%	5.25%	5.0%	5.2%
Impact of: 1% increase	$ (173)	$ (10)	$ (38)	$ (2)
1% decrease	$ 201	$ 10	$ 45	$ 2
Expected growth rate of health care costs[2]			10.0%	10.0%
Impact of: 1% increase	n/a	n/a	$ 35	$ 4
1% decrease	n/a	n/a	$ (30)	$ (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 5.0% by 2014 for the accrued benefit plan obligation and the benefit plan cost, and remaining at that level thereafter.

Note 16. Long Term Debt

	2006	2005
Provigo Inc. Debentures		
Series 1996, 8.70%, due 2006 (i)	**$ –**	$ 125
Other	**–**	1
Loblaw Companies Limited Notes		
6.00%, due 2008	**390**	390
5.75%, due 2009	**125**	125
7.10%, due 2010	**300**	300
6.50%, due 2011	**350**	350
5.40%, due 2013	**200**	200
6.00%, due 2014	**100**	100
7.10%, due 2016	**300**	300
6.65%, due 2027	**100**	100
6.45%, due 2028	**200**	200
6.50%, due 2029	**175**	175
11.40%, due 2031		
– principal	**151**	151
– effect of coupon repurchase	**(34)**	(26)
6.85%, due 2032	**200**	200
6.54%, due 2033	**200**	200
8.75%, due 2033	**200**	200
6.05%, due 2034	**200**	200
6.15%, due 2035	**200**	200
5.90%, due 2036 (i)	**300**	300
6.45%, due 2039	**200**	200
7.00%, due 2040	**150**	150
5.86%, due 2043	**55**	55
Other at a weighted average interest rate of 8.69%, due 2007 to 2043	**21**	33
VIE loans payable and capital leases (ii)	**156**	126
Total long term debt	**4,239**	4,355
Less amount due within one year	**27**	161
	$ 4,212	$ 4,194

The five year schedule of repayment of long term debt, inclusive of VIE and other debt, based on maturity is as follows: 2007 – $27; 2008 – $420; 2009 – $148; 2010 – $319; 2011 – $369.

(i) During 2006, the Company repaid its $125 of 8.70% Series 1996 Provigo Inc. Debenture as it matured. During 2005, the Company issued $300 of 5.90% Medium Term Notes ("MTN") due 2036 and $200 of 6.95% MTN matured and was repaid.

(ii) Pursuant to the requirements of AcG 15, the consolidated balance sheet as at December 30, 2006 includes $156 (2005 – $126) of loans payable and capital lease obligations of VIEs consolidated by the Company, $23 (2005 – $23) of which is due within one year.

The loans payable of $124 (2005 – $126) represent financing obtained by eligible independent franchisees through a structure involving independent trusts to facilitate the purchase of the majority of their inventory and fixed assets, consisting mainly of fixturing and equipment. The loans payable, which have an average term to maturity of 8 years (2005 – 7 years), are due and payable on demand under certain predetermined circumstances and are secured through a general security agreement made by the independent franchisees in favour of the independent funding trust. Interest is charged on a floating rate basis and prepayment of the loans may be made without penalty. The independent funding trust within the structure finances its activities through the issuance of short term asset-backed notes to third-party investors. As disclosed in Note 21, a standby letter of credit has been provided by a major Canadian chartered bank for the benefit of the independent funding trust equal to approximately 10% of the total principal amount of the loans outstanding at any point in time. The Company has agreed to reimburse the issuing bank for any amount drawn on the standby letter of credit. In the event of a default by an independent franchisee the independent funding trust may assign the loan to the Company and draw upon the standby letter of credit. No amount has ever been drawn on the standby letter of credit.

Capital lease obligations of $32 (2005 – nil) are included in the consolidated balance sheet as at year end. The capital lease obligations are related to equipment of the third-party VIE that provides distribution and warehousing services. The amount due within one year is $4 (2005 – nil).

