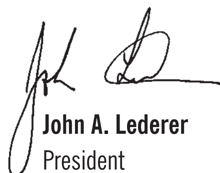
Management's Statement of Responsibility for Financial Reporting

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

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

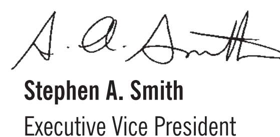
The Board of Directors, acting through an Audit Committee comprised solely of directors who are independent of the Company, is responsible for determining that management fulfills its responsibilities in the preparation of the consolidated financial statements and the financial control of operations.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

Toronto, Canada
March 7, 2006



John A. Lederer
President

Richard P. Mavrinac
Executive Vice President



Stephen A. Smith
Executive Vice President

Independent Auditors' Report

To the Shareholders of Loblaw Companies Limited:
We have audited the consolidated balance sheets of Loblaw Companies Limited as at December 31, 2005 and January 1, 2005 and the consolidated statements of earnings, retained earnings and cash flow for the 52 week years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and January 1, 2005 and the results of its operations and its cash flow for the years then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Canada
March 7, 2006

Chartered Accountants

Consolidated Statements of Earnings

For the years ended December 31, 2005 and January 1, 2005 ($ millions except where otherwise indicated)	2005 (52 weeks)	2004 (52 weeks)
Sales	**$ 27,801**	$ 26,209
Operating Expenses		
Cost of sales, selling and administrative expenses	**25,716**	24,084
Depreciation and amortization	**558**	473
Restructuring and other charges (note 3)	**86**	
Goods and Services Tax and provincial sales taxes (note 4)	**40**	
	26,400	24,557
Operating Income	**1,401**	1,652
Interest Expense (note 5)	**252**	239
Earnings before Income Taxes	**1,149**	1,413
Income Taxes (note 9)	**400**	445
Net Earnings before Minority Interest	**749**	968
Minority Interest	**3**	
Net Earnings	**$ 746**	$ 968
Net Earnings per Common Share ($) (note 6)		
Basic	**$ 2.72**	$ 3.53
Diluted	**$ 2.71**	$ 3.51

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Retained Earnings

For the years ended December 31, 2005 and January 1, 2005 ($ millions except where otherwise indicated)	2005 (52 weeks)	2004 (52 weeks)
Retained Earnings, Beginning of Year as Previously Reported	**$ 4,222**	$ 3,496
Impact of implementing new accounting standard (note 2)	**(29)**	
Retained Earnings, Beginning of Year Restated	**4,193**	3,496
Net earnings	**746**	968
Premium on common shares purchased for cancellation (note 16)	**(15)**	(33)
Dividends declared per common share – 84¢ (2004 – 76¢)	**(230)**	(209)
Retained Earnings, End of Year	**$ 4,694**	$ 4,222

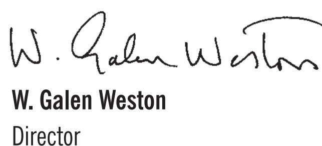
See accompanying notes to the consolidated financial statements.

Consolidated Balance Sheets

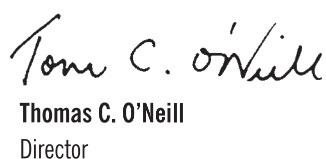
As at December 31, 2005 and January 1, 2005 ($ millions)	2005	2004
Assets		
Current Assets		
Cash and cash equivalents (note 7)	**$ 916**	$ 549
Short term investments (note 7)	**4**	275
Accounts receivable (note 8)	**656**	665
Inventories	**2,020**	1,821
Income taxes	**3**	
Future income taxes (note 9)	**72**	81
Prepaid expenses and other assets	**30**	32
Total Current Assets	**3,701**	3,423
Fixed Assets (note 10)	**7,785**	7,113
Goodwill (note 11)	**1,587**	1,621
Other Assets (note 12)	**688**	792
Total Assets	**$ 13,761**	$ 12,949
Liabilities		
Current Liabilities		
Bank indebtedness	**$ 30**	$ 28
Commercial paper	**436**	473
Accounts payable and accrued liabilities	**2,535**	2,307
Income taxes		109
Long term debt due within one year (note 14)	**161**	216
Total Current Liabilities	**3,162**	3,133
Long Term Debt (note 14)	**4,194**	3,935
Future Income Taxes (note 9)	**237**	184
Other Liabilities (note 15)	**271**	283
Minority Interest	**11**	
Total Liabilities	**7,875**	7,535
Shareholders' Equity		
Common Share Capital (note 16)	**1,192**	1,192
Retained Earnings	**4,694**	4,222
Total Shareholders' Equity	**5,886**	5,414
Total Liabilities and Shareholders' Equity	**$ 13,761**	$ 12,949

See accompanying notes to the consolidated financial statements.

