MAPLE LEAF FOODS INC.

Financial Statements
For the Year Ended
December 31, 2017

Consolidated Financial Statements

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Independent Auditors' Report

To the Shareholders of Maple Leaf Foods Inc.

We have audited the accompanying consolidated financial statements of Maple Leaf Foods Inc., which comprise the consolidated balance sheets as at December 31, 2017 and December 31, 2016, the consolidated statements of net earnings, other comprehensive income (loss), changes in total equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

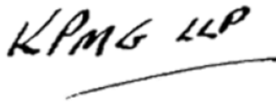
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Maple Leaf Foods Inc. as at December 31, 2017 and December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.



Chartered Professional Accountants, Licensed Public Accountants
February 20, 2018

Toronto, Canada

Consolidated Balance Sheets

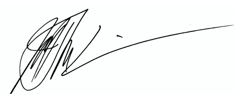
(In thousands of Canadian dollars)	***Notes***	**As at December 31, 2017**	As at December 31, 2016
ASSETS			
Current assets			
Cash and cash equivalents	***4***	**$ 203,425**	$ 403,621
Accounts receivable	***5***	**123,968**	127,749
Notes receivable	***23***	**28,918**	32,485
Inventories	***6***	**273,365**	261,719
Biological assets	***7***	**111,735**	111,445
Prepaid expenses and other assets		**24,393**	30,372
Assets held for sale		**—**	4,837
		$ 765,804	$ 972,228
Property and equipment	***8***	**1,116,309**	1,085,275
Investment property		**1,892**	1,929
Employee benefits	***9***	**9,856**	10,311
Other long-term assets		**6,125**	6,557
Goodwill	***10***	**517,387**	428,236
Intangible assets	***11***	**215,197**	128,085
Total assets		**$ 2,632,570**	$ 2,632,621
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accruals		**$ 300,659**	$ 256,163
Provisions	***12***	**9,335**	11,889
Current portion of long-term debt	***13***	**805**	794
Income taxes payable	***20***	**7,855**	9,544
Other current liabilities	***14***	**31,597**	96,857
		$ 350,251	$ 375,247
Long-term debt	***13***	**8,443**	9,119
Employee benefits	***9***	**117,808**	108,730
Provisions	***12***	**11,273**	16,555
Other long-term liabilities	***15***	**12,689**	12,654
Deferred tax liability	***20***	**80,498**	22,293
Total liabilities		**$ 580,962**	$ 544,598
Shareholders' equity			
Share capital	***16***	**$ 835,154**	$ 853,633
Retained earnings		**1,253,035**	1,247,737
Accumulated other comprehensive (loss) income		**(9,620)**	1,619
Treasury stock	***16***	**(26,961)**	(14,966)
Total shareholders' equity		**$ 2,051,608**	$ 2,088,023
Total liabilities and equity		**$ 2,632,570**	$ 2,632,621

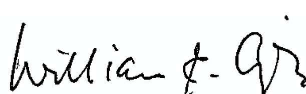
Commitments and contingencies (Note 24)

Subsequent events (Note 28)

See accompanying Notes to the Consolidated Financial Statements.

On behalf of the Board:





MICHAEL H. MCCAIN
Director

WILLIAM E. AZIZ
Director

Consolidated Statements of Net Earnings

Years ended December 31, *(In thousands of Canadian dollars, except share amounts)*	***Notes***	**2017**	2016
Sales		**$ 3,522,226**	$ 3,331,812
Cost of goods sold		**2,934,747**	2,740,866
Gross margin		**$ 587,479**	$ 590,946
Selling, general and administrative expenses		**348,615**	324,820
Earnings before the following:		**$ 238,864**	$ 266,126
Restructuring and other related costs	***12***	**(23,024)**	(6,570)
Other income (expense)	***18***	**3,609**	(3,596)
Earnings before interest and income taxes		**$ 219,449**	$ 255,960
Interest expense and other financing costs	***19***	**5,168**	6,367
Earnings before income taxes		**$ 214,281**	$ 249,593
Income tax expense	***20***	**50,192**	67,891
Net earnings		**$ 164,089**	$ 181,702
Earnings per share attributable to common shareholders:	***21***		
Basic earnings per share		**$ 1.28**	$ 1.35
Diluted earnings per share		**$ 1.24**	$ 1.32
Weighted average number of shares (millions)	***21***		
Basic		**128.6**	134.2
Diluted		**132.4**	137.6

See accompanying Notes to the Consolidated Financial Statements.

Consolidated Statements of Other Comprehensive Income (Loss)

Years ended December 31, *(In thousands of Canadian dollars)*	**2017**	2016
Net earnings	**$ 164,089**	$ 181,702
Other comprehensive (loss) income		
Actuarial gains and losses that will not be reclassified to profit or loss (Net of tax of $1.0 million; 2016: $17.0 million)	**$ (3,117)**	$ 46,243
Items that are or may be reclassified subsequently to profit or loss:		
Change in accumulated foreign currency translation adjustment (Net of tax of $0.0 million; 2016: $0.0 million)	**$ (13,536)**	$ (390)
Change in unrealized gains and losses on cash flow hedges (Net of tax of $0.8 million; 2016: $0.8 million)	**2,297**	2,423
Total items that are or may be reclassified subsequently to profit or loss	**$ (11,239)**	$ 2,033
Total other comprehensive (loss) income	**$ (14,356)**	$ 48,276
Comprehensive income	**$ 149,733**	$ 229,978

See accompanying Notes to the Consolidated Financial Statements.

Consolidated Statements of Changes in Total Equity

					Accumulated other comprehensive income (loss)[(i)]			
(In thousands of Canadian dollars)	***Notes***	**Share capital**	**Retained earnings**	**Contributed surplus**	**Foreign currency translation adjustment**	**Unrealized gains and losses on cash flow hedges**	**Treasury stock**	**Total equity**
Balance at December 31, 2016		**$ 853,633**	**$ 1,247,737**	**$ —**	**$ 2,116**	**$ (497)**	**$ (14,966)**	**$ 2,088,023**
Net earnings		**—**	**164,089**	**—**	**—**	**—**	**—**	**164,089**
Other comprehensive income (loss)[(ii)]		**—**	**(3,117)**	**—**	**(13,536)**	**2,297**	**—**	**(14,356)**
Dividends declared ($0.44 per share)		**—**	**(56,640)**	**—**	**—**	**—**	**—**	**(56,640)**
Share-based compensation expense	***22***	**—**	**—**	**21,087**	**—**	**—**	**—**	**21,087**
Deferred taxes on share-based compensation		**—**	**—**	**4,750**	**—**	**—**	**—**	**4,750**
Repurchase of shares	***16***	**(24,409)**	**(66,074)**	**(25,837)**	**—**	**—**	**—**	**(116,320)**
Exercise of stock options		**5,930**	**—**	**—**	**—**	**—**	**—**	**5,930**
Settlement of share-based compensation		**—**	**(32,960)**	**—**	**—**	**—**	**16,005**	**(16,955)**
Shares purchased by RSU trust		**—**	**—**	**—**	**—**	**—**	**(28,000)**	**(28,000)**
Balance at December 31, 2017		**$ 835,154**	**$ 1,253,035**	**$ —**	**$ (11,420)**	**$ 1,800**	**$ (26,961)**	**$ 2,051,608**

					Accumulated other comprehensive income (loss)[(i)]			
(In thousands of Canadian dollars)	*Notes*	Share capital	Retained earnings	Contributed surplus	Foreign currency translation adjustment	Unrealized gains and losses on cash flow hedges	Treasury stock	Total equity
Balance as at December 31, 2015[(iii)]		$ 882,770	$ 1,161,047	$ —	$ 2,506	$ (2,920)	$ (2,086)	$ 2,041,317
Net earnings		—	181,702	—	—	—	—	181,702
Other comprehensive income (loss)[(ii)]		—	46,243	—	(390)	2,423	—	48,276
Dividends declared ($0.36 per share)		—	(48,348)	—	—	—	—	(48,348)
Share-based compensation expense	*22*	—	—	29,224	—	—	—	29,224
Deferred taxes on share-based compensation		—	—	3,550	—	—	—	3,550
Repurchase of shares	*16*	(31,963)	(83,778)	(32,418)	—	—	—	(148,159)
Exercise of stock options		2,826	—	—	—	—	—	2,826
Settlement of share-based compensation		—	(9,129)	(356)	—	—	5,032	(4,453)
Shares purchased by RSU trust		—	—	—	—	—	(17,912)	(17,912)
Balance at December 31, 2016		$ 853,633	$ 1,247,737	$ —	$ 2,116	$ (497)	$ (14,966)	$ 2,088,023

(i) *Items that are or may be subsequently reclassified to profit or loss.*

(ii) *Included in other comprehensive income (loss) is the change in actuarial gains and losses that will not be reclassified to profit or loss and has been reclassified to retained earnings.*

(iii) *Restated, see Note 3(x).*

See accompanying Notes to the Consolidated Financial Statements.

Consolidated Statements of Cash Flows

Years ended December 31, *(In thousands of Canadian dollars)*	**2017**	2016
CASH PROVIDED BY (USED IN):		
Operating activities		
Net earnings	**$ 164,089**	$ 181,702
Add (deduct) items not affecting cash:		
Change in fair value of biological assets	**(1,267)**	(6,263)
Depreciation and amortization	**117,227**	111,651
Share-based compensation	**21,087**	29,224
Deferred income taxes	**40,920**	63,124
Income tax current	**9,272**	4,767
Interest expense and other financing costs	**5,168**	6,367
Gain on sale of long-term assets	**(5,781)**	(1,235)
Change in fair value of non-designated derivatives	**21,877**	(25,086)
Impairment of assets (net of reversals)	**3,776**	2,831
Change in net pension liability	**5,379**	24,903
Net income taxes paid	**(10,604)**	(4,944)
Interest paid	**(2,299)**	(3,904)
Change in provision for restructuring and other related costs	**9,037**	(17,256)
Change in derivatives margin	**(13,210)**	1,772
Other	**(6,316)**	520
Change in non-cash operating working capital	**28,340**	(11,016)
Cash provided by operating activities	**$ 386,695**	$ 357,157
Financing activities		
Dividends paid	**$ (56,640)**	$ (48,348)
Net decrease in long-term debt	**(1,083)**	(1,051)
Exercise of stock options	**5,930**	2,826
Repurchase of shares	**(180,110)**	(72,412)
Payment of deferred financing fees	**(1,302)**	(2,412)
Purchase of treasury stock	**(28,000)**	(17,912)
Cash used in financing activities	**$ (261,205)**	$ (139,309)
Investing activities		
Additions to long-term assets	**$ (142,245)**	$ (113,194)
Acquisition of business	**(199,440)**	—
Proceeds from sale of long-term assets	**15,999**	6,698
Cash used in investing activities	**$ (325,686)**	$ (106,496)
(Decrease) increase in cash and cash equivalents	**$ (200,196)**	$ 111,352
Net cash and cash equivalents, beginning of period	**403,621**	292,269
Net cash and cash equivalents, end of period	**$ 203,425**	$ 403,621

See accompanying Notes to the Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

(Tabular amounts in thousands of Canadian dollars unless otherwise indicated)
Years ended December 31, 2017 and 2016

1. THE COMPANY

Maple Leaf Foods Inc. ("Maple Leaf Foods" or the "Company") is a producer of food products under leading brands including Maple Leaf®, Maple Leaf Prime®, Maple Leaf Natural Selections®, Schneiders®, Schneiders® Country Naturals®, Mina®, and Lightlife™. The Company's portfolio includes prepared meats, ready-to-cook and ready-to-serve meals, valued-added fresh pork and poultry and plant protein products. The address of the Company's registered office is 6985 Financial Dr. Mississauga, Ontario, L5N 0A1, Canada. The consolidated financial statements of the Company as at and for the year ended December 31, 2017, include the accounts of the Company and its subsidiaries. The composition of the Company is further described in Note 23.

2. BASIS OF PREPARATION

(a) Statement of Compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and using the accounting policies described herein.

The consolidated financial statements were authorized for issue by the Board of Directors on February 20, 2018.

(b) Basis of Measurement

The consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments, biological assets, defined benefit plan assets, and liabilities associated with certain share-based compensation, which are stated at fair value. Liabilities associated with employee benefits are stated at actuarially determined present values.

(c) Functional and Presentation Currency

The consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

(d) Use of Estimates and Judgements

The preparation of consolidated financial statements in accordance with IFRS requires Management to make judgements, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income, and expenses. Actual amounts may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Judgements included in the consolidated financial statements are decisions made by Management, based on analysis of relevant information available at the time the decision is made. Judgements relate to the application of accounting policies and decisions related to the measurement, recognition, and disclosure of financial information.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies, that have the most significant effects on the amounts recognized in the consolidated financial statements, are included both below and in the statement notes relating to items subject to significant estimate uncertainty and critical judgements.

Long-Lived Assets Valuation

The Company performs impairment testing annually for goodwill and indefinite life intangible assets and, when circumstances indicate that there may be impairment, for other long-lived assets. Management judgement is involved in determining if there are circumstances indicating that testing for impairment is required, and in identifying Cash Generating Units ("CGUs") for the purpose of impairment testing.