Note 17. Other Liabilities

	2006	2005
Accrued benefit plan liability (note 15)	**$ 173**	$ 153
Stock-based compensation (note 19)	**17**	13
Unrealized equity forwards payable (note 20)	**13**	–
Restructuring and other charges (note 4)	**21**	25
Goods and Services Tax and provincial sales tax (note 5)	**14**	16
Other	**76**	64
	$ 314	$ 271

Note 18. Common Share Capital (authorized – unlimited)

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

	2006		2005	
	Number of Common Shares	**Common Share Capital**	Number of Common Shares	Common Share Capital
Issued and outstanding, beginning of year	**274,054,814**	**$ 1,192**	274,255,914	$ 1,192
Issued for stock options exercised (note 19)	**118,750**	**4**	25,000	1
Purchased for cancellation	**–**	**–**	(226,100)	(1)
Issued and outstanding, end of year	**274,173,564**	**$ 1,196**	274,054,814	$ 1,192
Weighted average outstanding	**274,066,885**		274,183,823	

Normal Course Issuer Bids ("NCIB") During 2006, the Company purchased for cancellation nil of its common shares (2005 – 226,100 for $16).

The Company intends to renew its NCIB to purchase on the Toronto Stock Exchange or enter into equity forwards to purchase up to 5% of its common shares outstanding. The Company, in accordance with the rules and by-laws of the Toronto Stock Exchange, may purchase its shares at the then market price of such shares.

Note 19. Stock-Based Compensation ($, except where otherwise indicated)

The Company maintains various types of stock-based compensation plans, which are described below.

The Company's net stock-based compensation cost recognized in operating income related to its stock option plan and the associated equity forwards and the restricted share unit plan was as follows:

($ millions)	**2006**	2005
Stock option plan income	**$ (11)**	$ (35)
Equity forwards loss (note 20)	**32**	71
Restricted share unit plan expense	**16**	7
Net stock-based compensation cost	**$ 37**	$ 43

Stock Option Plan The Company maintains a stock option plan for certain employees. Under this plan, the Company may grant options for up to 20.4 million common shares; however, the Company has set a guideline which limits the number of stock option grants to a maximum of 5% of outstanding common shares at any time. Stock options have up to a seven-year term, vest 20% cumulatively on each anniversary date of the grant and are exercisable at the designated common share price, which is 100% of the market price of the Company'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 the Company at the price specified in the terms of the option, or option holders may elect to receive in cash the share appreciation value equal to the excess of the market price at the date of exercise over the specified option price.

During 2006, the Company granted 189,354 (2005 – 2,247,627) stock options with a weighted average exercise price of $55.30 (2005 – $69.73) per common share under its existing stock option plan, which allows for settlement in shares or in the share appreciation value in cash at the option of the employee.

In 2006, the share appreciation value of $11 million (2005 – $41 million) was paid on the exercise of 815,403 (2005 – 1,135,221) stock options. The Company issued 118,750 (2005 – 25,000) common shares on the exercise of stock options and received cash consideration of $4 million (2005 – $0.9 million) for which it had recorded a stock-based compensation liability of $0.1 million (2005 – $1 million).

At year end, a total of 4,084,646 (2005 – 5,305,422) stock options were outstanding, and represented approximately 1.5% (2005 – 1.9%) of the Company's issued and outstanding common shares, which was within the Company's guideline of 5%. Of the 4,084,646 (2005 – 5,305,422) outstanding options, 4,043,406 (2005 – 5,151,682) relate to stock option grants that allow for settlement in shares or in the share appreciation value in cash at the option of the employee and 41,240 (2005 – 153,740) relate to stock option grants, issued prior to December 30, 2001 that will be settled by issuing common shares.

A summary of the status of the Company's stock option plan and activity was as follows:

	2006		2005	
	Options (number of shares)	**Weighted Average Exercise Price/Share**	Options (number of shares)	Weighted Average Exercise Price/Share
Outstanding options, beginning of year	**5,305,422**	**$ 56.98**	4,365,958	$ 45.04
Granted	**189,354**	**$ 55.30**	2,247,627	$ 69.73
Exercised	**(934,153)**	**$ 35.18**	(1,160,221)	$ 36.41
Forfeited/cancelled	**(475,977)**	**$ 61.56**	(147,942)	$ 59.49
Outstanding options, end of year	**4,084,646**	**$ 61.36**	5,305,422	$ 56.98
Options exercisable, end of year	**1,544,232**	**$ 57.37**	1,701,050	$ 43.25

	2006 Outstanding Options			**2006 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**
$ 43.80 – $ 49.05	**157,240**	**1**	**$ 48.67**	**157,240**	**$ 48.67**
$ 53.60 – $ 55.50	**1,928,006**	**3**	**$ 53.83**	**976,113**	**$ 53.70**
$ 61.95 – $ 72.95	**1,999,400**	**5**	**$ 69.61**	**410,879**	**$ 69.41**

Restricted Share Unit ("RSU") Plan The Company has adopted 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 years, following the date of award. The RSU payment will be an amount equal to the weighted average price of a 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.