Approved on Behalf of the Board



W. Galen Weston
Director



Thomas C. O'Neill
Director

Consolidated Cash Flow Statements

For the years ended December 31, 2005 and January 1, 2005 ($ millions)	2005 (52 weeks)	2004 (52 weeks)
Operating Activities		
Net earnings before minority interest	**$ 749**	$ 968
Depreciation and amortization	**558**	473
Restructuring and other charges (note 3)	**86**	
Goods and Services Tax and provincial sales taxes (note 4)	**40**	
Future income taxes	**90**	67
Change in non-cash working capital	**(51)**	(99)
Other	**17**	34
Cash Flows from Operating Activities	**1,489**	1,443
Investing Activities		
Fixed asset purchases	**(1,156)**	(1,258)
Short term investments	**271**	83
Proceeds from fixed asset sales	**109**	110
Credit card receivables, after securitization (note 8)	**(84)**	(34)
Franchise investments and other receivables	**53**	(26)
Other	**(96)**	(52)
Cash Flows used in Investing Activities	**(903)**	(1,177)
Financing Activities		
Bank indebtedness	**(17)**	(11)
Commercial paper	**(37)**	(130)
Long term debt (note 14)		
Issued	**333**	200
Retired	**(240)**	(103)
Common share capital		
Issued (notes 16 and 17)	**1**	
Retired (note 16)	**(16)**	(35)
Dividends	**(230)**	(209)
Other	**(2)**	(2)
Cash Flows used in Financing Activities	**(208)**	(290)
Effect of foreign currency exchange rate changes on cash and cash equivalents (note 7)	**(31)**	(45)
Initial impact of variable interest entities (note 2)	**20**	
Change in Cash and Cash Equivalents	**367**	(69)
Cash and Cash Equivalents, Beginning of Year	**549**	618
Cash and Cash Equivalents, End of Year	**$ 916**	$ 549

See accompanying notes to the consolidated financial statements.

For the years ended December 31, 2005 and January 1, 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").

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%. Effective January 2, 2005, the Company was required, pursuant to Accounting Guideline 15, "*Consolidation of Variable Interest Entities*", ("AcG 15") issued by the Canadian Institute of Chartered Accountants ("CICA"), to consolidate certain variable interest entities ("VIEs") that are subject to control on a basis other than through ownership of a majority of voting interest.

Additional disclosure regarding the implementation of AcG 15 is provided in Note 2.

Fiscal Year The 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 31, 2005 and January 1, 2005 each contained 52 weeks.

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

Earnings per Share ("EPS") Basic EPS is calculated by dividing the net earnings available to common shareholders by the weighted average number of common shares outstanding during the year. Diluted EPS is calculated using the treasury stock method, which assumes that all outstanding stock options with an exercise price below the average market price are exercised and the assumed proceeds are used to purchase 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 the earlier of when payments are contractually 180 days in arrears or when the likelihood of collection is considered remote. Interest income on credit card receivables is recorded on an accrual basis and is recognized in operating income.

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

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

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

Inventories Retail store inventories are stated at the lower of cost and estimated net realizable value less normal gross profit margin. Wholesale 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 the lesser of their estimated useful lives and the term of the lease, plus renewal options when applicable, to a maximum of 10 years.

Fixed assets are reviewed for impairment when events or circumstances indicate that the carrying value exceeds the sum of the undiscounted future cash flows expected from use and eventual disposal. Fixed assets are also reviewed for impairment annually. For purposes of annually reviewing 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 long-lived assets is evaluated whenever events or changes in circumstances indicate that the carrying value of long-lived assets may not be recoverable. These events or changes in circumstances include a commitment to 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 debt. 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.

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.

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

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

The cost of plan amendments and the excess unamortized net actuarial gain or loss over 10% of the greater of the accrued benefit plan obligation or the fair value of the benefit plan assets at the beginning of the year are amortized over the expected average remaining service period of the active employees. The expected average remaining service period of the active employees covered by the defined benefit pension plans ranges from 6 to 17 years with a weighted average of 13 years. The expected average remaining service period of the employees covered by the other benefit plans ranges from 7 to 13 years with a weighted average of 11 years.

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

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

Stock Option Plan 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 2.9% 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% (2004 – 15%) 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 units liability is recognized in operating income as a compensation cost.

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

Certain estimates, such as those related to valuation of inventories, goodwill, income taxes, Goods and Services Tax and provincial sales taxes 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 the current year's presentation.

Note 2. Variable Interest Entities

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 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 franchisee stores met the criteria for VIEs that require consolidation by the Company pursuant to AcG 15.

Warehouse and Distribution Agreement The Company has entered into a warehousing 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.