The Company assesses impairment by comparing the recoverable amount of a long-lived asset, CGU, or CGU group to its carrying value. The recoverable amount is defined as the higher of: (i) value in use; or (ii) fair value less cost to sell.

The determination of the recoverable amount involves significant estimates and assumptions, including those with respect to future cash inflows and outflows, discount rates, and asset lives. These estimates and assumptions could affect the Company's future results if the current estimates of future performance and fair values change. These determinations will affect the amount of amortization expense on definite life intangible assets recognized in future periods.

Measurement of Fair Values

A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. When the measurement of fair values cannot be determined based on quoted prices in active markets, fair value is measured using valuation techniques and models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair

values. Changes in assumptions about the inputs to these models could affect the reported fair value of the Company's financial and non-financial assets and liabilities.

When measuring fair value of an asset or liability, the Company uses market observable data to the extent that it is possible. To the extent that these estimates differ from those realized, the measured asset or liability, net earnings, and/or comprehensive income will be affected in future periods.

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed in Notes 7, 9, 10, 11, 17, and 22.

Nature of Interests in Other Entities

Management applies significant judgement in assessing the nature of its interest in unconsolidated structured entities relating to its accounts receivable securitization facilities. The Company does not hold any equity interest in the structured entities and based on the terms of the agreements under which the entities are established, the Company does not receive the returns related to their operations and is exposed to limited recourse with respect to losses (Note 23).

Valuation of Inventory

Management makes estimates of the future customer demand for products when establishing appropriate provisions for inventory. In making these estimates, Management considers the product life of inventory and the profitability of recent sales of inventory. In many cases, product produced by the Company turns quickly and inventory on-hand values are low, thus reducing the risk of inventory obsolescence. However, code or "best before" dates are very important in the determination of net realizable value of inventory. Management ensures that systems are in place to highlight and properly value inventory that may be approaching code dates. To the extent that actual losses on inventory differ from those estimated, inventory, net earnings, and comprehensive income will be affected in future periods.

Biological Assets

Biological assets are measured at each reporting date, at fair value less costs to sell, except when fair value cannot be reliably measured. If fair value cannot be reliably measured, biological assets are measured at cost less depreciation and impairment losses. Although a reliable measure of fair value may not be available at the point of initial recognition, it may subsequently become available. In such circumstances, biological assets are measured at fair value less costs to sell from the point at which the reliable measure of fair value becomes available. Gains and losses that arise on measuring biological assets at fair value less costs to sell are recognized in the statement of net earnings in the period in which they arise. Costs to sell include all costs that would be necessary to sell the biological assets, including costs necessary to get the biological assets to market. Management uses estimates for some of the inputs into the determination of fair value. To the extent that actual values differ from estimates, biological assets, net earnings and comprehensive income will be affected in future periods.

Trade Merchandise Allowances and Other Trade Discounts

The Company provides for estimated payments to customers based on various trade programs and contracts that often include payments that are contingent upon attainment of specified sales volumes. Significant estimates used to determine these liabilities include: (i) the projected level of sales volume for the relevant period and (ii) customer contracted rates for allowances, discounts, and rebates. These arrangements are complex and there are a significant number of customers and products affected. Management has systems and processes in place to estimate and value these obligations. To the extent that payments on trade discounts differ from estimates of the related liability, accounts payable and accruals, net earnings, and comprehensive income will be affected in future periods.

Employee Benefit Plans

The cost of pensions and other post-retirement benefits earned by employees is actuarially determined using the projected unit credit method prorated on service, and Management's best estimate of salary escalation and mortality rates. Discount rates used in actuarial calculations are based on long-term interest rates and can have a material effect on the amount of plan liabilities and expenses. Management employs external experts to advise the Company when deciding upon the appropriate estimates to use to value employee benefit plan obligations and expenses. To the extent that these estimates differ from those realized, employee benefit plan assets and liabilities and comprehensive income will be affected in future periods.

Income Taxes

Provisions for income taxes are based on domestic and international statutory income tax rates and the amount of income earned in the jurisdictions in which the Company operates. Significant judgement is required in determining income tax provisions and the recoverability of deferred tax assets. The calculation of current and deferred income tax balances requires Management to make estimates regarding the carrying values of assets and liabilities that include estimates of future cash flows and earnings related to such assets and liabilities, the interpretation of income tax legislation in the jurisdictions in which the Company operates, and the timing of reversal of temporary differences. The Company establishes additional provisions for income taxes when, despite Management's opinion that the Company's tax positions are fully supportable, there is sufficient complexity or uncertainty in the application of legislation that certain tax positions may be reassessed by tax authorities. The

Company adjusts these additional accruals in light of changing facts and circumstances. To the extent that these adjustments differ from original estimates, deferred tax assets and liabilities, net earnings, and comprehensive income will be affected in future periods.

Provisions

The Company evaluates all provisions at each reporting date. These provisions can be significant and are prepared using estimates of the costs of future activities. In certain instances, Management may determine that these provisions are no longer required or that certain provisions are insufficient as new events occur or as additional information is obtained. Provisions are separately identified and disclosed in the Company's consolidated financial statements. Changes to these estimates may affect the value of provisions, net earnings, and comprehensive income in future periods.

Share-Based Compensation

The Company uses estimates including, but not limited to, estimates of forfeitures, share price volatility, dividends, expected life of the award, risk-free interest rates, and Company performance in the calculation of the liability and expenses for certain share-based incentive plans. These estimates are based on previous experience and may change throughout the life of an incentive plan. Such changes could impact the carrying value of contributed surplus, liabilities, net earnings, and comprehensive income in future periods.

Some of the Company's share-based payment plans may be settled in either cash or equity instruments at the option of the Company. Management uses judgement in determining the appropriate accounting treatment for these plans, based on expectations and historical settlement decisions. Changes to accounting treatment based on Management's judgement may impact contributed surplus, liabilities, net earnings, and comprehensive income in future periods.

Depreciation and Amortization

The Company's property and equipment and definite life intangible assets are depreciated and amortized on a straight-line basis, considering the estimated useful lives of the assets and residual values. Changes to these estimates may affect the carrying value of these assets, inventories, net earnings, and comprehensive income in future periods.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

(a) Principles of Consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries from the date that control commences until the date that control ceases. Control exists when the Company is exposed to or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

All intercompany accounts and transactions have been eliminated on consolidation.

(b) Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method at the acquisition date, which is the date that control is transferred to the Company. In assessing control, the Company takes into consideration potential voting rights that are currently exercisable.

Goodwill is measured as the excess of the sum of the fair value of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of any previously held equity interest in the acquiree over the net of the acquisition date fair value of the identifiable assets acquired and the liabilities assumed. If the excess is negative, a bargain purchase gain is recognized immediately in earnings. Transaction costs, other than those associated with the issue of debt or equity, are recognized in earnings as incurred.

Goodwill is not amortized and is tested for impairment annually in the fourth quarter and as required if events occur that indicate that its carrying amount may not be recoverable. Goodwill is tested for impairment at the CGU group level by comparing the carrying amount to its recoverable amount, consistent with the methodology outlined in Note 3(k).

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not re-measured and settlement is accounted for in equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognized in earnings.

When the initial accounting for a business combination has not been finalized by the end of the reporting period in which the combination occurs, the Company reports provisional amounts for the items for which the accounting has not been finalized. These provisional amounts are adjusted during the measurement period, which does not exceed one year from the acquisition date, or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

(c) Fair Value Measurements

The Company measures certain financial and non-financial assets and liabilities at fair value at each balance sheet date. In addition, fair value measurements are disclosed for certain financial and non-financial assets and liabilities.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and disclosure purposes is determined on such a basis, except for share-based payment transactions, and measurements that have some similarities to fair value but are not fair value, such as net realizable value or value in use.

Assets and liabilities, for which fair value is measured or disclosed in the consolidated financial statements, are classified using a three-level fair value hierarchy that reflects the significance and transparency of the inputs used in making the fair value measurements. Each level is based on the following:

Level 1 - inputs are unadjusted quoted prices of identical assets or liabilities in active markets

Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3 - one or more significant inputs used in a valuation technique are unobservable in determining fair values of the asset or liability

Determination of fair value and the resulting hierarchy requires the use of observable market data whenever available. The classification of an asset or liability in the hierarchy is based upon the lowest level of input that is significant to the measurement of fair value.

(d) Non-current Assets (or Disposal Groups) Held for Sale

The Company classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. The criteria for held for sale classification is regarded as met when a sale is highly probable, the asset or disposal group is available for immediate sale in its present condition, and management is committed to the sale, which is expected to be completed within one year from the date of classification. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets are not depreciated once classified as held for sale.

(e) Translation of Foreign Currencies

The accounts of the Company are presented in Canadian dollars. Transactions in foreign currencies are translated at the actual rates of exchange. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the Canadian dollar at the exchange rate for that date. Foreign exchange differences arising on translation are recognized in net earnings. Non-monetary assets and liabilities that are measured at historical cost are translated using the exchange rate at the date of the transaction.

The financial statements of foreign subsidiaries whose unit of measure is not the Canadian dollar are translated into Canadian dollars using the exchange rate in effect at the period-end for assets and liabilities, and the average exchange rates for the period for revenue, expenses, and cash flows. Foreign exchange differences arising on translation are recognized in accumulated other comprehensive income (loss) in total equity.

When a foreign operation is disposed of in its entirety or partially such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. If the Company disposes of part of its interest in a subsidiary but retains control, then the relevant proportion of the cumulative amount is reattributed to the non-controlling interest. When the Company disposes of only part of an associate or joint venture while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to net earnings.

Foreign exchange gains and losses arising from a receivable or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operations, are recognized in other comprehensive income (loss) in the cumulate foreign currency translation differences.

(f) Financial Instruments

The Company's financial assets and financial liabilities, upon initial recognition, are measured at fair value and are classified as held for trading, loans and receivables, or other financial liabilities. The classification depends on the purpose for which the financial instruments were acquired and their characteristics. Held for trading is the required classification for all derivative instruments unless they are specifically designated within an effective hedge relationship. Held for trading financial instruments not designated within an effective hedging relationship are measured at fair value with changes in fair value recognized in

consolidated statements of net earnings in the period in which such changes arise. Loans and receivables and other financial liabilities are initially recorded at fair value and are subsequently measured at amortized cost.

Financial assets are assessed at each reporting date to determine whether there is any objective evidence of impairment. A financial asset is considered impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset, with impairment losses recognized in the consolidated statements of net earnings. If, in a subsequent period, the impairment loss decreases, the previously recognized impairment is reversed to the extent of the impairment.

Transaction costs, other than those related to financial instruments classified as fair value through profit or loss which are expensed as incurred, are capitalized to the carrying amount of the instrument and amortized using the effective interest method.

(g) Hedge Accounting

The Company uses derivatives and other non-derivative financial instruments to manage its exposures to fluctuations in interest rates, foreign exchange rates, and commodity prices.

At the inception of a hedging relationship, the Company designates and formally documents the relationship between the hedging instrument and the hedged item, the risk management objective, and its strategy for undertaking the hedge. The documentation identifies the specific asset, liability, or anticipated cash flows being hedged, the risk that is being hedged, the type of hedging instrument used, and how effectiveness will be assessed.

The Company also formally assesses both at inception and at least quarterly thereafter, whether or not the derivatives that are used in hedging transactions are highly effective in offsetting the changes attributable to the hedged risks in the fair values or cash flows of the hedged items. If a hedge relationship becomes ineffective, it no longer qualifies for hedge accounting and any subsequent change in the fair value of the hedging instrument is recognized in net earnings.

When hedge accounting is permitted, the hedging relationship may be designated as a cash flow hedge, a fair value hedge, or a hedge of foreign currency exposure of a net investment in a foreign operation. In a cash flow hedge, the change in fair value of the hedging instrument is recorded, to the extent it is effective, in other comprehensive income until the hedged item affects net earnings. In a fair value hedge, the change in fair value of the hedging derivative is offset in the consolidated statements of net earnings by the change in fair value of the hedged item relating to the hedged risk.

Hedge ineffectiveness is measured and recorded in current period earnings in the consolidated statements of net earnings. When either a fair value hedge or cash flow hedge is discontinued, any cumulative adjustment to either the hedged item or other comprehensive income (loss) is recognized in net earnings, as the hedged item affects net earnings, or when the hedged item is derecognized. If a designated hedge is no longer effective, the associated derivative instrument is subsequently carried at fair value through net earnings without any offset from the hedged item.

Derivatives that do not qualify for hedge accounting are carried at fair value on the consolidated balance sheets, and subsequent changes in their fair value are recorded in the consolidated statements of net earnings.

(h) Cash and Cash Equivalents

Cash and cash equivalents are comprised of cash balances, demand deposits and investments with an original maturity at the date of purchase of three months or less.