During 2006, the Company granted 691,001 (2005 – 393,335) RSUs to 238 (2005 – 236) employees, 211,526 (2005 – 10,151) RSUs were cancelled and 112,707 (2005 – nil) were paid out. At year end, a total of 749,952 (2005 – 383,184) RSUs were outstanding.

Employee Share Ownership Plan ("ESOP") The Company maintains an ESOP which allows employees to acquire the Company's common shares through regular payroll deductions of up to 5% of their gross regular earnings. The Company contributes an additional 25% (2005 – 25%) of each employee's contribution to the plan. The ESOP is administered through a trust which purchases the Company's common shares on the open market on behalf of employees. A compensation cost of $6 million (2005 – $5 million) related to this plan was recognized in operating income.

Deferred Share Units ("DSUs") Plan Members of the Company's Board of Directors may elect annually to receive all or a portion of their annual retainer(s) and fees in the form of DSUs, the value of which is determined by the market price of the Company's common shares at the time the director's annual retainer(s) or fees are earned. Upon termination of Board service, the common shares due to the director, as represented by the DSUs, will be purchased on the open market on the director's behalf. At year end, 44,397 (2005 – 36,666) DSUs were outstanding. The year-over-year change in the deferred share units liability was minimal and was recognized in operating income.

Note 20. Financial Instruments

A summary of the Company's outstanding financial derivative instruments is as follows:

	Notional Amounts Maturing						2006	2005
	2007	2008	2009	2010	2011	Thereafter	**Total**	Total
Cross currency basis swaps	$ 76	$ 140	$ 31	$ 174	$ 95	$ 544	**$ 1,060**	$ 1,036
Interest rate swaps (receive)/pay		$ 240	$ 140	$ 50	$ 200	$ (150)	**$ 480**	$ 437
Equity forwards				$ 120	$ 34	$ 93	**$ 247**	$ 240

Cross Currency Basis Swaps The Company enters into cross currency basis swaps to hedge its exposure to fluctuations in the foreign currency exchange rate on a portion of its United States dollar denominated assets, principally cash, cash equivalents and short term investments.

The Company entered into cross currency basis swaps to exchange United States dollars for $1.1 billion (2005 – $1.0 billion) Canadian dollars, which mature by 2016. Currency adjustments receivable or payable arising from these swaps are settled in cash on maturity. At year end, a cumulative unrealized foreign currency exchange rate receivable of $165 (2005 – $168) was recorded in other assets.

Interest Rate Swaps The Company enters into interest rate swaps to hedge a portion of its exposure to fluctuations in interest rates. The Company's interest rate swaps convert a net notional $480 (2005 – $437) of its floating rate investments to average fixed rate investments at 4.73% (2005 – 4.76%), which mature by 2013.

Equity Forwards ($) The Company enters into equity forwards to manage its exposure to fluctuations in its stock-based compensation cost as a result of changes in the market price of its common shares. At year end 2006, the Company had cumulative equity forwards to buy 4.8 million (2005 – 4.8 million) of its common shares at a cumulative average forward price of $51.43 (2005 – $50.02) including $6.56 (2005 – $5.15) per common share of interest expense net of dividends that has been recognized in net earnings and will be paid at termination. The equity forwards allow for settlement in cash, common shares or net settlement. The Company has included a cumulative unrealized market loss of $13 million (2005 – gain of $30 million) in other liabilities (2005 – other assets) relating to these equity forwards.

Fair Value of Financial Instruments The fair value of a financial instrument is the estimated amount that the Company would receive or pay to terminate the instrument agreement at the reporting date. The following methods and assumptions were used to estimate the fair value of each type of financial instrument by reference to various market value data and other valuation techniques as appropriate.

The fair values of cash, cash equivalents, short term investments, accounts receivable, bank indebtedness, commercial paper, accounts payable and accrued liabilities approximated their carrying values given their short term maturities.

The fair value of the cross currency basis swaps was estimated based on the market spot exchange rates and forward interest rates and approximated their carrying value.