Details of the amounts recorded upon implementation and the effect on the opening consolidated balance sheet as at January 2, 2005 are summarized below and include the impact of both the independent franchisees and the warehouse and distribution entity:

Condensed Consolidated Balance Sheet as at January 2, 2005

	Condensed consolidated balance sheet before AcG 15 impact	Impact of the implementation of AcG 15	Condensed consolidated balance sheet after AcG 15 impact
Cash and cash equivalents	$ 549	$ 20	$ 569
Short term investments	275		275
Accounts receivable	665	(73)	592
Inventories	1,821	78	1,899
Other current assets	113	4	117
Total current assets	3,423	29	3,452
Fixed assets	7,113	136	7,249
Goodwill	1,621	3	1,624
Other assets	792	(51)	741
Total assets	$ 12,949	$ 117	$ 13,066
Total current liabilities	$ 3,133	$ 48	$ 3,181
Long term debt	3,935	96	4,031
Other liabilities	467	(8)	459
Minority interest		10	10
Total liabilities	7,535	146	7,681
Common share capital	1,192		1,192
Retained earnings	4,222	(29)	4,193
Total liabilities and shareholders' equity	$ 12,949	$ 117	$ 13,066

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

- 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.

- Accounts receivable due from the independent franchisees and the investment in preferred shares of the independent franchisees were eliminated upon consolidation; cash and cash equivalents, inventories and fixed assets financed by long term debt (a portion of which is due within one year) were recorded.
- An increase in fixed assets and total current liabilities in respect of the warehouse and distribution entity.
- Minority interest representing the common stakeholder's equity in the respective VIEs.

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

The impact from the consolidation of these VIEs on the consolidated balance sheet as at December 31, 2005 was not significantly different than the impact on the opening consolidated balance sheet as outlined above. The impact on the consolidated statement of earnings for the year ended December 31, 2005 was predominantly an increase in sales of 1.5%. The impact on basic net earnings per common share for 2005 was a decline of approximately 3 cents.

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

Independent Trust 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 8 and 19.

Note 3. Restructuring and Other Charges

During 2005, after completion of a detailed assessment of its supply chain network, management of the Company approved a comprehensive plan to restructure its supply chain operations nationally. This plan is expected to reduce future operating costs, provide a smoother flow of products and better service levels to stores and further enable the Company to achieve its targeted operating efficiencies. The plan involves the closure of six distribution centres and the relocation of certain activities to new distribution centres. The transfer of the distribution activities of general merchandise to a new facility owned and operated by a third party in Pickering, Ontario was substantially completed by the end of 2005. In addition, a new distribution centre dedicated to food distribution is expected to open in late 2007 or early 2008 in Ajax, Ontario. As a result of these initiatives, it is expected that approximately 1,400 positions will be affected within the supply chain network. The restructuring plan is expected to be completed by late 2007 or early 2008 and the total restructuring cost under this plan is estimated to be approximately $90. Of the $90 total estimated cost, approximately $57 is attributable to employee termination benefits which include severance and additional pension costs resulting from the termination of employees, $13 to fixed asset impairment and accelerated depreciation of assets relating to this restructuring activity and $20 to site closing and other costs directly attributable to the restructuring plan. In 2005, the Company recognized $62 of restructuring costs resulting from this plan.

In addition, 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. The charge recognized in 2005 was $24. These restructuring activities were substantially completed by the end of 2005.

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

	Employee Termination Benefits	Site Closing Costs and Other	Total Net Liability	Fixed Asset Impairment and Accelerated Depreciation	Total
Costs recognized in 2005:					
Supply chain network	$ 45	$ 6	$ 51	$ 11	$ 62
Office move and reorganization of the operation support functions	6	15	21	3	24
	$ 51	$ 21	$ 72	$ 14	$ 86
Cash payments during 2005:					
Supply chain network	$ 7	$ 6	$ 13		
Office move and reorganization of the operation support functions	3	15	18		
	$ 10	$ 21	$ 31		
Net liability as at December 31, 2005	$ 41	$ –	$ 41		
Recorded in the consolidated balance sheet as follows:					
Other assets[1] (note 13)	$ 9		$ 9		
Accounts payable and accrued liabilities	7		7		
Other liabilities (note 15)	25		25		
Net liability as at December 31, 2005	$ 41		$ 41		

(1) Represents defined benefit pension plan costs applied to other assets.

Note 4. Goods and Services Tax ("GST") and Provincial Sales Taxes ("PST")

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

Note 5. Interest Expense

	2005	2004
Interest on long term debt	**$ 290**	$ 290
Interest on financial derivative instruments	**(6)**	(30)
Net short term interest	**(11)**	
Capitalized to fixed assets	**(21)**	(21)
Interest expense	**$ 252**	$ 239

Net interest paid in 2005 was $263 (2004 – $254).