(i) Inventories

Inventories are valued at the lower of cost and net realizable value, with cost being determined substantially on a first-in, first-out basis. The cost of inventory includes direct product costs, direct labour, and an allocation of variable and fixed manufacturing overhead, including depreciation. When circumstances that previously caused inventories to have a write-down below cost no longer exist, or when there is clear evidence of an increase in the net realizable value, the amount of a write-down previously recorded is reversed through cost of goods sold.

(j) Biological Assets

Biological assets consist of live hogs, poultry, and eggs. For the purposes of valuation, these assets are categorized as either parent stock or commercial stock. Parent stock represents animals held and bred for the purpose of generating commercial stock and to replace parent stock nearing the end of its productive cycle. Commercial stock is held for the purposes of further processing or eventual sale, at which point it becomes inventory. The fair value of commercial stock is determined based on market prices of livestock of similar age, breed, and generic merit, less costs to sell the assets, including estimated costs necessary to transport the assets to market. Where reliable market prices of parent stock are not available, they are valued at cost less accumulated depreciation and any accumulated impairment losses. No active market exists for parent stock as they are rarely sold. Hog parent stock is depreciated on a straight-line basis over two to three years after considering residual values, whereas poultry parent stock is depreciated on a straight-line basis over six to eight months.

Biological assets are transferred into inventory at fair value less costs to sell at the point of delivery.

(k) Impairment or Disposal of Long-Lived Assets

The Company reviews long-lived assets or asset groups held and used, including property and equipment and intangible assets subject to amortization, for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Asset groups referred to as CGUs include an allocation of corporate assets and are reviewed at their lowest level for which identifiable cash inflows are largely independent of cash inflows of other assets or groups of assets. The recoverable amount is the greater of its value in use and its fair value less cost to sell.

Value in use is based on estimates of discounted future cash flows expected to be recovered from a CGU through its use. Management develops its cash flow projections based on past performance and its expectations of future market and business developments. Once calculated, the estimated future pre-tax cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Fair value less cost to sell is the amount obtainable from the sale of an asset or CGU in an arm's-length transaction between knowledgeable, willing parties, less the costs of disposal. Costs of disposal are incremental costs directly attributable to the disposal of an asset or CGU, excluding financing costs and income tax expense.

An impairment loss is recognized in the consolidated statements of net earnings when the carrying amount of any asset or its CGU exceeds its estimated recoverable amount. Impairment losses recognized in respect of CGUs are allocated, first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the net carrying amount of the other assets in the CGU on a pro rata basis.

Impairment losses related to long-lived assets recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortization, if no previous impairment loss had been recognized.

(l) Property and Equipment

Property and equipment, with the exception of land, is recorded at cost less accumulated depreciation and any net accumulated impairment losses. Land is carried at cost and not depreciated. For qualifying assets, cost includes interest capitalized during the construction or development period. Construction-in-process assets are capitalized during construction and depreciation commences when the asset is available for use. Depreciation related to assets used in production is recorded in inventory and cost of goods sold. Depreciation related to non-production assets is recorded through selling, general, and administrative expense. Depreciation is calculated on a straight-line basis, after taking into account residual values, over the following expected useful lives of the assets:

Buildings, including other components	10-40 years
Machinery and equipment	3-20 years

When parts of an item of property and equipment have different useful lives, those components are accounted for as separate items of property and equipment.

(m) Investment Property

Investment property is comprised of properties owned by the Company that are held to either earn rental income or for capital appreciation, or both. The Company's investment properties include land and buildings.

Investment properties are recorded at cost less accumulated depreciation and any accumulated impairment losses, except for land which is recorded at cost less any accumulated impairment losses. The depreciation policies for investment properties are consistent with those for buildings.

(n) Intangible Assets

Intangible assets include computer software, trademarks, recipes, customer relationships and poultry production quota. Definite life intangible assets are measured at cost less accumulated amortization and any net accumulated impairment losses. Amortization is recognized in the consolidated statements of earnings on a straight-line basis over the estimated useful lives of the following assets:

Computer software	3-10 years
Customer relationships	20-25 years
Recipes	5-20 years

Indefinite life intangibles including trademarks and poultry production quota are tested for impairment annually in the fourth quarter and otherwise as required if events occur that indicate that the net carrying value may not be recoverable.

Upon recognition of an intangible asset, the Company determines if the asset has a definite or indefinite life. In making this determination, the Company considers the expected use, expiry of agreements, the nature of the asset, and whether the value of the asset decreases over time.

(o) Employee Benefit Plans

The Company provides post-employment benefits through defined benefit and defined contribution plans.

Defined Benefit Plans

The Company accrues obligations and costs in respect of employee defined benefit plans. The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected unit credit method prorated on service and Management's best estimate of salary escalation, retirement ages of employees, mortality rates, inflation and expected health care costs. Changes in these assumptions could affect future pension expense. The fair value of plan assets and the present value of the obligation are used to calculate net interest cost or income. The discount rate used to value the defined benefit obligation is based on high-quality corporate bonds in the same currency in which the benefits are expected to be paid and with terms to maturity that, on average, match the terms of the defined benefit obligations. The discount rate used to value the current service cost is based on high-quality corporate bonds in the same currency in which the employer contributions are expected to be made in and with terms of maturity that, on average, match the expected remaining service period for active employees.

Actuarial gains and losses due to changes in defined benefit plan assets and obligations are recognized immediately in accumulated other comprehensive income (loss).

When the calculation results in a net benefit asset, the recognized asset is limited to the total of any unrecognized past service costs and the present value of economic benefits available in the form of future refunds from the plan or reductions in future contributions to the plan (the “asset ceiling”). To calculate the present value of economic benefits, consideration is given to minimum funding requirements that apply to the plan. Where it is anticipated that the Company will not be able to recover the value of the net defined benefit asset, after considering minimum funding requirements for future services, the net defined benefit asset is reduced to the amount of the asset ceiling. The impact of the asset ceiling is recognized in other comprehensive income (loss).

When future payment of minimum funding requirements related to past service would result in a net defined benefit asset “surplus” or an increase in a surplus, the minimum funding requirements are recognized as a liability, to the extent that the surplus would not be fully available as a refund or a reduction in future contributions. Re-measurement of this liability is recognized in other comprehensive income (loss) in the period in which the re-measurement occurs.

Defined Contribution Plans

The Company’s obligations for contributions to employee defined contribution pension plans are recognized in the consolidated statement of net earnings in the periods during which services are rendered by employees.

Multi-Employer Plans

The Company participates in multi-employer pension plans which are accounted for as defined contribution plans. The Company does not administer these plans as the administration and the investment of these assets are controlled by a board of trustees consisting of union and employer representatives. The Company’s responsibility to make contributions to these plans is established pursuant to collective bargaining agreements. The contributions made by the Company to the multi-employer plans are expensed when due.

(p) Share-Based Compensation

The Company applies the fair value method of accounting for share-based compensation. The fair value at grant date of stock options is estimated using the Black-Scholes option-pricing model. The fair value of restricted share units (“RSUs”), including performance share units (“PSUs”), is measured based on the fair value of the underlying shares on the grant date and expected achievement of performance conditions. Compensation cost is recognized on a straight-line basis over the expected vesting period of the share-based compensation. The Company estimates the number of units expected to vest at the grant date and revises the estimate as necessary if subsequent information indicates that the actual number of units vesting differs significantly from the original estimate. The fair value of deferred share units (“DSUs”) is measured based on the fair value of the underlying shares at each reporting date.

The Company has share-based compensation plans which are able to be settled in either cash or equity instruments at the option of the Company. Each grant is accounted for based on the expected settlement method at the time of issue. The expectation is re-evaluated at the end of each reporting period.

(q) Provisions

Provisions are liabilities of the Company for which the amount and/or timing of settlement is uncertain. A provision is recognized in the consolidated financial statements when the Company has a present legal or constructive obligation because of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability.

(r) Revenue Recognition

The majority of the Company's revenue is derived from the sale of products to retail and foodservice customers, as well as the sale of by-products to industrial and agricultural customers. The Company recognizes revenue from product sales at the fair value of the consideration received or receivable, net of estimated returns, and an estimate of sales incentives provided to customers. Revenue is recognized when the customer takes ownership of the product, title has transferred, all the risks and rewards of ownership have transferred to the customer, recovery of the consideration is probable, the Company has satisfied its performance obligations under the arrangement, and has no ongoing involvement with the sold product. The value of sales incentives provided to customers are estimated using historical trends and are recognized at the time of sale as a reduction of revenue. Sales incentives include rebate and promotional programs provided to the Company's customers. These rebates are based on achievement of specified volume or growth in volume levels and other agreed promotional activities. In subsequent periods, the Company monitors the performance of customers against agreed upon obligations related to sales incentive programs and makes any adjustments to both revenue and sales incentive accruals as required.

The Company generally does not accept returns of spoiled products from customers. For product that may not be returned, the Company, in certain cases, provides customers with allowances to cover any damage or spoilage, and such allowances are deducted from sales at the time of revenue recognition.

(s) Borrowing Costs

Borrowing costs are primarily comprised of interest on the Company's indebtedness. Borrowing costs are capitalized when they are attributable to the acquisition, construction, or production of a qualifying asset. The Company defines qualifying assets as any asset that requires more than six months to prepare for its intended use. Borrowing costs attributable to qualifying assets are calculated using the Company's average borrowing cost excluding the costs associated with the de-recognition of accounts receivables under securitization programs. Borrowing costs that are not attributable to a qualifying asset are expensed in the period in which they are incurred and reported within interest expense in the consolidated statement of net earnings.

(t) Government Incentives

Government incentives are not recognized until there is reasonable assurance that they will be received and that the Company will be in compliance with any conditions associated with the incentives. Incentives that compensate the Company for expenses or losses are recognized in earnings with the same classification as the related expense or loss in the same periods in which the expenses or losses are recognized.

Government incentives received with the primary condition that the Company should purchase, construct, or otherwise acquire non-current assets are recognized as a deduction from the associated asset on the consolidated balance sheet. The incentive is recognized in earnings over the useful life of the asset as a reduction of the related depreciation expense.

Government incentives that are receivable as compensation for expenses or losses already incurred, or for the purpose of giving immediate financial support to the Company with no future related costs, are recognized in earnings in the period in which they become receivable.

The benefit of a government loan at a below-market rate of interest is treated as a government incentive, and is measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

(u) Income Taxes

Income tax expense is comprised of current and deferred tax. Income tax is recognized in the consolidated statements of net earnings, except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income (loss).

Current tax expense represents the amount of income taxes payable, in respect of the taxable profit for the period, based on tax law that is enacted or substantially enacted at the reporting date, and is adjusted for changes in estimates of tax expense recognized in prior periods. A current tax liability or asset is recognized for income tax payable, or paid but recoverable in respect of all periods to date.

The Company uses the asset and liability method of accounting for income taxes. Accordingly, deferred tax assets and liabilities are recognized for the deferred tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years when those temporary differences are

expected to be recovered or settled and in the manner in which those temporary differences are expected to be recovered or settled through sale or continued use. In addition, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in both net earnings and comprehensive income in the period in which the enactment or substantive enactment takes place.

A deferred tax asset is recognized for unused tax losses, tax credits, and deductible temporary differences, to the extent that it is probable that future taxable income will be available to utilize such amounts. Deferred tax assets are reviewed at each reporting date and are adjusted to the extent that it is no longer probable that the related tax benefits will be realized.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Deferred tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

(v) Accounting Standards Adopted During the Period

During the year ended December 31, 2017, the Company adopted certain standards and amendments. As required by IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, the nature and the effect of these changes are disclosed below:

Statement of Cash Flows

Beginning on January 1, 2017, the Company adopted the amendments to IAS 7 Statement of Cash Flows which require a reconciliation of liabilities arising from financing activities to enable users of the financial statements to evaluate both cash flow and non-cash changes in the net debt of a company. The adoption of the amendments to IAS 7 did not have a material impact on the consolidated financial statements.

Income Taxes

Beginning on January 1, 2017, the Company adopted the amendments to IAS 12 Income Taxes which provide clarification on the requirements relating to the recognition of deferred tax assets for unrealized losses on debt instruments measured at fair value. The adoption of the amendments to IAS 12 did not have a material impact on the consolidated financial statements.

Disclosure of Interests in Other Entities

Beginning on January 1, 2017, the Company adopted the amendments to IFRS 12 Disclosure of Interests in Other Entities which provide clarification that the required disclosures under IFRS 12 also apply to subsidiaries, joint ventures and associates that are classified as held for sale or discontinued operations under IFRS 5 with the exception that the disclosures for summarized financial information do not apply to subsidiaries, joint ventures and associates classified as held for sale or discontinued operations. The adoption of the amendments to IFRS 12 did not have a material impact on the consolidated financial statements.

