

13. Accounting Standards

13.1 Accounting Standards Implemented in 2006

During the year, the Company implemented the following accounting standards issued by the CICA:

- Section 3831, “*Non-Monetary Transactions*”, issued in June 2005, replaces Section 3830 of the same name. The revised standard addresses the measurement and disclosure of non-monetary transactions and defines when an exchange of assets is measured at fair value and when it is measured at the carrying amount. The criterion for the measurement of a non-monetary transaction at fair value is based on whether the non-monetary transaction has commercial substance rather than the culmination of the earnings process under Section 3830. The revised standard is applied to non-monetary transactions initiated in periods beginning after January 1, 2006. The adoption of these new recommendations, on a prospective basis, did not have a material impact on the Company’s consolidated financial statements.
- EIC Abstract 156, “*Accounting by a Vendor for Consideration Given to a Customer (Including a Reseller of the Vendor’s Products)*”, (“EIC 156”) issued in September 2005, 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.

Management's Discussion and Analysis

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 statement 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 as follows:

	First Quarter (12 weeks)		Second Quarter (12 weeks)		Third Quarter (16 weeks)		Fourth Quarter (12 weeks)		Total (52 weeks)	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
Sales as previously reported	\$ 6,124	\$ 5,677	\$ 6,436	\$ 6,069	\$ 8,653	\$ 8,134	\$ 6,588	\$ 6,329	\$27,801	\$26,209
Sales after reclassification	\$ 6,060	\$ 5,622	\$ 6,405	\$ 6,036	\$ 8,610	\$ 8,089	\$ 6,552	\$ 6,283	\$27,627	\$26,030
Reclassification between sales and cost of sales, selling and administrative expenses	\$ 64	\$ 55	\$ 31	\$ 33	\$ 43	\$ 45	\$ 36	\$ 46	\$ 174	\$ 179

As reclassifications, these changes did not impact net earnings. Operating margins, adjusted operating margins⁽¹⁾ and adjusted EBITDA margins⁽¹⁾ for 2005 have also been recalculated and updated, if applicable, as a result of the change in sales.

- EIC Abstract 157, "*Implicit Variable Interest under AcG-15*", issued in October 2005, provides new guidance and clarification to the recommendations in AcG-15, with respect to all implicit variable interests held by an enterprise or its related parties. The guidance addresses how implicit variable interests should be included in the assessment as to whether the entity is the primary beneficiary of the VIE. An implicit variable interest is an interest that indirectly absorbs or receives the variability of the entity. The adoption of these recommendations in the first quarter of 2006 did not have a material impact on the Company's consolidated financial statements.
- EIC Abstract 159, "*Conditional Asset Retirement Obligations*", issued in December 2005, provides guidance on the recognition and measurement of a conditional asset retirement obligation and further clarifies the requirements under Section 3110, "*Asset Requirement Obligations*" such that a conditional asset retirement obligation should be recognized at fair value when the obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and/or method of settlement. These recommendations were adopted retroactively for the second quarter of 2006 and did not have a material impact on the Company's consolidated financial statements.
- EIC Abstract 162, "*Stock-Based Compensation for Employees eligible to retire before the Vesting date*", issued in July 2006, requires that stock-based compensation granted to employees eligible to retire should be expensed at the time of grant. The Company's stock-based compensation plans do not continue to vest after retirement, and therefore the adoption of this abstract did not have an impact on the Company's consolidated financial statements.

13.2 Future Accounting Standards

The Company closely monitors new accounting standards to assess the impact, if any, on its consolidated financial statements. In 2007, the Company will be reviewing the implications of the following standards and implementing the recommendations as required:

- The Accounting Standards Board continues to work towards the transition from Canadian GAAP to International Financial Reporting Standards over a five-year period. After this transitional period, Canadian GAAP will cease to exist as a separate, distinct basis of financial reporting. The Company continues to closely monitor the changes resulting from this transition in preparation for the convergence.

Section 3855, "*Financial Instruments – Recognition and Measurement*", Section 3865, "*Hedges*", Section 1530, "*Comprehensive Income*", Section 3861, "*Financial Instruments – Disclosures and Presentation*", and Section 3251, "*Equity*", issued in April 2005:

- Section 3855, "*Financial Instruments – Recognition and Measurement*", establishes guidance for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. The standard requires that financial instruments within scope, including derivatives, be included on the Company's balance sheet and measured, either at fair value or, in limited circumstances, at cost or

amortized cost. All financial instruments must be classified into a defined category, namely, held-to-maturity investments, held-for-trading financial assets or financial liabilities, loans and receivables, available-for-sale financial assets, and other financial liabilities. This classification will determine how each instrument is measured and how gains and losses are recognized. Held-for-trading financial assets and financial liabilities are measured at fair value with gains and losses recognized in net income. Financial assets held-to-maturity, loans and receivables and financial liabilities, other than those held-for-trading, are measured at amortized cost using the effective interest method of amortization. Available-for-sale financial assets are measured at fair value, with unrealized gains and losses, including changes in foreign exchange rates, being recognized in other comprehensive income, a new section of shareholders' equity. Investments in equity instruments classified as available-for-sale that do not have a quoted market price in an active market can be measured at cost. The recommendations further define derivatives to include non-financial derivatives and embedded derivatives which meet certain criteria. All derivatives must be classified as held-for-trading unless they are designated in a hedging relationship.