Note 6. Basic and Diluted Net Earnings per Common Share

	2005	2004
Net earnings	**$ 746**	$ 968
Weighted average common shares outstanding (in millions)	**274.2**	274.3
Dilutive effect of stock-based compensation (in millions)	**0.8**	1.6
Diluted weighted average common shares outstanding (in millions)	**275.0**	275.9
Basic net earnings per common share ($)	**$ 2.72**	$ 3.53
Dilutive effect of stock-based compensation per common share ($)	**(0.01)**	(0.02)
Diluted net earnings per common share ($)	**$ 2.71**	$ 3.51

At the end of 2005, there were 2,254,639 stock options outstanding with a weighted average exercise price of $69.578 per common share that were not recognized in the computation of diluted net earnings per common share because the exercise prices of the options were greater than the average market price of the common shares for 2005.

Note 7. Cash, Cash Equivalents and Short Term Investments

At year end, the Company had $837 (2004 – $819) in cash, cash equivalents and short term investments held by Glenhuron Bank Limited ("Glenhuron"), a wholly owned subsidiary of the Company in Barbados. The $27 (2004 – $14) of income from cash, cash equivalents and short term investments was recognized in net short term interest.

The Company recognized an unrealized foreign currency exchange rate loss of $31 (2004 – $65) as a result of translating its United States dollar denominated cash, cash equivalents and short term investments, of which $31 (2004 – $45) related to cash and cash equivalents. The resulting loss on cash, cash equivalents and short term investments is offset in operating income by the unrealized foreign currency exchange rate gain on the cross currency basis swaps. A cumulative unrealized foreign currency exchange rate receivable of $168 (2004 – $155) relating to these swaps is recorded in other assets on the balance sheet.

Note 8. Credit Card Receivables

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

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

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

The net credit loss experience of $5 (2004 – $4) includes $33 (2004 – $23) of credit losses on the total portfolio of credit card receivables net of credit losses of $28 (2004 – $19) relating to securitized credit card receivables. The following table outlines the key economic assumptions used in measuring the retained interests at the date of securitization for securitizations completed in 2005. The table also displays the sensitivity of the current fair value of retained interests to an immediate 10% and 20% adverse change in the 2005 key economic assumptions. The sensitivity analysis provided in the table is hypothetical and should be used with caution. The sensitivities of each key assumption have been calculated independently of any changes in other key assumptions. Actual experience may result in changes in a number of key assumptions simultaneously. Changes in one factor may result in changes in another, which could amplify or reduce the impact of such assumptions.

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

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

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

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

Note 9. Income Taxes

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

	2005	2004
Weighted average basic Canadian federal and provincial statutory income tax rate	**34.4%**	34.9%
Net increase (decrease) resulting from:		
Earnings in jurisdictions taxed at rates different from the Canadian statutory income tax rates	**0.5**	(2.0)
Non-taxable amounts	**(0.7)**	(0.7)
Large corporation tax	**0.5**	0.7
Impact of statutory income tax rate changes on future income tax balances	**0.3**	
Impact of successful resolution of certain income tax matters from a previous year and other	**(0.2)**	(1.4)
Effective income tax rate	**34.8%**	31.5%

Net income taxes paid in 2005 were $387 (2004 – $400).

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

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

	2005	2004
Accounts payable and accrued liabilities	**$ 55**	$ 56
Other liabilities	**86**	90
Fixed assets	**(278)**	(222)
Other assets	**(64)**	(55)
Other	**36**	28
Net future income tax liabilities	**$ (165)**	$ (103)

	2005	2004
Recorded in the consolidated balance sheets as follows:		
Current future income tax assets	**$ 72**	$ 81
Non-current future income tax liabilities	**(237)**	(184)
Net future income tax liabilities	**$ (165)**	$ (103)

Note 10. Fixed Assets

	2005			2004		
	Cost	**Accumulated Depreciation**	**Net Book Value**	Cost	Accumulated Depreciation	Net Book Value
Properties held for development	**$ 442**		**$ 442**	$ 378		$ 378
Properties under development	**231**		**231**	290		290
Land	**1,629**		**1,629**	1,530		1,530
Buildings	**4,579**	**$ 835**	**3,744**	4,040	$ 731	3,309
Equipment and fixtures	**3,589**	**2,207**	**1,382**	3,057	1,835	1,222
Building and leasehold improvements	**647**	**290**	**357**	656	276	380
	11,117	**3,332**	**7,785**	9,951	2,842	7,109
Capital leases – buildings and equipment	**95**	**95**	**–**	95	91	4
	$ 11,212	**$ 3,427**	**$ 7,785**	$ 10,046	$ 2,933	$ 7,113

Fixed asset impairment and accelerated depreciation charges of $7 (2004 – $22) were recognized in operating income. An additional $14 was recognized in restructuring and other charges in 2005 for charges primarily due to the plan to restructure the supply chain operations nationally (see Note 3). The majority of the charges in 2004 resulted from the repositioning of the Ontario, Canada banner portfolio. The fair values were determined using quoted market prices where available, independent offers to purchase where available or prices for similar assets.