(w) Accounting Pronouncements Issued But Not Yet Effective

Revenue Recognition

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers. IFRS 15 replaces the detailed guidance on revenue recognition requirements that currently exists under IFRS. IFRS 15 specifies the accounting treatment for all revenue arising from contracts with customers, unless the contracts are within the scope of other IFRSs. The standard also provides a model for the measurement and recognition of gains and losses on the sale of certain non-financial assets that are not an output of a company's ordinary activities. Additional disclosure is required under the standard including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods, and key judgments and estimates. In July 2015, the effective date for IFRS 15 was deferred to apply to annual periods beginning on or after January 1, 2018; application is permitted either following a full retrospective approach or a modified retrospective approach. The modified retrospective approach allows the standard to be applied to existing contracts beginning the initial period of adoption and restatements to the comparative periods are not required. The Company is required to disclose the impact by financial line item because of the adoption of the new standard and intends to adopt IFRS 15 in its consolidated financial statements for the annual period beginning January 1, 2018 and intends to adopt IFRS 15 using the modified retrospective approach. The Company has reviewed significant agreements and contracts with customers. Based on this review, the adoption of IFRS 15 is expected to result in changes in classification between sales and cost of goods sold and selling, general and administrative expenses, as well as an increase to inventories and other current liabilities on the consolidated financial statements. For the period beginning January 1, 2018, the implementation of IFRS 15 is expected to decrease opening retained earnings by approximately $2.0 million, increase inventory by approximately $8.0 million and increase unearned revenue by approximately $10.0 million.

Financial Instruments – Recognition and Measurement

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments with a mandatory effective date of January 1, 2018. The new standard brings together the classification and measurement, impairment, and hedge accounting phases of the IASB’s project to replace IAS 39 Financial Instruments: Recognition and Measurement. In addition to the new requirements for classification and measurement of financial assets, a new general hedge accounting model and other amendments issued in previous versions of IFRS 9, the standard also introduces new impairment requirements that are based on a forward-looking expected credit loss model. The Company intends to adopt IFRS 9 in its consolidated financial statements for the annual period beginning January 1, 2018. The adoption of IFRS 9 is not expected to have a material impact on the consolidated financial statements.

The disclosure requirements in IFRS 7 Financial Instruments - Disclosure have also been amended to include the additional disclosure required under IFRS 9. The Company intends to adopt these amendments to IFRS 7 at the same time as adoption of IFRS 9. The adoption of the amendments to IFRS 7 is not expected to have a material impact on the consolidated financial statements.

Leases

In January 2016, the IASB issued IFRS 16 Leases with a mandatory effective date of January 1, 2019. The new standard will replace IAS 17 Leases and will carry forward the accounting requirements for lessors. IFRS 16 provides a new framework for lessee accounting that requires substantially all assets obtained through operating leases to be capitalized and a related liability to be recorded. The new standard seeks to provide a more accurate picture of a company's leased assets and related liabilities and create greater comparability between companies who lease assets and those who purchase assets. The Company intends to adopt IFRS 16 in its consolidated financial statements for the annual period beginning January 1, 2019. The extent of the impact of the adoption of IFRS 16 has not yet been determined.

Share-Based Payments

In June 2016, the IASB issued amendments to IFRS 2 Share-Based Payment with a mandatory effective date of January 1, 2018. The amendments provide clarification on how to account for certain types of share-based payment transactions. The Company intends to adopt the amendments to IFRS 2 in its consolidated financial statements for the annual period beginning January 1, 2018. The adoption of the amendments to IFRS 2 is not expected to have a material impact on the consolidated financial statements.

Foreign Currency Transactions and Advance Considerations

In December 2016, the IASB issued IFRIC 22 Foreign Currency Transactions and Advance Consideration with a mandatory effective date of January 1, 2018. When a foreign currency transaction where consideration is received or paid in advance of the recognition of the related asset, expense, or income, the exchange rate used should be based on the exchange rate as at the date when the pre-payment asset or deferred liability is recognized. IFRIC 22 can be applied on a full retrospective basis, retrospective from the comparative year or prospectively from January 1, 2018. The Company intends to adopt IFRIC 22 prospectively in its consolidated financial statements for the annual period beginning January 1, 2018. The adoption of IFRIC 22 is not expected to have a material impact on the consolidated financial statements.

Uncertainty over Income Tax Treatments

In June 2017, the IASB issued IFRIC 23 Uncertainty over Income Tax Treatments with a mandatory effective date of January 1, 2019. The interpretations provide guidance on how to value uncertain income tax positions based on the probability of whether the relevant tax authorities will accept the company's tax treatments. A company is to assume that a taxation authority with the right to examine any amounts reported to it will examine those amounts and will have full knowledge of all relevant information when doing so. IFRIC 23 is to be applied by recognizing the cumulative effect of initially applying these guidelines in opening retained earnings without adjusting comparative information. The extent of the impact of the adoption of IFRIC 23 has not yet been determined.

Long-term Interests in Associates and Joint Ventures

In October 2017, the IASB issued Long-term interests in Associates and Joint Ventures (Amendments to IAS 28) with a mandatory effective date of January 1, 2019. The amendments clarify that a company applies IFRS 9 to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture. The Company intends to adopt the amendments to IAS 28 retrospectively in its consolidated financial statements for the annual period beginning January 1, 2019. The adoption of the amendments to IAS 28 is not expected to have a material impact on the consolidated financial statements.

Annual Improvements to IFRS (2015-2017) Cycle

In December 2017, the IASB issued narrow-scope amendments to a total of four standards as part of its annual improvement process. Amendments were made to clarify that a company must remeasure its previously held interest in a joint operation

when it obtains control of the business in accordance with IFRS 3 Business Combinations but does not remeasure when it obtains joint control of the business under IFRS 11 Joint Arrangements. The amendments also include clarification that, all income tax consequences of dividend payments should be recognised consistently with the transactions that generated the distributable profits, under IAS 12 Income Taxes and that under IAS 23 Borrowing Costs, any specific borrowing that remains outstanding after the related asset is ready for its intended use or sale becomes part of general borrowings. The Company intends to adopt these amendments prospectively in its consolidated financial statements for the annual period beginning January 1, 2019. The extent of the impact of the adoption of these standards has not yet been determined.

(x) Restatement of Comparative Periods for Previously Adopted Accounting Standards

Income taxes

On November 8, 2016, the IFRS Interpretations Committee provided clarification on the tax rate an entity should apply to its deferred tax assets and liabilities related to intangible assets with indefinite lives. The tax rate applied should be consistent with how an entity is expected to recover the carrying amount in the form of future economic benefits. As a result of this clarification, the Company has changed the effective tax rate applied on deferred tax liabilities on indefinite life intangible assets. This change has been retrospectively applied reducing deferred tax assets and retained earnings as at December 31, 2015. There was no impact to net income or comprehensive income (loss) for the year ended December 31, 2016 as there were no movements in the temporary differences or changes in relevant statutory income tax rates during these periods.

4. CASH AND CASH EQUIVALENTS

As at December 31, 2017, the Company did not post any cash to collateralize its letters of credit (2016: $68.1 million).

5. ACCOUNTS RECEIVABLE

	As at December 31,	
	2017	2016
Trade receivables	**$ 90,862**	$ 90,463
Less: Allowance for doubtful accounts	**(5)**	(5)
Net trade receivables	**$ 90,857**	$ 90,458
Other receivables:		
Commodity taxes receivable	**8,723**	11,004
Interest rate swap receivable	**—**	422
Government receivable	**13,341**	17,347
Other	**11,047**	8,518
	$123,968	$127,749

The aging of trade receivables is as follows:

	As at December 31,	
	2017	2016
Current	**$ 70,054**	$ 64,176
Past due 0-30 days	**16,683**	19,057
Past due 31-60 days	**1,694**	2,702
Past due > 60 days	**2,431**	4,528
	$ 90,862	$ 90,463

The Company maintains an allowance for doubtful accounts that represents its estimate of the uncollectible amounts based on specific losses estimated on individual exposures.

The Company has sold certain of its trade accounts receivables under securitization programs as described in Note 23. On August 26, 2016, the Company entered into a new three-year accounts receivable securitization facility. The new facility replaced the Company's existing facility that was due to mature on September 30, 2016. On termination of the previous facility the Company re-purchased all receivables and sold only a portion of these into the new facility.

Under both the previous facility and the current facility, the Company's securitization programs require the sale of trade receivables to be treated as a sale from an accounting perspective and as a result, trade receivables sold under these programs are derecognized in the consolidated balance sheets as at December 31, 2017 and 2016.

6. INVENTORIES

	As at December 31,	
	2017	2016
Raw materials	**$ 23,369**	$ 23,229
Work in process	**18,517**	16,309
Finished goods	**180,843**	175,452
Packaging	**13,193**	13,997
Spare parts	**37,443**	32,732
	$ 273,365	$ 261,719

For the year ended December 31, 2017, inventory in the amount of $2,723.1 million (2016: $2,538.5 million) was expensed through cost of goods sold.

7. BIOLOGICAL ASSETS

	Hog stock		**Poultry stock**		
	Commercial	**Parent**	**Commercial**	**Parent**	**Total**
Balance at December 31, 2016	**$ 83,052**	**$ 22,855**	**$ 3,693**	**$ 1,845**	**$ 111,445**
Additions and purchases	**292,080**	**2,582**	**57,312**	**2,338**	**354,312**
Depreciation	**—**	**(4,068)**	**—**	**(2,804)**	**(6,872)**
Change in fair value realized	**(4,595)**	**—**	**—**	**—**	**(4,595)**
Change in fair value unrealized	**5,862**	**—**	**—**	**—**	**5,862**
Further processing and sales	**(291,812)**	**—**	**(56,605)**	**—**	**(348,417)**
Balance at December 31, 2017	**$ 84,587**	**$ 21,369**	**$ 4,400**	**$ 1,379**	**$ 111,735**

	Hog stock		Poultry stock		
	Commercial	Parent	Commercial	Parent	Total
Balance at December 31, 2015	$ 75,715	$ 22,650	$ 3,739	$ 1,773	$ 103,877
Additions and purchases	283,381	4,719	51,833	2,722	342,655
Depreciation	—	(4,514)	—	(2,650)	(7,164)
Change in fair value realized	1,668	—	—	—	1,668
Change in fair value unrealized	4,595	—	—	—	4,595
Further processing and sales	(282,307)	—	(51,879)	—	(334,186)
Balance at December 31, 2016	$ 83,052	$ 22,855	$ 3,693	$ 1,845	$ 111,445

Hog stock is comprised of approximately 0.8 million animals as at December 31, 2017 (2016: 0.9 million). During the years ended December 31, 2017 and 2016, substantially all hog stock was directly transferred to the Company's primary processing operations.

Poultry stock is comprised of approximately 8.8 million eggs and 0.2 million birds as at December 31, 2017 (2016: 7.5 million eggs and 0.2 million birds).

The change in fair value of commercial hog and poultry stock for the year was a gain of $1.3 million for the year ended December 31, 2017 (2016: gain of $6.3 million) recorded in cost of goods sold.

The fair value measures of commercial hog stock have been categorized as a Level 3 fair value based on inputs to the valuation techniques used. There were no transfers between levels for the year ended December 31, 2017.

The Company uses the market comparison approach to determine the fair value of its commercial hog stock. The valuation model is based on the market price of hog stock of similar age, weight, breed, and genetic make-up. The model is based on the U.S. dollar market price per cut weight and adjusted for foreign exchange, conversion from pounds to kilograms, and specific significant unobservable inputs, including a quality index adjustment and a market conversion factor, as defined below.

The quality index adjustment is a value adjustment based on the relative quality of a processed hog based on the lean yield (being the ratio between muscle and fat content) and total weight. Quality adjustments range from 6.3% to 7.3%. A higher (lower) quality adjustment percentage will result in an increase (decrease) to the fair market value of the commercial hog stock.

The market conversion factor is a market adjustment used to discount the formula from a U.S. market price to a Canadian pricing model. The market conversion factor experiences minimal fluctuation. A higher (lower) market conversion factor will result in an increase (decrease) to the fair market value of the commercial hog stock.

Commercial poultry stock are valued at cost as an indicator of fair value in the case where little biological transformation has taken place since initial cost occurrence or when the impact of the biological transformation on price is not expected to be material.

Where reliable market prices of parent stock are not available, they are valued at cost less accumulated depreciation and any accumulated impairment losses. No active liquid market exists for parent stock as they are rarely sold.

The Company has established environmental policies and procedures which comply with local environmental and other laws. Management performs regular reviews to identify environmental risks and to ensure that the systems in place are adequate to manage those risks.

The Company's biological asset operations can be affected by outbreaks of disease among livestock. To mitigate this risk, the Company monitors herd health status and has strict bio-security procedures and employee training programs throughout its livestock production operation.