The fair value of long term debt issues was estimated based on the discounted cash flows of the debt at the Company's estimated incremental borrowing rates for debt of the same remaining maturities.

The fair value of the interest rate swaps was estimated by discounting net cash flows of the swaps at market and forward interest rates for swaps of the same remaining maturities.

The fair value of the equity forwards, which approximated carrying value, was estimated by multiplying the number of the Company's common shares outstanding under the equity forwards by the difference between the market price of its common shares and the average forward price of the outstanding forwards at year end.

	2006		2005	
	Carrying Value	**Estimated Fair Value**	Carrying Value	Estimated Fair Value
Long term debt liability	**$ 4,239**	**$ 4,798**	$ 4,355	$ 5,027
Interest rate swaps net liability	**$ –**	**$ (15)**	$ –	$ (11)

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

Credit Risk The Company's exposure to credit risk relates to the Company's cash equivalents and short term investments, *PC* Bank's credit card receivables and accounts receivable from franchisees, associates and independent accounts.

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

Credit risk from *PC* Bank's credit card receivables and receivables from franchisees, associates and independents results from the possibility that customers may default on their payment obligation. *PC* Bank manages the credit card receivable risk by employing stringent credit scoring techniques and actively monitoring 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. Accounts receivable from franchisees, associates and independent accounts are actively monitored on an ongoing basis and settled on a frequent basis in accordance with the terms specified in the applicable agreements.

Note 21. Contingencies, Commitments and Guarantees

The Company is involved in and potentially subject to various claims by third parties arising out of the normal course and conduct of its business including, but not limited to, product liability, labour and employment, regulatory and environmental claims. In addition, the Company is involved in and potentially subject to regular audits from federal and provincial tax authorities relating to income, capital and commodity taxes and as a result of these audits may receive assessments and reassessments.

Although such matters cannot be predicted with certainty, management currently considers the Company's exposure to such claims and litigation, to the extent not covered by the Company's insurance policies or otherwise provided for, not to be material to these consolidated financial statements.

There are various operating leases that have been committed to. Future minimum lease payments relating to these operating leases are as follows:

	Payments due by year							
	2007	2008	2009	2010	2011	Thereafter to 2049	**2006 Total**	2005 Total
Operating lease payments	$ 190	$ 178	$ 156	$ 134	$ 114	$ 720	**$ 1,492**	$ 1,637
Expected sub-lease income	(40)	(34)	(30)	(24)	(17)	(43)	**(188)**	(203)
Net operating lease payments	$ 150	$ 144	$ 126	$ 110	$ 97	$ 677	**$ 1,304**	$ 1,434

At year end, the Company has committed approximately $153 (2005 – $264) with respect to capital investment projects such as the construction, expansion and renovation of buildings and the purchase of real property.

The Company establishes standby letters of credit used in connection with certain obligations mainly related to real estate transactions and benefit programs. The aggregate gross potential liability related to these standby letters of credit is approximately $221 (2005 – $143). Other standby letters of credit related to the financing program for the Company's independent franchisees and securitization of *PC* Bank's credit card receivables have been identified as guarantees and are discussed further in the Guarantees section below.

Guarantees The Company has provided to third parties the following significant guarantees as defined pursuant to Accounting Guideline 14, "*Disclosure of Guarantees*":

Standby Letters of Credit A standby letter of credit for the benefit of an independent trust with respect to the credit card receivables securitization program of *PC* Bank has been issued by a major Canadian chartered bank. This standby letter of credit could be drawn upon in the event of a major decline in the income flow from or in the value of the securitized credit card receivables. The Company has agreed to reimburse the issuing bank for any amount drawn on the standby letter of credit. The Company believes that the likelihood of this occurrence is remote. The aggregate gross potential liability under this arrangement, which represents 9% (2005 – 9%) on a portion of the securitized credit card receivables amount, is approximately $68 (2005 – $91) (see Note 11).

A standby letter of credit has been issued by a major Canadian chartered bank in the amount of $44 (2005 – $42) for the benefit of an independent funding trust which provides loans to the Company's franchisees for their purchase of inventory and fixed assets, mainly fixturing and equipment. The amount of the standby letter of credit is equal to approximately 10% of the principal amount of the loans outstanding at any point in time. In the event that an independent franchisee defaults on its loan and the Company has not, within a specified time period, assumed the loan or the default is not otherwise remedied, the independent funding trust may assign the loan to the Company and draw upon this standby letter of credit. The Company has agreed to reimburse the issuing bank for any amount drawn on the standby letter of credit.