Note 11. Goodwill

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

The consolidated balance sheet as at December 31, 2005 includes $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 Company performed the annual impairment test for goodwill and determined that there was no impairment to the carrying value of goodwill.

In 2004, Westfair Foods Ltd. (“Westfair”), a subsidiary of the Company, redeemed its Class A shares at a price of 350 dollars per share for cash consideration of $8. Previously, the minority interest related to these Class A shares was included in other liabilities. This transaction was accounted for as a step-by-step purchase of Westfair, which resulted in the Company recognizing $8 of goodwill.

Note 12. Other Assets

	2005	2004
Franchise investments and other receivables	**$ 194**	$ 323
Accrued benefit plan asset (note 13)	**139**	106
Unrealized equity forwards receivable (note 18)	**30**	109
Unrealized cross currency basis swaps receivable (notes 7 and 18)	**168**	155
Deferred charges and other	**157**	99
	$ 688	$ 792

Note 13. Employee Future Benefits

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

The Company also offers certain employees post-retirement and post-employment benefit plans and 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 which provide pension benefits.

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

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

Total cash payments made by the Company during 2005, consisting of contributions to funded defined benefit pension plans, defined contribution pension plans, multi-employer pension plans, long term disability benefit plan and benefits paid directly to beneficiaries of the unfunded defined benefit pension plans and unfunded other benefit plans, were $134 (2004 – $105).

The aggregate of the funded defined benefit pension plans and long term disability benefit plan contributions for 2006 are estimated to be $77, and may vary subject to actuarial valuations being completed. The Company also expects to make contributions in 2006 to defined contribution pension plans and multi-employer pension plans, as well as benefit payments directly to beneficiaries of the unfunded defined benefit pension plans and other unfunded benefit plans.

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

	2005			2004		
	Pension Benefit Plans	**Other Benefit Plans[(1)]**	**Total**	Pension Benefit Plans	Other Benefit Plans[(1)]	Total
Benefit Plan Assets						
Fair value, beginning of year	**$ 838**	**$ 35**	**$ 873**	$ 771	$ 30	$ 801
Actual return on plan assets	**98**	**2**	**100**	74	1	75
Employer contributions	**61**	**22**	**83**	42	18	60
Voluntary employee contributions	**2**		**2**	2		2
Benefits paid	**(53)**	**(17)**	**(70)**	(49)	(14)	(63)
Other	**(2)**		**(2)**	(2)		(2)
Fair value, end of year	**$ 944**	**$ 42**	**$ 986**	$ 838	$ 35	$ 873
Accrued Benefit Plan Obligations						
Balance, beginning of year	**$ 937**	**$ 181**	**$ 1,118**	$ 887	$ 190	$ 1,077
Current service cost	**37**	**4**	**41**	33	4	37
Interest cost	**60**	**11**	**71**	56	11	67
Benefits paid	**(53)**	**(17)**	**(70)**	(49)	(14)	(63)
Actuarial loss	**173**	**64**	**237**	11	1	12
Plan amendments/ past service costs		**2**	**2**	1	(11)	(10)
Contractual termination benefits[(2)]	**9**		**9**			
Curtailment gain[(3)]	**(6)**	**(2)**	**(8)**			
Other	**(2)**		**(2)**	(2)		(2)
Balance, end of year	**$ 1,155**	**$ 243**	**$ 1,398**	$ 937	$ 181	$ 1,118
Deficit of Plan Assets Versus Plan Obligations	**$ (211)**	**$ (201)**	**$ (412)**	$ (99)	$ (146)	$ (245)
Unamortized cost of plan amendments/past service costs	**6**	**(7)**	**(1)**	6	(9)	(3)
Unamortized net actuarial loss	**271**	**128**	**399**	137	70	207
Net accrued benefit plan asset (liability)	**$ 66**	**$ (80)**	**$ (14)**	$ 44	$ (85)	$ (41)
Recorded in the consolidated balance sheets as follows:						
Other assets (note 12)	**102**	**37**	**139**	78	28	106
Other liabilities (note 15)	**(36)**	**(117)**	**(153)**	(34)	(113)	(147)
Net accrued benefit plan asset (liability)	**$ 66**	**$ (80)**	**$ (14)**	$ 44	$ (85)	$ (41)

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

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

(3) Certain defined benefit pension and other benefit plans affected by the 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 net earnings and curtailment gains which were offset against unamortized net actuarial losses for those plans.