- Section 3865, "*Hedges*", replaces AcG 13, "*Hedging Relationships*" and the guidance formerly in Section 1650, "*Foreign Currency Translation*" will be replaced by Section 1651 of the same name, such that foreign exchange gains or losses on available-for-sale financial assets be accounted for in other comprehensive income instead of net earnings. The requirements for identification, designation and documentation of hedging relationships remain unchanged. The new guidance addresses the accounting treatment of qualifying hedging relationships and the necessary disclosures. The standard defines three specific hedging relationships, namely, fair value hedges, cash flow hedges, and hedges of a net investment in self-sustaining foreign operations, and defines how the accounting should be performed. Changes in the fair value of hedging derivatives in a fair value hedge are offset in the consolidated statement of earnings against the change in fair value of the asset, liability or cash flow being hedged. In cash flow hedges, the changes in fair value are recorded in other comprehensive income, a new section of shareholders' equity. To the extent the change in fair value of the derivative is not completely offset by the change in fair value of the item it is hedging, the ineffective portion of the hedging relationship is recorded immediately in the consolidated statement of earnings.
- Section 1530, "*Comprehensive Income*" introduces a statement of comprehensive income which will be included in interim and annual financial statements. Comprehensive income is comprised of net income and other comprehensive income, and represents the change in equity during a period from transactions and other events with non-owner sources. Other comprehensive income will include unrealized gains and losses on financial assets that are classified as available-for-sale and changes in fair value of the effective portion of cash flow hedges.
- Section 3861, "*Financial Instruments – Disclosure and Presentation*", replaces Section 3860 of the same name, and addresses the presentation and disclosure of financial instruments and non-financial derivatives. The main features of these new recommendations revise the requirements to provide accounting policy disclosures and provide new requirements for disclosure on fair value.
- Section 3251, "*Equity*", replaces Section 3250, "*Surplus*" and establishes standards for the presentation of equity and changes in equity during the reporting period and requires that an enterprise present separately equity components and changes in equity arising from i) net income; ii) other comprehensive income; iii) other changes in retained earnings; iv) changes in contributed surplus; v) changes in share capital; and vi) changes in reserves.

These standards are effective for interim and annual financial statements for fiscal years beginning on or after October 1, 2006.

Consequently, the Company will implement them in the first quarter of 2007. The transitional adjustments resulting from these standards will be recognized in the opening balances of retained earnings and other comprehensive income as appropriate. The impact on the consolidated balance sheet will include the recording of the fair value of the interest rate swaps designated in a cash flow hedge. We are determining the impact of these changes based on the transitional guidance within these sections. Prior periods will not be restated.

- Section 1506, "*Accounting Changes*", issued in July 2006 revises current standards on changes in accounting policy, estimates or errors. An entity is permitted to change an accounting policy only when it results in financial statements that provide reliable and more relevant information or results from a requirement under a primary source of Canadian GAAP. The guidance also addresses how to account for a change in accounting policy, estimate or corrections of errors, and establishes enhanced disclosures about their effects

Management's Discussion and Analysis

on the financial statements. These recommendations are effective for fiscal years beginning on or after January 1, 2007. The Company will implement these recommendations as required on a prospective basis.

- Section 3862, "*Financial Instruments Disclosure*" and Section 3863, "*Financial Instruments Presentation*", both issued in December 2006, revise the current standards on financial instrument disclosure and presentation, and place an increased emphasis on disclosures regarding the risks associated with both recognized and unrecognized financial instruments and how these risks are managed. Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives and provides additional guidance for classification of financial instruments, from the perspective of the issuer, between liabilities and equity. These recommendations are effective for fiscal years beginning on or after October 1, 2007 and therefore the Company will implement them in the first quarter of 2008.
- Section 1535, "*Capital Disclosures*", issued in December 2006, establishes guidelines for the disclosure of information regarding a company's capital and how it is managed. Enhanced disclosure with respect to the objectives, policies and processes for managing capital and quantitative disclosures about what a company regards as capital are required. These recommendations are effective for fiscal years beginning on or after October 1, 2007 and therefore the Company will implement them in the first quarter of 2008.
- EIC Abstract 163, "*Determining the variability to be considered in applying AcG-15*", issued in September 2006, addresses how to assess whether arrangements should be treated as variable interests or considered as creators of variability by a reporting enterprise in applying AcG-15. This abstract is effective for fiscal years beginning on or after January 1, 2007. The Company will implement these recommendations as required on a prospective basis. The Company does not expect the adoption of this abstract to have a material impact on the consolidated financial statements.