8. PROPERTY AND EQUIPMENT

	Land	**Buildings**	**Machinery and equipment**	**Under construction**	**Total**
Cost	**$ 41,238**	**$ 848,697**	**$ 1,176,443**	**$ 75,412**	**$ 2,141,790**
Accumulated depreciation	**—**	**(288,140)**	**(737,341)**	**—**	**(1,025,481)**
Net balance, December 31, 2017	**$ 41,238**	**$ 560,557**	**$ 439,102**	**$ 75,412**	**$ 1,116,309**

	Land	Buildings	Machinery and equipment	Under construction	Total
Cost	$ 33,891	$ 787,710	$ 1,136,716	$ 56,792	$ 2,015,109
Accumulated depreciation	—	(250,776)	(679,058)	—	(929,834)
Net balance, December 31, 2016	$ 33,891	$ 536,934	$ 457,658	$ 56,792	$ 1,085,275

The changes in net carrying amounts of property, plant and equipment during 2017 and 2016 were as follows:

	Land	Buildings	Machinery and equipment	Under construction	Total
Net balance, December 31, 2016	**$ 33,891**	**$ 536,934**	**$ 457,658**	**$ 56,792**	**$ 1,085,275**
Business combinations	**1,552**	**14,171**	**4,064**	**18**	**19,805**
Additions	**—**	**—**	**—**	**132,696**	**132,696**
Transfers from under construction	**6,114**	**47,333**	**60,633**	**(114,080)**	**—**
Impairment	**—**	**(3,776)**	**—**	**—**	**(3,776)**
Restructuring related write-downs	**—**	**(7,040)**	**(4,233)**	**—**	**(11,273)**
Depreciation	**—**	**(26,241)**	**(74,477)**	**—**	**(100,718)**
Foreign currency translation	**(30)**	**(369)**	**(252)**	**(14)**	**(665)**
Other[(i)]	**(289)**	**(455)**	**(4,291)**	**—**	**(5,035)**
Net balance, December 31, 2017	**$ 41,238**	**$ 560,557**	**$ 439,102**	**$ 75,412**	**$ 1,116,309**

	Land	Buildings	Machinery and equipment	Under construction	Total
Net balance, December 31, 2015	$ 33,891	$ 533,525	$ 446,847	$ 68,097	$ 1,082,360
Additions	—	—	—	107,123	107,123
Transfers from under construction	—	32,823	85,605	(118,428)	—
Impairment	—	—	(2,831)	—	(2,831)
Restructuring related write-downs	—	(735)	(372)	—	(1,107)
Transfers to assets held for sale	—	—	(43)	—	(43)
Depreciation	—	(25,553)	(69,913)	—	(95,466)
Other[(i)]	—	(3,126)	(1,635)	—	(4,761)
Net balance, December 31, 2016	$ 33,891	$ 536,934	$ 457,658	$ 56,792	$ 1,085,275

[(i)] *Includes disposals, reclassifications and other adjustments.*

Borrowing Costs

For the years ended December 31, 2017 and 2016, there were no borrowing costs capitalized.

9. EMPLOYEE BENEFITS

The Company sponsors several defined benefit pension plans for Canadian employees which are either final salary plans, career salary plans, service based plans, or a combination thereof. The Company also sponsors a final salary defined benefit pension plan in the U.K. in which membership is closed. These defined benefit plans require contributions to be made to separately administered funds. Certain retired employees are covered under a post-retirement benefit plan, which reimburses certain medical costs and provides life insurance coverage.

The Canadian plans are governed by the pension laws of the province in which the respective plan is registered. The U.K. plan is governed by the employment laws of the U.K.

The Company's pension funding policy is to contribute amounts sufficient, at a minimum, to meet local statutory funding requirements. For the Company's defined benefit pension plans, local regulatory bodies either define minimum funding requirements or approve funding plans submitted by the Company. From time to time the Company may make additional discretionary contributions considering actuarial assessments and other factors. The contributions that have been made to support ongoing plan obligations have been recorded in the respective asset or liability accounts on the consolidated balance sheet. Actuarial valuations for the Company's defined benefit pension plans are completed based on the regulations in place in the jurisdictions where the plans operate.

On August 18, 2016, the Company received regulatory approval to merge certain pension plans. The merger was completed during the quarter ended December 31, 2016.

Information about the Company's defined benefit plans as at December 31, in aggregate, is as follows:

	Other post-retirement benefits	**Pension**	**2017 Total**	Other post-retirement benefits	Pension	2016 Total
Accrued benefit obligation:						
Balance, beginning of year	**$ 54,504**	**$ 1,082,533**	**$ 1,137,037**	$ 58,539	$ 1,146,332	$ 1,204,871
Current service cost	**83**	**12,049**	**12,132**	105	12,800	12,905
Interest cost	**1,949**	**39,205**	**41,154**	2,122	42,320	44,442
Benefits paid from plan assets	**—**	**(73,572)**	**(73,572)**	—	(78,284)	(78,284)
Benefits paid directly from the Company	**(3,418)**	**(1,531)**	**(4,949)**	(3,457)	(1,449)	(4,906)
Actuarial (gains) losses - experience	**(411)**	**16,795**	**16,384**	(3,072)	(9,424)	(12,496)
Actuarial (gains) losses - financial assumptions	**1,579**	**43,367**	**44,946**	267	3,502	3,769
Employee contributions	**—**	**3,528**	**3,528**	—	3,532	3,532
Settlements[iii]	**—**	**—**	**—**	—	(36,796)	(36,796)
Balance, end of year	**$ 54,286**	**$ 1,122,374**	**$ 1,176,660**	$ 54,504	$ 1,082,533	$ 1,137,037
Unfunded	**$ 54,286**	**$ 33,680**	**$ 87,966**	$ 54,504	$ 28,686	$ 83,190
Funded[i]	**—**	**1,088,694**	**1,088,694**	—	1,053,847	1,053,847
Total obligation	**$ 54,286**	**$ 1,122,374**	**$ 1,176,660**	$ 54,504	$ 1,082,533	$ 1,137,037
Plan Assets						
Fair value, beginning of year	**$ —**	**$ 1,040,616**	**$ 1,040,616**	$ —	$ 1,069,260	$ 1,069,260
Interest income	**—**	**37,315**	**37,315**	—	38,635	38,635
Actuarial gains (losses)[ii]	**—**	**56,073**	**56,073**	—	55,711	55,711
Employer contributions	**—**	**8,809**	**8,809**	—	3,734	3,734
Employee contributions	**—**	**3,528**	**3,528**	—	3,532	3,532
Benefits paid	**—**	**(73,572)**	**(73,572)**	—	(78,284)	(78,284)
Asset transfer to Company defined contribution plan	**—**	**—**	**—**	—	(13,478)	(13,478)
Administrative costs	**—**	**(2,289)**	**(2,289)**	—	(2,121)	(2,121)
Settlements[iii]	**—**	**—**	**—**	—	(36,373)	(36,373)
Fair value, end of year	**$ —**	**$ 1,070,480**	**$ 1,070,480**	$ —	$ 1,040,616	$ 1,040,616
Other	**$ —**	**$ (1,772)**	**$ (1,772)**	$ —	$ (1,998)	$ (1,998)
Accrued net benefit liability, end of year	**$ (54,286)**	**$ (53,666)**	**$ (107,952)**	$ (54,504)	$ (43,915)	$ (98,419)

(i) *Includes wholly and partially funded plans.*

(ii) *Return on plan assets greater (less) than discount rate.*

(iii) *2016 includes the transfer of assets and liabilities to third parties related to previously divested businesses.*

Amounts recognized in the consolidated balance sheet consist of:

	As at December 31,	
	2017	2016
Employee benefit assets	**$ 9,856**	$ 10,311
Employee benefit liabilities	**117,808**	108,730
Accrued net benefit liability, end of year	**$ (107,952)**	$ (98,419)

Pension benefit expense recognized in net earnings:

	2017	2016
Current service cost - defined benefit	**$ 12,049**	$ 12,800
Current service cost - defined contribution and multi-employer plans	**15,116**	14,931
Net interest cost	**1,890**	3,685
Administrative costs	**2,289**	2,121
Settlement (gain) loss(i)	**—**	(423)
Net pension benefit expense	**$ 31,344**	$ 33,114

(i) *For the year ended December 31, 2016 included in other income.*

For the year ended December 31, 2017, the Company expensed salaries of $669.2 million (2016: $656.7 million), excluding pension and other post-retirement benefits.

Amounts recognized in other comprehensive income (loss) (before income taxes):

	2017	2016
Actuarial (losses) gains	**$ (4,154)**	$ 63,206

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligations are as follows:

	2017	2016
Weighted average discount rate	**3.40%**	3.70%
Rate of salary increase	**3.00%**	3.00%
Medical cost trend rates	**5.00%**	5.00%

Plan assets comprise of:

	As at December 31,	
	2017	2016
Equity securities	**50%**	60%
Debt securities	**48%**	36%
Other investments and cash	**2%**	4%
	100%	100%

As at December 31, 2017, all investments in the plan assets are at Level 2 on the fair value hierarchy.

Other post-retirement benefits expense:

	2017	2016
Current service cost	**$ 83**	$ 105
Interest cost	**1,949**	2,122
	$ 2,032	$ 2,227

Impact of changes in major assumptions:

			Increase (decrease) in defined benefit obligation		
Actuarial Assumption		**Sensitivity**	**Total pensions**	**Other post-retirement benefits**	**Total**
Period end discount rate	3.40%	0.25% decrease	$ 35,109	$ 1,352	$ 36,461
		0.25% increase	$ (34,029)	$ (1,319)	$ (35,348)
Rate of salary increase	3.00%	0.50% increase	$ 2,398	N/A	$ 2,398
Mortality	110% of 2014 Private Sector Canadian Pensioners' Mortality Table, projected generationally using Scale CPM-B	Increase of 1 year in expected lifetime of plan participants	$ 34,447	$ 1,839	$ 36,286

Measurement dates:	
2017 expense	December 31, 2016
Balance sheet	December 31, 2017

The average expected maturity of the pension obligations is 13.1 years (2016: 13.0 years).

The Company expects to contribute $33.1 million to pension plans in 2018, inclusive of defined contribution plans and multi-employer plans.

Governance and Risk Management

The Company administers its pension plans through its Board of Directors. The Company’s Board of Directors has established a governance structure and delegated to the Audit Committee and the Pension Investment Advisory Committee all aspects of the investment of the funds. The Company’s Board of Directors has delegated to the Pension Policy and Administration Committee the authority to make amendments to the documents that govern the pension plans of an administrative or compliance nature, that relate to collective bargaining agreements entered into by the Company or that have a minimal financial impact on the plans.

In fulfilling their responsibilities, the Audit Committee and the Pension Investment Advisory Committee may delegate functions or responsibilities to, or otherwise utilize employees of the Company where appropriate. The Audit Committee and the Pension Investment Advisory Committee may rely on independent experts for certain aspects of the funds’ operations. The Audit Committee or the Pension Investment Advisory Committee, as appropriate, retain responsibility and utilize suitable personnel for such activities and monitor the activities undertaken by the selected personnel.

The plan assets are invested primarily in well-diversified pooled funds that meet the constraints set out in legislation of the jurisdictions in which the plans operate. Further diversification criteria set out in investment funds' governing documents require the division of investments between equities and fixed income. There are no significant concentrations of risks.

Multi-Employer Plan

The Company contributes to the Canadian Commercial Workers Industry Pension Plan which is a multi-employer defined benefit plan for employees who are members of the United Food and Commercial Workers Canada union. This is a large-scale plan for union workers of multiple companies across Canada. Adequate information to account for these contributions as a defined benefit plan in the Company’s statements is not available due to the size and number of contributing employers in the plan. Included in pension benefit expense is $0.7 million (2016: $0.7 million) related to payments into this plan. The Company expects to contribute $0.7 million into this plan in 2018.

10. GOODWILL

The net carrying value for goodwill was $517.4 million as at December 31, 2017 (2016: $428.2 million). There were no impairment losses recorded for the years ended December 31, 2017 and 2016.

For the purposes of annual impairment testing, goodwill is allocated to the Meat Products and Alternative Protein CGU groups, being the groups expected to benefit from the synergies of each business combination in which the goodwill arose:

	As at December 31,	
CGU Group	**2017**	2016
Meat Products	**$ 428,236**	$ 428,236
Alternative Protein	**89,151**	—
	$ 517,387	$ 428,236

Annual impairment testing involves determining the recoverable amount of the CGU group to which goodwill is allocated, and comparing this to the carrying value of the CGU groups. The measurement of the recoverable amount of the CGU groups was calculated based on fair value less costs to sell. Where there was no market information available, fair value was determined by discounting the future cash flows generated from the continuing use of the groups. The calculation of the fair value based on discounting the future cash flows was based on the following key assumptions:

- Cash flows were projected based on the Company's long-term business plan. Cash flows for a further perpetual period were extrapolated using growth rates ranging from 1.5% to 7.5% (2016 - 2.2%).
- The business plan contains forecasts based on past experience of actual operating results in conjunction with anticipated future growth opportunities. While the forecast does assume some base business expansion, largely related to innovation, the primary engine of growth is strategic in nature and is consistent with the projects and expectations as articulated in the Company's strategic plan.
- Discount rates applied in determining the recoverable amount of the CGU groups were ranging from 7.9% to 11.6% (2016 - 8.0%). The discount rates were estimated based on past experience and the weighted average cost of capital of each CGU group and other competitors in the industry.

The values assigned to the key assumptions represent Management's assessment of future trends in the industries in which the CGU groups operate and are based on both external and internal sources and historical trend data.