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

	2005		2004	
	Pension Benefit Plans	**Other Benefit Plans**	Pension Benefit Plans	Other Benefit Plans
Fair Value of Benefit Plan Assets	**$ 944**		$ 773	
Accrued Benefit Plan Obligations	**1,155**	**$ 202**	873	$ 151
Deficit	**$ 211**	**$ 202**	$ 100	$ 151

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

	2005		2004	
	Pension Benefit Plans	**Other Benefit Plans**	Pension Benefit Plans	Other Benefit Plans
Accrued Benefit Plan Obligations				
Discount rate	**5.25%**	**5.2%**	6.25%	6.1%
Rate of compensation increase	**3.5%**		3.5%	
Net Defined Benefit Plan Cost				
Discount rate(1)	**6.25%**	**6.1%**	6.25%	6.0%
Expected long term rate of return on plan assets	**8.0%**	**5.5%**	8.0%	4.5%
Rate of compensation increase	**3.5%**		3.5%	

(1) Certain defined benefit pension and other benefit plans affected by the 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 net earnings and curtailment gains which were offset against unamortized net actuarial losses for those plans.

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

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

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

Pension benefit plan assets include securities issued by the Company's majority shareholder, George Weston Limited ("Weston") having a fair value of $4 as at September 30 for each of 2005 and 2004. Other benefit plan assets do not include any Weston or Loblaw securities.

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

	2005		2004	
	Pension Benefit Plans	**Other Benefit Plans**	Pension Benefit Plans	Other Benefit Plans
Current service cost, net of employee contributions	**$ 35**	**$ 4**	$ 31	$ 4
Interest cost on plan obligations	**60**	**11**	56	11
Actual return on plan assets	**(98)**	**(2)**	(74)	(1)
Actuarial loss	**173**	**64**	11	1
Plan amendments/past service costs		**2**	1	(11)
Contractual termination benefits[(1)]	**9**			
Benefit plan cost, before adjustments to recognize the long term nature of employee future benefit costs	**179**	**79**	25	4
Difference between cost arising in the year and cost recognized in the year in respect of:				
Return on plan assets	**30**		13	
Actuarial (loss) gain	**(170)**	**(59)**	(7)	5
Plan amendments/past service costs		**(2)**		9
Net defined benefit plan cost	**39**	**18**	31	18
Defined contribution plan cost	**6**		6	
Multi-employer pension plan cost	**45**		39	
Net benefit plan cost	**$ 90**	**$ 18**	$ 76	$ 18
Recognized in the consolidated statement of earnings as follows:				
Pension and other benefit plan costs	**$ 81**	**$ 18**	$ 76	$ 18
Restructuring and other charges[(1)]	**9**			
Net benefit plan cost	**$ 90**	**$ 18**	$ 76	$ 18

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

Sensitivity of Key Assumptions The following table outlines the key assumptions for 2005 and the sensitivity of a 1% change in each of these assumptions on the accrued benefit plan obligations and on the benefit plan cost for 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%		
Impact of: 1% increase	n/a	$ (7)	n/a	
1% decrease	n/a	7	n/a	
Discount rate	5.25%	6.25%	5.2%	6.1%
Impact of: 1% increase	$ (160)	$ (8)	$ (31)	$ (1)
1% decrease	$ 186	$ 8	$ 36	$ 3
Expected growth rate of health care costs[2]			10.0%	9.0%
Impact of: 1% increase	n/a	n/a	$ 25	$ 2
1% decrease	n/a	n/a	$ (28)	$ (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 2013 for the accrued benefit plan obligation and decreasing to 5.0% by 2008 for the benefit plan cost and remaining at that level thereafter.

Note 14. Long Term Debt

	2005	2004
Provigo Inc. Debentures		
Series 1996, 8.70%, due 2006	**$ 125**	$ 125
Other (i)	**1**	5
Loblaw Companies Limited Notes		
6.95%, due 2005 (ii)		200
6.00%, due 2008	**390**	390
5.75%, due 2009	**125**	125
7.10%, due 2010	**300**	300
6.50%, due 2011	**350**	350
5.40%, due 2013	**200**	200
6.00%, due 2014	**100**	100
7.10%, due 2016	**300**	300
6.65%, due 2027	**100**	100
6.45%, due 2028	**200**	200
6.50%, due 2029	**175**	175
11.40%, due 2031		
– principal	**151**	151
– effect of coupon repurchase	**(26)**	(18)
6.85%, due 2032	**200**	200
6.54%, due 2033	**200**	200
8.75%, due 2033	**200**	200
6.05%, due 2034	**200**	200
6.15%, due 2035	**200**	200
5.90%, due 2036 (ii)	**300**	
6.45%, due 2039	**200**	200
7.00%, due 2040	**150**	150
5.86%, due 2043	**55**	55
Other at a weighted average interest rate of 7.21%, due 2006 to 2043	**33**	43
VIE loans payable (iii)	**126**	
Total long term debt	**4,355**	4,151
Less amount due within one year	**161**	216
	$ 4,194	$ 3,935

The five year schedule of repayment of long term debt based on maturity is as follows: 2006 – $161; 2007 – $24; 2008 – $406; 2009 – $140; 2010 – $314.

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

(ii) 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.