Lease Obligations In connection with historical dispositions of certain of its assets, the Company has assigned leases to third parties. The Company remains contingently liable for these lease obligations in the event any of the assignees are in default of their lease obligations. The estimated amount for minimum rent, which does not include other lease related expenses such as property tax and common area maintenance charges, is $111 (2005 – $138).

Indemnification Provisions The Company from time to time enters into agreements in the normal course of its business, such as service and outsourcing arrangements and leases, in connection with business or asset acquisitions or dispositions. These agreements by their nature may provide for indemnification of counterparties. These indemnification provisions may be in connection with breaches of representation and warranty or 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.

Legal Proceedings Subsequent to year end, the Company was served with an action brought by certain beneficiaries of a multi-employer pension plan in the Superior Court of Ontario. In their claim against the employers and the trustees of the multi-employer pension plan, the plaintiffs claim that assets of the multi-employer pension plan have been mismanaged. The Company is one of the employers affected by the action. One billion dollars of damages are claimed in the action against a total of 17 defendants. In addition, the plaintiffs are seeking to have a representative defendant appointed for the employers of all the members of the multi-employer pension plan. The action is framed as a representative action on behalf of all the beneficiaries of the multi-employer pension plan. The action is at a very early stage and the Company intends to vigorously defend it. Statements of Defence have not yet been filed.

Note 22. Related Party Transactions

The Company's majority shareholder, George Weston Limited and its affiliates ("Weston"), other than the Company, are related parties. It is the Company's policy to conduct all transactions and settle all balances with related parties on market terms and conditions. Related party transactions include:

Inventory Purchases Purchases of inventory from related parties for resale in the distribution network represented approximately 3% (2005 – 3%) of the cost of sales, selling and administrative expenses. The intercompany payable relating to this inventory, outstanding at year end, is recorded in accounts payable and accrued liabilities.

Cost Sharing Agreements Weston has entered into certain contracts with third parties for administrative and corporate services, including telecommunication services and information technology related matters on behalf of the Company. Through cost sharing agreements that have been established between the Company and Weston concerning these costs, the Company has agreed to be responsible to Weston for its proportionate share of the costs incurred on its behalf. Payments by the Company pursuant to these cost sharing agreements were approximately $25 (2005 – $22).

Real Estate Matters The Company leases certain properties from an affiliate of Weston, namely office space for approximately $4 (2005 – $4). During 2006, the Company purchased from an affiliate of Weston a property designated for future development for consideration of $8, which was prepaid in accordance with a former ground lease between the parties.

Borrowings/Lendings The Company, from time to time, may borrow from or may lend to Weston on a short term basis at commercial paper rates. There were no such amounts outstanding as at year end.

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

Management Agreements The Company, through Glenhuron, manages certain United States cash, cash equivalents and short term investments for wholly owned non-Canadian subsidiaries of Weston. Management fees are based on market rates and included in interest expense.

Sale of Loan Portfolio During 2005, Glenhuron sold a portfolio of third-party long term loans receivable to a wholly owned subsidiary of Weston. The loans in this portfolio were originally acquired from third-party financial institutions in 2001. This transaction was undertaken by Glenhuron as part of its overall ongoing management of its investment portfolio.

The amount of the cash consideration of U.S. $106 was based on a fair market value of the loan portfolio and was approximately equal to carrying value. An independent review of the valuation analysis has been obtained by the Company to ensure that Glenhuron's methodology used in arriving at fair market value was reasonable. As at the date of sale, the current portion of this loan portfolio of U.S. $13 was included in accounts receivable and the long term portion of U.S. $93 was included in other assets.

Glenhuron has entered into an agreement with a subsidiary of Weston for the administration of the loan portfolio.

Note 23. Subsequent Event

Subsequent to year end, the Company approved and announced the restructuring of its merchandising and store operations into more streamlined functions. Costs of this restructuring including severance, retention and other costs are expected to be in the range of $150 to $200, the substantial portion to be recorded in the first half of 2007.

Note 24. Other Information

Segment Information The only reportable operating segment is merchandising, which includes primarily food as well as general merchandise and drugstore products and services. All sales to external parties were generated in Canada and all fixed assets and goodwill were attributable to Canadian operations.