The change in the carrying amount of goodwill during 2017 and 2016 was as follows:

	2017	2016
Net balance, beginning of year	**$ 428,236**	$ 428,236
Business combinations	**95,639**	—
Foreign currency translation	**(6,488)**	—
Net balance, end of year	**$ 517,387**	$ 428,236

11. INTANGIBLE ASSETS

	As at December 31,	
	2017	2016
Definite life	**$ 123,261**	$ 61,232
Indefinite life	**91,936**	66,853
Total intangible assets	**$ 215,197**	$ 128,085

	Definite life				
	Software in use	**Software in process**	**Recipes**	**Customer relationships**	**Total**
Cost	**$ 111,644**	**$ 9,998**	**$ 8,779**	**$ 59,823**	**$ 190,244**
Accumulated amortization	**(63,968)**	**—**	**(992)**	**(2,023)**	**(66,983)**
Net balance, December 31, 2017	**$ 47,676**	**$ 9,998**	**$ 7,787**	**$ 57,800**	**$ 123,261**

	Software in use	Software in process	Recipes	Customer relationships	Total
Cost	$ 105,979	$ 5,731	$ —	$ —	$ 111,710
Accumulated amortization	(50,478)	—	—	—	(50,478)
Net balance, December 31, 2016	$ 55,501	$ 5,731	$ —	$ —	$ 61,232

The changes in net carrying amounts of definite life intangibles during 2017 and 2016 were as follows:

	Software in use	**Software in process**	**Recipes**	**Customer relationships**	**Total**
Net balance, December 31, 2016	**$ 55,501**	**$ 5,731**	**$ —**	**$ —**	**$ 61,232**
Business combinations	**320**	**—**	**9,428**	**64,247**	**73,995**
Additions	**—**	**9,549**	**—**	**—**	**9,549**
Transfers	**5,282**	**(5,282)**	**—**	**—**	**—**
Amortization	**(13,386)**	**—**	**(1,015)**	**(2,070)**	**(16,471)**
Foreign currency translation	**(21)**	**—**	**(626)**	**(4,377)**	**(5,024)**
Other[(i)]	**(20)**	**—**	**—**	**—**	**(20)**
Net balance, December 31, 2017	**$ 47,676**	**$ 9,998**	**$ 7,787**	**$ 57,800**	**$ 123,261**

	Software in use	Software in process	Recipes	Customer relationships	Total
Net balance, December 31, 2015	$ 66,974	$ 4,328	$ —	$ —	$ 71,302
Additions	—	6,071	—	—	6,071
Transfers	4,668	(4,668)	—	—	—
Amortization	(16,141)	—	—	—	(16,141)
Net balance, December 31, 2016	$ 55,501	$ 5,731	$ —	$ —	$ 61,232

(i) *Includes disposals, reclassifications and other adjustments.*

Amortization

Amortization is recorded through cost of goods sold or selling, general, and administrative expenses depending on the nature of the asset.

Borrowing Costs

For the years ended December 31, 2017 and 2016, there were no borrowing costs capitalized.

Indefinite Life Intangibles

Indefinite life intangible assets are comprised of trademarks and poultry production quota. The Company expects to renew the registration of the trademarks and poultry production quota at each expiry date indefinitely, and expects these assets to generate economic benefit in perpetuity. As such, the Company assessed these intangibles to have indefinite useful lives.

The changes in net carrying amounts of indefinite life intangibles during 2017 and 2016 were as follows:

	Indefinite life		
	Trademarks	**Quota**	**Total**
Net balance, December 31, 2016	**$ 46,700**	**$ 20,153**	**$ 66,853**
Business Combinations	**26,938**	**—**	**26,938**
Foreign Currency Translation	**(1,855)**	**—**	**(1,855)**
Net balance, December 31, 2017	**$ 71,783**	**$ 20,153**	**$ 91,936**

	Trademarks	Quota	Total
Net balance, December 31, 2016 and 2015	$ 46,700	$ 20,153	$ 66,853

The indefinite life intangible assets are allocated between the Meat Products and Alternative Protein CGU Groups as follows:

	As at December 31,	
CGU Group	**2017**	2016
Meat Products	**$ 66,853**	$ 66,853
Alternative Protein	**25,083**	—
	$ 91,936	$ 66,853

The Company performs annual impairment testing on its indefinite life intangible assets. Annual impairment testing, consistent with the impairment testing for goodwill as described in Note 10, involves determining the recoverable amount of each indefinite life intangible asset and comparing it to the net carrying value.

Trademarks

The recoverable value of trademarks is calculated using the royalty savings approach, which involves present valuing the royalties earned by similar trademarks. The key assumptions used in this determination are:

	2017	2016
Royalty rate range	**1.5 - 3.0%**	1.5 - 2.0%
Growth rate	**1.5 - 3.0%**	2.2%
Discount rate	**10.0 - 13.0%**	10.0%

Quotas

The recoverable value of quotas is determined based on recent sales of similar quota, as this is an active market and reliable information is readily available.

12. PROVISIONS

				Restructuring and related provisions		
	Legal	**Environ-mental**	**Lease make-good**	**Severance and other employee related costs**	**Site closing and other cash costs**	**Total**
Balance at December 31, 2016	**$ 2,250**	**$ 8,233**	**$ 2,228**	**$ 8,656**	**$ 7,077**	**$ 28,444**
Charges	**377**	**2,510**	**—**	**9,904**	**1,104**	**13,895**
Reversals	**(1,123)**	**(5,385)**	**—**	**(1,275)**	**(242)**	**(8,025)**
Cash payments	**(1,215)**	**(525)**	**—**	**(6,906)**	**(5,191)**	**(13,837)**
Non-cash items	**—**	**—**	**—**	**—**	**131**	**131**
Balance at December 31, 2017	**$ 289**	**$ 4,833**	**$ 2,228**	**$ 10,379**	**$ 2,879**	**$ 20,608**
Current						**$ 9,335**
Non-current						**11,273**
Total at December 31, 2017						**$ 20,608**

				Restructuring and related provisions		
	Legal	Environ-mental	Lease make-good	Severance and other employee related costs	Site closing and other cash costs	Total
Balance at December 31, 2015	$ 2,250	$ 8,300	$ 2,337	$ 25,113	$ 9,153	$ 47,153
Charges	—	35	—	9,613	537	10,185
Reversals	—	—	(101)	(3,623)	(1,398)	(5,122)
Cash payments	—	(102)	(8)	(22,439)	(1,387)	(23,936)
Non-cash items	—	—	—	(8)	172	164
Balance at December 31, 2016	$ 2,250	$ 8,233	$ 2,228	$ 8,656	$ 7,077	$ 28,444
Current						$ 11,889
Non-current						16,555
Total at December 31, 2016						$ 28,444

Restructuring and Other Related Costs

For the year ended December 31, 2017, the Company recorded restructuring and other related costs of $23.0 million. Of this amount, $18.9 million related to accelerated depreciation and severance and other employee costs as a result of the announced plant closures of the Thamesford turkey facility and the St. Anselme pastry facility. In addition, $1.9 million related to adjustments to share-based compensation for terminated employees pertaining to changes to the Company's Management structure associated with previously divested businesses, and $1.0 million related to an onerous lease for vacated space in the Company's office facilities. The remaining $1.2 million related to other previously announced Management and organizational restructuring initiatives.

For the year ended December 31, 2016, the Company recorded restructuring and other related costs of $6.6 million. These costs were related primarily to the announced closure of the Thamesford turkey facility.

13. LONG-TERM DEBT

	As at December 31,	
	2017	2016
Current portion of long-term debt	**$ 805**	$ 794
Long-term debt	**8,443**	9,119
Long-term debt	**$ 9,248**	$ 9,913

The Company has various government loans on specific projects, with interest rates ranging from non-interest bearing to 2.9% per annum (2016: 2.9%). These facilities are repayable over various terms from 2022 to 2024. As at December 31, 2017, $9.2 million (2016: $9.9 million) was outstanding. All of these facilities are committed.

On October 19, 2017, the Company amended its existing $400.0 million unsecured committed revolving credit facility by extending the maturity of the facility to October 19, 2021 under similar terms and conditions using the same syndicate of Canadian, U.S., and international institutions. This unsecured facility can be drawn in Canadian or U.S. dollars and bears interest payable monthly, based on Banker's Acceptance and Prime rates for Canadian dollar loans and LIBOR for U.S. dollar loans. The facility is intended to meet the Company's funding requirements for general purposes, corporate development activities, and to provide appropriate levels of liquidity. As at December 31, 2017, the only drawings on the facility were letters of credit of $6.4 million (2016: $6.2 million).

The revolving term facility requires the maintenance of certain covenants. As at December 31, 2017, the Company was in compliance with all of these covenants.

The Company has an additional uncommitted credit facility for issuing up to a maximum of $120.0 million letters of credit. As at December 31, 2017, $67.8 million of letters of credit had been issued thereon (2016: $63.4 million).

The Company’s estimated average effective cost of borrowing for 2017 was approximately 4.6%, which excludes any impact of interest rate hedges (2016: 4.6%). Required repayments of long-term debt are as follows:

2018	$ 1,083
2019	1,083
2020	1,083
2021	1,083
2022	4,935
Thereafter	926
Total long-term debt	**$ 10,193**

14. OTHER CURRENT LIABILITIES

		As at December 31,	
	Notes	**2017**	2016
Derivative instruments	***17***	**$ 6,039**	$ 8,430
Obligation for repurchase of shares	***16***	**24,531**	88,322
Other		**1,027**	105
		$ 31,597	$ 96,857

15. OTHER LONG-TERM LIABILITIES

	As at December 31,	
	2017	2016
Step rent and lease inducements	**$ 8,559**	$ 9,001
Other	**4,130**	3,653
	$ 12,689	$ 12,654

16. SHARE CAPITAL

	Common Shares		Treasury Stock	
(Thousands of shares)	**2017**	2016	**2017**	2016
Balance, beginning of year	**132,085**	134,987	**540**	93
Distributions under share-based compensation plans	**551**	182	**(551)**	(182)
Exercise of share options	**436**	163	**—**	—
Shares repurchased	**(5,740)**	(2,618)	**—**	—
Purchase of treasury stock	**(843)**	(629)	**843**	629
Balance, end of year	**126,489**	132,085	**832**	540

Common Shares

The authorized share capital consists of an unlimited number of common shares, an unlimited number of non-voting common shares, and an unlimited number of preference shares. These shares have no par value.

The holders of common shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company.

On May 1, 2014, shareholders of the Company reconfirmed the Shareholder Rights Plan (the "Rights Plan"). While the Rights Plan was entered into on December 5, 2011, it required reconfirmation by shareholders of the Company at the May 2014 and 2017 annual meetings in order to remain in effect. On February 21, 2017, the Company entered into an amended and restated governance agreement with McCain Capital Inc. and Michael H. McCain. Pursuant to that agreement, the Company did not submit the rights plan for reconfirmation at the Company's annual meeting in 2017, thereby allowing the rights plan to expire in accordance with its terms at the termination of that meeting. The determination to not submit the rights plan for reconfirmation at the annual shareholders' meeting in 2017 arose, in part, as a result of the new provisions of the amended and restated governance agreement and the fact that recent changes in securities law make certain provisions of the rights plan redundant.

Treasury Stock

Treasury stock is comprised of shares purchased by a trust in order to satisfy the requirements of the Company's Restricted Share Plan, as described in Note 22.

Share Repurchase

On May 17, 2017, the Toronto Stock Exchange ("TSX") accepted the Company's notice of intention to commence a Normal Course Issuer Bid ("NCIB"), which allows the Company to repurchase, at its discretion, up to 8.20 million common shares in the open market or as otherwise permitted by the TSX, subject to the normal terms and limitations of such bids. Common shares purchased by the Company are cancelled. The program commenced on May 23, 2017 and will terminate on May 22, 2018, or on such earlier date as the Company completes its purchases pursuant to the notice of intention. During the year ended December 31, 2017, 2.33 million shares were purchased for cancellation under this NCIB for $77.4 million at a volume weighted average price paid of $33.25 per common share.

On May 16, 2016, the TSX accepted the Company's notice of intention to commence a NCIB, which allowed the Company to repurchase, at its discretion, up to 8.70 million common shares in the open market or as otherwise permitted by the TSX, subject to the normal terms and limitations of such bids. The program commenced on May 19, 2016 and was terminated on May 18, 2017 as the Company completed its purchase and cancellation of 5.52 million common shares for $163.1 million at a volume weighted average price of $29.57 per common share. During the year ended December 31, 2017, 3.41 million shares (2016: 2.11 million) were purchased for cancellation under this NCIB for $102.6 million (2016: $60.5 million) at a volume weighted average price paid of $30.09 (2016: $28.74) per common share.

On March 23, 2015, the TSX accepted the Company's notice of intention to commence a NCIB which allowed the Company to repurchase, at its discretion, up to approximately 8.65 million common shares in the open market or as otherwise permitted by the TSX, subject to the normal terms and limitations of such bids. The program commenced on March 25, 2015 and was terminated on January 22, 2016, as the Company completed its purchase and cancellation of 8.65 million common shares for $194.5 million at a weighted average price paid of $22.48 per common share. During the year ended December 31, 2016, 0.51 million shares were purchased for cancellation under this NCIB for $11.9 million at a volume weighted average price paid of $23.23 per common share.