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

As disclosed in Note 19, a standby letter of credit has been provided by a major Canadian bank for the benefit of the independent funding trust equal to approximately 10% of the total principal amount of the loans outstanding at any point in time. 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.

Note 15. Other Liabilities

	2005	2004
Accrued benefit plan liability (note 13)	**$ 153**	$ 147
Stock-based compensation	**13**	76
Restructuring and other charges (note 3)	**25**	
Goods and Services Tax and provincial sales tax (note 4)	**16**	
Other	**64**	60
	$ 271	$ 283

Note 16. Common Share Capital (authorized – unlimited)

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

	2005		2004	
	Number of Common Shares	**Common Share Capital**	Number of Common Shares	Common Share Capital
Issued and outstanding, beginning of year	**274,255,914**	**$ 1,192**	274,829,014	$ 1,194
Issued for stock options exercised (note 17)	**25,000**	**1**	3,000	
Purchased for cancellation	**(226,100)**	**(1)**	(576,100)	(2)
Issued and outstanding, end of year	**274,054,814**	**$ 1,192**	274,255,914	$ 1,192
Weighted average outstanding	**274,183,823**		274,253,178	

Normal Course Issuer Bids ("NCIB") During 2005, the Company purchased for cancellation 226,100 (2004 – 576,100) of its common shares for $16 (2004 – $35).

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

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

The Company's 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)	2005	2004
Stock option plan (income)/expense	**$ (35)**	$ 24
Equity forwards loss/(gain) (note 18)	**71**	(24)
Restricted share unit plan expense	**7**	
Net stock-based compensation cost	**$ 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 7-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 2005, the Company granted 2,247,627 (2004 – 45,000) stock options with a weighted average exercise price of $69.729 (2004 – $65.453) per common share under its existing stock option plan, which allows for settlement in shares or in the share appreciation value in cash at the option of the employee.

The share appreciation value of $41 million (2004 – $33 million) was paid on the exercise of 1,135,221 (2004 – 985,395) stock options. In 2005, the Company issued 25,000 (2004 – 3,000) common shares on the exercise of stock options for cash consideration of $0.9 million (2004 – $0.1 million) for which it had recorded a stock-based compensation liability of $1 million (2004 – nominal).

At year end, a total of 5,305,422 (2004 – 4,365,958) stock options were outstanding, and represented approximately 1.9% (2004 – 1.6%) of the Company's issued and outstanding common shares, which was within the Company's guideline of 5%. Of the 5,305,422 outstanding options, 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 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:

	2005		2004	
	Options (number of shares)	**Weighted Average Exercise Price/Share**	Options (number of shares)	Weighted Average Exercise Price/Share
Outstanding options, beginning of year	**4,365,958**	**$ 45.039**	5,407,026	$ 42.533
Granted	**2,247,627**	**$ 69.729**	45,000	$ 65.453
Exercised	**(1,160,221)**	**$ 36.411**	(988,395)	$ 32.440
Forfeited/cancelled	**(147,942)**	**$ 59.494**	(97,673)	$ 43.201
Outstanding options, end of year	**5,305,422**	**$ 56.983**	4,365,958	$ 45.039
Options exercisable, end of year	**1,701,050**	**$ 43.251**	1,736,769	$ 39.268

	2005 Outstanding Options			**2005 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**
$ 32.000 – $ 48.500	**991,215**	**1**	**$ 35.691**	**938,977**	**$ 34.978**
$ 49.050 – $ 53.600	**2,059,568**	**4**	**$ 53.442**	**745,073**	**$ 53.208**
$ 61.950 – $ 72.950	**2,254,639**	**6**	**$ 69.578**	**17,000**	**$ 63.805**

Subsequent to year end 2005, the Company granted 48,742 stock options under its current stock option plan, that allow for settlement in shares or in the share appreciation value in cash at the option of the employee, to 1 employee with an exercise price of $54.71 per common share. Including stock option grants issued subsequent to year end, total stock options outstanding represent approximately 2.0% of the Company's issued and outstanding common shares.

Restricted Share Unit ("RSU") Plan The Company adopted a RSU plan for certain senior employees. The RSUs entitle the employee to a cash payment after the end of each performance period, of up to 3 years, following the date of award. The RSU payment will be an amount equal to the weighted average price of a Loblaw common share on the three last trading days preceding the end of the performance period for the RSUs multiplied by the number of RSUs held by the employee.

During 2005, the Company granted 393,335 RSUs to 236 employees and 10,151 RSUs were cancelled. At year end, a total of 383,184 RSUs were outstanding.

Subsequent to year end 2005, the Company granted 644,712 RSUs to 231 employees.

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% (2004 – 15%) 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 $5 million (2004 – $2 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, 36,666 (2004 – 30,908) DSUs were outstanding. The year-over-year change in the deferred share units liability was minimal and was recognized in operating income.