The Company entered into an Automatic Share Purchase Plan ("ASPP") with a broker that allows the purchase of common shares for cancellation under the NCIB at any time during predetermined trading blackout periods. As at December 31, 2017, an obligation for the repurchase of shares of $24.5 million (2016: $88.3 million) was recognized under the ASPP.

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT ACTIVITIES

Capital

The Company's objective is to maintain a cost-effective capital structure that supports its long-term growth strategy and maximizes operating flexibility. In allocating capital to investments to support its earnings goals, the Company establishes internal hurdle return rates for capital initiatives. Capital projects are generally financed with internal cash flows and senior debt where required.

The Company typically uses leverage in its capital structure to reduce the cost of capital. The Company's goal is to maintain its primary credit ratios and leverage at levels that are designed to provide continued access to investment-grade credit pricing and terms. The Company measures its credit profile using a number of metrics, some of which are non-IFRS measures, primarily cash and cash equivalents, less long-term debt and bank indebtedness ("net cash (debt)") to earnings before interest, income taxes, depreciation, amortization, restructuring and other related costs ("EBITDA").

The Company's revolving term facility is subject to certain financial covenants. As at December 31, 2017, the Company was in compliance with all of these covenants.

In addition to credit facilities and equity, the Company uses leases and very limited recourse accounts receivable securitization programs as additional sources of financing.

The Company has maintained a stable dividend distribution that is based on a long-term sustainable net earnings base. From time to time, the Company has purchased shares for cancellation pursuant to normal course issuer bids and to satisfy awards under its Share Incentive Plan.

There have been no material changes to the Company's risk management activities during the year ended December 31, 2017.

Financial Instruments

The Company's financial assets and liabilities are classified into the following categories:

Cash and cash equivalents	Held for trading
Accounts receivable	Loans and receivables
Notes receivable	Loans and receivables
Accounts payable and accruals	Other financial liabilities
Long-term debt	Other financial liabilities
Derivative instruments[(i)]	Held for trading

[(i)] *These derivative instruments may be designated as cash flow hedges, fair value hedges or net investments in foreign operations hedge as appropriate.*

The Company applies hedge accounting as appropriate and uses derivatives and other non-derivative financial instruments to manage its exposures to fluctuations in foreign exchange rates, interest rates, and commodity prices.

The fair values and notional amounts of derivative financial instruments as at December 31 are shown below:

	2017			2016		
	Notional amount[(i)]	**Fair value**		Notional amount[(i)]	Fair value	
		Asset	**Liability**		Asset	Liability
Cash flow hedges						
Foreign exchange contracts[(ii)]	**$ 340,505**	**$ 4,225**	**$ 1,788**	$ 182,696	$ 348	$ 1,019
Fair value hedges						
Commodity contracts[(ii)]	**$ 44,822**	**$ —**	**$ 1,589**	$ 44,738	$ —	$ 848
Derivatives not designated in a formal hedging relationship						
Interest rate swaps	**$ —**	**$ —**	**$ —**	$ 520,000	$ 2,128	$ 5,893
Foreign exchange contracts[(ii)]	**$ 136,546**	**710**	**1,014**	$ 450,259	11,248	670
Commodity contracts[(ii)]	**$ 371,157**	**—**	**1,648**	$ 537,621	13,113	—
Total fair value		**$ 4,935**	**$ 6,039**		$ 26,837	$ 8,430
Current[(iii)]		**$ 4,935**	**$ 6,039**		$ 26,837	$ 8,430
Non-current		**—**	**—**		—	—
Total fair value		**$ 4,935**	**$ 6,039**		$ 26,837	$ 8,430

(i) *Unless otherwise stated, notional amounts are stated at the contractual Canadian dollar equivalent.*

(ii) *Derivatives are short-term and will impact profit or loss at various dates within the next 12 months.*

(iii) *As at December 31, 2017, the above fair value of current assets has been increased on the consolidated balance sheet by an amount of $9.8 million (2016: reduced by $3.4 million), which represents the excess or deficit of the fair market value of exchange traded commodities contracts over the initial margin requirements. The excess or deficit in maintenance margin requirements with the futures exchange is net settled in cash each day and is therefore presented as cash and cash equivalents.*

The fair value of financial assets and liabilities classified as loans and receivables and other financial liabilities (excluding long-term debt) approximate their carrying value due to their short-term nature.

The carrying value of long-term debt as at December 31, 2017 and 2016 approximates its fair value. The fair value of the Company's long-term debt has been classified as Level 2 in the fair value hierarchy and was estimated based on discounted future cash flows using current rates for similar financial instruments subject to similar risks and maturities.

Financial assets and liabilities classified as held-for-trading are recorded at fair value. The fair values of the Company's interest rate and foreign exchange derivative instruments were estimated using current market measures for interest rates and foreign exchange rates. Commodity futures and commodity options contracts are exchange-traded and over-the-counter. Fair value is determined based on exchange prices and other observable market data.

Derivatives not designated in a formal hedging relationship are classified as held-for-trading. Net gains and losses on financial instruments held-for-trading consist of realized and unrealized gains and losses on derivatives that were de-designated or were otherwise not in a formal hedging relationship.

For the year ended December 31, 2017, the Company recorded a gain of $18.6 million (2016: gain of $43.7 million) on financial instruments held for trading. The gain was mainly attributed to a gain in commodity exchange traded contracts which economically hedge and offset price risk volatility inherent in the hog operational business.

For the year ended December 31, 2017, the pre-tax amount of hedge ineffectiveness recognized in other income (expense) was a gain of $0.1 million (2016: loss of $0.0 million).

The table below sets out fair value measurements of financial instruments as at December 31, 2017 using the fair value hierarchy:

	Level 1	Level 2	Level 3	Total
Assets:				
Foreign exchange contracts	$ —	$ 4,935	$ —	$ 4,935
	$ —	**$ 4,935**	**$ —**	**$ 4,935**
Liabilities:				
Foreign exchange contracts	$ —	$ 2,802	$ —	$ 2,802
Commodity contracts	3,237	—	—	3,237
	$ 3,237	**$ 2,802**	**$ —**	**$ 6,039**

There were no transfers between levels for the year ended December 31, 2017. Determination of fair value and the resulting hierarchy requires the use of observable market data whenever available. The classification of a financial instrument in the hierarchy is based upon the lowest level of input that is significant to the measurement of fair value. For financial instruments that are recognized at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization at the end of each reporting period.

The risks associated with the Company's financial instruments and policies for managing these risks are detailed below.

Credit Risk

Credit risk refers to the risk of losses due to failure of the Company's customers and counterparties to meet their payment obligations.

In the normal course of business, the Company is exposed to credit risk from its customers, substantially all of which are in the retail, food service, industrial, and convenience channels. The Company performs ongoing credit evaluations of new and existing customers' financial condition, and reviews the collectibility of its trade accounts receivable and other receivables in order to mitigate any possible credit losses. The Company has accounts receivable outstanding greater than 60 days past due and maintains an allowance for doubtful accounts relating to specific losses estimated on individual exposures as described in Note 5. Average accounts receivable days sales outstanding for the year is consistent with historic trends.

Management believes concentrations of credit risk with respect to accounts receivable is limited due to the generally high credit quality of the Company's major customers, the large number and geographic dispersion of smaller customers, and the operation of the accounts receivable securitization facility as described in Note 23. The Company does, however, conduct a significant amount of business with a small number of large grocery retailers. The Company's two largest customers as at December 31, 2017 comprise approximately 22.3% (2016: one customer representing 13.2%) of total sales.

The Company is also exposed to credit risk on its notes receivable from an unconsolidated structured entity in respect of the accounts receivable securitization program as described in Note 23. Management believes that this credit risk is limited by the long-term AA debt rating held by the financial institution financing the third-party trust. The Company is exposed to credit risk on its cash and cash equivalents (comprising primarily of deposits with Canadian chartered banks) and non-exchange-traded derivative contracts. The Company mitigates this credit risk by transacting primarily with counterparties that are major international financial institutions with long-term debt ratings of A or higher. The Company's maximum exposure to credit risk at the balance sheet date consisted primarily of the carrying value of non-derivative financial assets and non-exchange-traded derivatives with positive fair values.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities.

The contractual undiscounted cash flows payable in respect of financial liabilities as at the balance sheet date, were as follows:

	December 31, 2017				
	Due within 1 year	**Due between 1 and 2 years**	**Due between 2 and 3 years**	**Due after 3 years**	**Total**
Financial liabilities					
Accounts payable and accruals	$ 300,659	$ —	$ —	$ —	$ 300,659
Long-term debt	1,083	1,083	1,083	6,944	10,193
Foreign exchange contracts	2,802	—	—	—	2,802
Commodity futures contracts	3,237	—	—	—	3,237
Other liabilities	26,237	1,511	960	1,949	30,657
Total	**$ 334,018**	**$ 2,594**	**$ 2,043**	**$ 8,893**	**$ 347,548**

The Company manages liquidity risk by monitoring forecasted and actual cash flows, minimizing reliance on any single source of credit, maintaining sufficient undrawn committed credit facilities and managing the maturity profiles of financial assets and financial liabilities to minimize re-financing risk.

As at December 31, 2017, the Company had available undrawn committed credit of $393.6 million (2016: $393.8 million) under the terms of its principal banking arrangements (Note 13). These banking arrangements are subject to certain covenants and other restrictions.

Market Risk

Interest Rate Risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates.

The Company's interest rate risk arises from long-term borrowings issued at fixed rates that create fair value interest rate risk and variable rate borrowings that create cash flow interest rate risk. In addition, the Company's cash balances are typically invested in short-term interest-bearing assets.

The Company manages its interest rate risk exposure by using a mix of fixed and variable rate debt and periodically using interest rate derivatives to achieve the desired proportion of variable to fixed-rate debt.

At December 31, 2017 and 2016, the Company had no variable rate debt, however, the Company is exposed to floating interest rates on its accounts receivable securitization program. As at December 31, 2017, the amount serviced pursuant to this program was $110.0 million at a weighted average interest rate of 1.4% (2016: $84.5 million at a weighted average interest rate of 1.0%). The maximum amount available to the Company under these programs is $110.0 million (2016: $110.0 million).

As at December 31, 2017, 7.8% (2016: 10.5%) of the Company's outstanding debt and revolving accounts receivable securitization program were not exposed to interest rate movements.

As at December 31, 2017, the Company had fixed-rate debt of $9.2 million (2016: $9.9 million) with a weighted average effective interest rate of 4.4% (2016: 4.3%). Changes in market interest rates cause the fair value of long-term debt with fixed interest rates to fluctuate but do not affect net earnings, as the Company's debt is carried at amortized cost and the carrying value does not change as interest rates change.

Foreign Exchange Risk

Foreign exchange risk refers to the risk that the value of financial instruments or cash flows will fluctuate due to changes in foreign exchange rates.

The Company's foreign exchange risk arises primarily from transactions in currencies other than Canadian dollars, U.S. dollar-denominated borrowings, and investments in foreign operations.

The Company uses foreign exchange forward contracts to manage foreign exchange transaction exposures. The primary currencies to which the Company is exposed to are the U.S. dollar and the Japanese yen. Qualifying foreign currency forward contracts are accounted for as cash flow hedges. As of December 31, 2017, $340.5 million (2016: $182.7 million) of anticipated foreign currency denominated transactions have been hedged with underlying foreign exchange forward contracts settling at various dates beginning January 2018. The aggregate net fair value of these forward contracts was a gain of $2.4 million as at December 31, 2017 (2016: loss of $0.7 million) that was recorded in accumulated other comprehensive income (loss) with an offsetting amount recorded in other current assets and liabilities. The Company also holds foreign exchange

contracts for $136.5 million (2016: $450.3 million) related to anticipated foreign currency denominated sales and purchases that are not held in a qualifying hedge relationship.

It is estimated that, all else constant, an adverse hypothetical 10% change in the value of the Canadian dollar against all relevant currencies would result in a decrease in the fair value of the Company's foreign exchange forward contracts of $2.9 million, with a corresponding decrease in earnings before taxes of $3.1 million offset by an increase in other comprehensive income before taxes of $0.3 million.

Commodity Price Risk

The Company is exposed to price risk related to commodities such as live hogs, fuel costs, and purchases of certain other agricultural commodities used as raw materials, including feed grains. The Company may use fixed price contracts with suppliers as well as exchange-traded and over-the-counter futures and options to manage its exposure to price fluctuations.

The Company uses futures to minimize the price risk assumed under forward priced contracts with suppliers. This includes futures contracts that are designated and accounted for as fair value hedges as well as non-designated derivative instruments.

The Company also uses futures to minimize the price risk of anticipated or forecasted transactions which are accounted for as cash flow hedges as well as non-designated derivative instruments.