Note 18. Financial Instruments

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

	Notional Amounts Maturing						**2005**	2004
	2006	2007	2008	2009	2010	Thereafter	**Total**	Total
Cross currency basis swaps	$ 11	$ 76	$ 140	$ 31	$ 174	$ 604	**$ 1,036**	$ 1,114
Interest rate swaps (receive)/pay	$ (43)		$ 240	$ 140	$ 50	$ 50	**$ 437**	$ 598
Equity forwards					$ 117	$ 123	**$ 240**	$ 236
Electricity forward contract								$ 16

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 $1.0 billion (2004 – $1.1 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 $168 (2004 – $155) 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 $437 (2004 – $598) of its floating rate investments to fixed rate investments at 4.76% (2004 – 5.80%), 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 2005, the Company had cumulative equity forwards to buy 4.8 million (2004 – 4.8 million) of its common shares at an average forward price of $50.02 (2004 – $49.25) including $5.15 (2004 – $4.38) per common share of interest expense net of dividends that has been recognized in net earnings 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 gain of $30 million (2004 – $109 million) in other assets relating to these equity forwards.

Electricity Forward Contract The Company entered into an electricity forward contract to minimize price volatility and to maintain a portion of the Company's electricity costs in Ontario, Canada at approximately 2001 rates. This electricity forward contract had an initial term of three years and expired in May 2005.

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

The fair values of cash, cash equivalents, short term investments, accounts receivable, bank indebtedness, commercial paper, accounts payable 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.

In 2004, the fair value of the electricity forward contract was provided by the counterparty based on expected future electricity prices.

	2005		2004	
	Carrying Value	**Estimated Fair Value**	Carrying Value	Estimated Fair Value
Long term debt liability	**$ 4,355**	**$ 5,027**	$ 4,151	$ 4,665
Interest rate swaps net (liability) asset		**$ (11)**	$ (2)	$ 5
Electricity forward contract net asset				$ 3

Counterparty Risk The Company may be exposed to losses should any counterparty to its financial derivative agreements fail to fulfill its obligations. The Company has sought to minimize potential counterparty risk and losses by conducting transactions for its derivative agreements with counterparties that have at minimum a long term A credit rating from a recognized credit 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. 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 19. 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:

	Amounts Maturing in							
	2006	2007	2008	2009	2010	Thereafter to 2049	**2005 Total**	2004 Total
Operating lease payments	$ 192	$ 184	$ 166	$ 146	$ 126	$ 823	**$ 1,637**	$ 1,400
Expected sub-lease income	(44)	(37)	(31)	(26)	(19)	(46)	**(203)**	(296)
Net operating lease payments	$ 148	$ 147	$ 135	$ 120	$ 107	$ 777	**$ 1,434**	$ 1,104

At year end, the Company has committed approximately $264 (2004 – $354) 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 $143 (2004 – $104). Other standby letters of credit related to the financing program for the Company's franchisees and securitization of PC Bank's credit card receivables have been identified as guarantees and are discussed further in the Guarantees section below.

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

Standby Letters of Credit A standby letter of credit for the benefit of an independent trust with respect to the credit card receivables securitization program of PC Bank has been issued by a major Canadian bank. This standby letter of credit could be drawn upon in the event of a major decline in the income flow from or in the value of the securitized credit card receivables. 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% (2004 – 15%) of the securitized credit card receivables amount, is approximately $91 (2004 – $118).

A standby letter of credit has been issued by a major Canadian bank in the amount of $42 (2004 – $42) for the benefit of an independent funding trust which provides loans to 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 based on a formula and is equal to approximately 10% of the principal amount of the loans outstanding at any point in time. In the event that an independent franchisee defaults on its loan and 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 $138 (2004 – $143).

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.

Note 20. Related Party Transactions

The Company's majority shareholder, George Weston Limited, and its affiliates (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% (2004 – 3%) of the cost of sales, selling and administrative expenses.

Cost Sharing Agreements George Weston Limited 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 George Weston Limited concerning these costs, the Company has agreed to be responsible to George Weston Limited for its proportionate share of the costs incurred on its behalf. Payments by the Company pursuant to these cost sharing agreements were approximately $22 (2004 – $21).

Real Estate Leases The Company leases certain properties from an affiliate of George Weston Limited, namely office space for approximately $4 (2004 – $3) and a property designated for future development for a total one time payment made in 2004 of $8.

Borrowings/Lendings The Company, from time to time, may borrow from or may lend to George Weston Limited 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 George Weston Limited 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 do 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 George Weston Limited. 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 George Weston Limited, the Company's majority shareholder. Originally, the loans in this portfolio were 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 the George Weston Limited subsidiary for the administration of the loan portfolio.

Electricity Forward Contract Pursuant to an agreement between the Company and George Weston Limited, George Weston Limited agreed to remain responsible for its proportionate share of all costs and liability associated with its usage of the Company's electricity forward contract that expired during 2005.

Note 21. 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.