Changes in the fair value of the cash flow hedging derivatives are recorded in other comprehensive income (loss) to the extent the hedge is effective in mitigating the exposure to the related anticipated transaction, and subsequently reclassified to earnings to offset the impact of the hedged items when they affect earnings. The Company did not have any futures contracts designated as cash flow hedging derivatives as at December 31, 2017 and 2016. The Company also holds commodity contracts designated as fair value hedges for $44.8 million (2016: $44.7 million) and has $371.2 million (2016: $537.6 million) in contracts that are not held in a qualifying hedge relationship.

It is estimated that, all else constant, an adverse hypothetical 10% change in market prices of the underlying commodities would result in a decrease in the fair value of underlying outstanding derivative contracts of $18.3 million, with a decrease in earnings before taxes of $13.7 million and $0.0 million in other comprehensive income (loss). The earnings before taxes include the offsetting impact of the commodity price risk inherent in the transactions being hedged.

Accumulated other comprehensive income (loss)

The Company estimates that $1.8 million, net of tax of $0.6 million, of the unrealized gain included in accumulated other comprehensive income (loss) will be reclassified into net earnings within the next 12 months. The actual amount of this reclassification will be impacted by future changes in the fair value of financial instruments designated as cash flow hedges. The actual amount reclassified could differ from this estimated amount.

During the year ended December 31, 2017, a gain of $9.4 million, net of tax of $3.3 million, was released to earnings from accumulated other comprehensive income (loss) and included in the net change for the year (2016: gain of $6.6 million, net of tax of $2.3 million).

18. OTHER INCOME (EXPENSE)

	2017	2016
Loss on disposal of property and equipment	**$ (4,362)**	$ (4,195)
Gain on sale of investment properties	**9,780**	5,430
Recovery from insurance claims	**5,000**	425
Net investment property expense	**(1,097)**	(1,819)
Impairment of assets	**(3,776)**	(2,831)
Interest income	**1,300**	2,790
Changes in provisions[(i)]	**4,410**	—
Net expense on non-designated interest rate swaps	**(3,786)**	(4,028)
Transaction costs on acquisitions	**(7,619)**	—
Change in fair value of non-designated interest rate swaps	**3,765**	3,955
Other	**(6)**	(3,323)
	$ 3,609	$ (3,596)

(i) *Primarily relates to changes in environmental provisions for investment properties no longer held by the Company and plants announced for closure.*

19. INTEREST EXPENSE AND OTHER FINANCING COSTS

	2017	2016
Interest expense on long-term debt	**$ 418**	$ 403
Interest expense on securitized receivables	**1,596**	1,520
Deferred finance charges	**1,197**	688
Other interest charges	**1,957**	2,308
Other financing costs	**—**	1,448
	$ 5,168	$ 6,367

20. INCOME TAXES

The components of income tax expense were as follows:

	2017	2016
Current tax expense		
Current year	**$ 9,272**	$ 4,767
	$ 9,272	$ 4,767
Deferred tax expense		
Origination and reversal of temporary differences	**$ 47,713**	$ 63,124
Change in tax rates	**(6,793)**	—
	$ 40,920	$ 63,124
Total income tax expense	**$ 50,192**	$ 67,891

Reconciliation of Effective Tax rate

Income tax expense varies from the amount that would be computed by applying the combined federal and provincial statutory income tax rates as a result of the following:

	2017	2016
Income tax expense according to combined statutory rate of 26.8% (2016: 26.8%)	**$ 57,430**	$ 66,891
Increase (decrease) in income tax resulting from:		
Deferred tax (recovery) expense relating to changes in U.S. tax rates	**(6,793)**	—
Tax rate differences in other jurisdictions	**531**	249
Manufacturing and processing credit	**(1,459)**	(1,714)
Share-based compensation	**1,015**	904
Non-deductible expenses	**343**	596
Unrecognized income tax benefit of losses	**138**	70
Adjustment for favorable tax audit resolution	**(697)**	—
Other	**(316)**	895
	$ 50,192	$ 67,891

Income Tax Recognized in Other Comprehensive Income (Loss)

	2017	2016
Derivative instruments	**$ 811**	$ 850
Pension adjustments	**(1,037)**	16,963
	$ (226)	$ 17,813

Deferred Tax Assets and Liabilities

Recognized Deferred Tax Asset and Liabilities

The Company has recognized deferred tax assets in the amount of approximately $61.5 million (2016: $56.0 million), relating primarily to tax losses carried forward and future deductions for employee benefits and restructuring expenses. These deferred tax assets are recorded based on the Company's estimate that it will earn sufficient taxable profits to fully utilize its tax losses in the appropriate carry over periods.

The Company has recognized deferred tax liabilities in the amount of approximately $142.0 million (2016: $78.3 million), relating primarily to claims for tax depreciation in excess of accumulated book depreciation, cash basis farming adjustments, and the excess of book value over the tax cost of intangible assets.

	As at December 31,	
	2017	2016
Deferred tax assets:		
Tax losses carried forward	**$ 18,295**	$ 13,794
Accrued liabilities	**4,916**	5,292
Employee benefits	**36,168**	35,830
Other	**2,122**	1,095
	$ 61,501	$ 56,011
Deferred tax liabilities:		
Property and equipment	**$ 83,344**	$ 34,759
Cash basis farming	**26,123**	26,096
Goodwill and other intangible assets	**32,532**	17,449
	$ 141,999	$ 78,304
Classified in the consolidated financial statements as:		
Deferred tax asset	**$ —**	$ —
Deferred tax liability	**80,498**	22,293

Unrecognized Deferred Tax Assets

The Company has no unrecognized deferred tax assets as at December 31, 2017 and 2016.

Unrecognized Deferred Tax Liabilities

Deferrred tax is not recognized on the unremitted earnings of subsidiaries and other investments as the Company is in a position to control the reversal of the temporary difference and it is probable that such differences will not reverse in the foreseeable future. The unrecognized temporary difference at December 31, 2017 for the Company's subsidiaries was $124.4 million (2016: $0.0 million).

21. EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing the net earnings of the Company by the weighted average number of shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net earnings of the Company by the weighted average number of shares outstanding during the year, adjusted for the effects of potentially dilutive instruments.

The following table sets forth the calculation of basic and diluted earnings per share ("EPS"):

	2017			2016		
Years ended December 31,	**Net earnings**	**Weighted average number of shares**(ii)	**EPS**	Net earnings	Weighted average number of shares(ii)	EPS
Basic	**$ 164,089**	**128.6**	**$ 1.28**	$ 181,702	134.2	$ 1.35
Stock options(i)		**3.8**			3.4	
Diluted	**$ 164,089**	**132.4**	**$ 1.24**	$ 181,702	137.6	$ 1.32

(i) *Excludes the effect of approximately 3.0 million (2016: 3.2 million) options and performance shares that are anti-dilutive.*

(ii) *In millions.*

22. SHARE-BASED PAYMENT

Under the Maple Leaf Foods Share Options Plan in effect as at December 31, 2017, the Company may grant options to its employees and employees of its subsidiaries to purchase shares of common stock. Under the Maple Leaf Foods Restricted Share Unit Plan (adopted in 2006) ("the 2006 Plan") in effect as at December 31, 2017, the Company may grant Restricted Share Units ("RSUs") and Performance Share Units ("PSUs") to its employees and employees of its subsidiaries entitling employees to receive common shares or cash at the Company's option. Options, RSUs, and PSUs are granted from time to time by the Human Resources and Compensation Committee or by the Board of Directors on the recommendation of the Human Resources and Compensation Committee. The vesting conditions for options, RSUs, and PSUs are specified by the Board of Directors and may include the continued service of the employee with the Company and/or other criteria based on measures of the Company's performance.

Under the Company's Share Purchase and Deferred Share Unit Plans ("DSU Plans"), eligible Directors may elect to receive their retainer and fees in the form of Deferred Share Units ("DSUs") or as common shares of the Company.

Stock Options

Since it was adopted in 2004, options were granted under the Share Incentive Plan. In 2016, the Share Option Plan was adopted and is the only plan under which options are granted after 2016. A summary of the status of the Company's outstanding stock options as at December 31, 2017 and 2016, and changes during these years are presented below:

	2017		2016	
	Options outstanding	**Weighted average exercise price**	Options outstanding	Weighted average exercise price
Outstanding, beginning of year	**4,260,000**	**$ 17.73**	3,608,000	$ 16.61
Granted	**782,200**	**30.98**	841,300	22.53
Exercised	**(435,800)**	**13.61**	(162,500)	17.39
Forfeited	**(50,000)**	**32.75**	(26,800)	20.28
Outstanding, end of year	**4,556,400**	**$ 20.23**	4,260,000	$ 17.73
Options currently exercisable	**3,019,200**	**$ 17.05**	2,554,900	$ 14.86

All outstanding stock options vest and become exercisable over a period not exceeding five years (time vesting) from the date of grant. The outstanding options have a term of seven years.

The number of options outstanding as at December 31, 2017, is as follows:

	Options outstanding			**Options currently exercisable**		**Options subject to timing vesting only**	
Range of exercise prices	**Number outstanding**	**Weighted average exercise price**	**Weighted average remaining term of options (in years)**	**Number exercisable**	**Weighted average exercise price**	**Number outstanding**	**Weighted average exercise price**
$11.36 to $11.85	1,308,500	$11.61	0.4	1,308,500	$11.61	—	$ —
$20.28 to $22.53	2,515,700	21.63	4.3	1,710,700	21.20	805,000	22.53
$30.86 to $30.86	732,200	30.86	6.2	—	—	732,200	30.86
Total Options	**4,556,400**	**$20.23**	**3.5**	**3,019,200**	**$17.05**	**1,537,200**	**$26.50**

The number of options outstanding as at December 31, 2016, is as follows:

	Options outstanding			Options currently exercisable		Options subject to timing vesting only	
Range of exercise prices	Number outstanding	Weighted average exercise price	Weighted average remaining term of options (in years)	Number exercisable	Weighted average exercise price	Number outstanding	Weighted average exercise price
$11.36 to $11.85	1,664,900	$11.64	1.4	1,664,900	$11.64	—	$ —
$20.28 to $22.53	2,595,100	21.63	5.3	890,000	20.88	1,705,100	22.03
Total Options	4,260,000	$17.73	3.8	2,554,900	$14.86	1,705,100	$22.03

At grant date, each option series is measured at fair value based on the Black-Scholes formula. Expected volatility is estimated by considering historic average share price volatility. The inputs used in this model for the options granted during the years ended December 31, 2017 and 2016 are shown in the table below[(i)]:

	2017	2016
Share price at grant date	**$31.50**	$23.14
Exercise price	**$30.98**	$22.53
Expected volatility	**23.32%**	23.71%
Option life (in years)[(ii)]	**4.5**	4.5
Expected dividend yield	**1.40%**	1.56%
Risk-free interest rate[(iii)]	**1.16%**	0.67%

(i) *Weighted average based on number of units granted.*

(ii) *Expected weighted average life.*

(iii) *Based on Government of Canada bonds.*

The fair value of options granted during the year ended December 31, 2017 was $4.5 million (2016: $3.4 million). Amortization charges relating to current and prior year options were $3.9 million (2016: $3.5 million).

Restricted Share Units and Performance Share Units

The awards granted under the 2006 Plan are satisfied either by shares to be purchased on the open market by a trust established for that purpose, or cash at the option of the Company at the time of vesting.

Under the 2006 Plan, one common share of the Company may be distributed for each RSU, and these units vest strictly over time. The PSUs are subject to both time and performance vesting. The PSUs provide the holder with up to two RSUs based on the achievement of predetermined Company performance targets. All outstanding RSUs and PSUs under the 2006 Plan vest over a period of approximately one to three years from the date of grant.

A summary of the status of the Company's RSU plans (including PSUs) as at December 31, 2017 and 2016 and changes during these periods is presented below:

	2017		2016	
	RSUs outstanding	**Weighted average fair value at grant**	RSUs outstanding	Weighted average fair value at grant
Outstanding, beginning of year	**1,570,669**	**$ 20.79**	1,598,462	$ 20.61
Granted	**720,813**	**30.65**	414,630	22.29
Exercised	**(666,721)**	**19.80**	(343,699)	22.48
Forfeited	**(63,066)**	**24.03**	(98,724)	18.55
Outstanding, end of year	**1,561,695**	**$ 25.61**	1,570,669	$ 20.79

On April 1, 2016, the Company communicated to its employees the intent to issue RSUs at which time the service period commenced. During the year ended December 31, 2017, the RSUs were formally granted. These units have a further two year service period.

None of the RSUs exercised were settled in cash (2016: 12,538 units). All of the Company's remaining outstanding RSUs are accounted for as equity-settled awards.

The fair value of RSUs and PSUs granted in 2017 was $18.9 million (2016: $7.6 million). Expenses for the year ended December 31, 2017 relating to current and prior year RSUs and PSUs, were $15.8 million (2016: $25.0 million). No RSUs or PSUs were cash settled in the year (2016: $0.7 million).

The key assumptions used in the valuation of fair value of RSUs granted during the year are shown in the table below[(i)]:

	2017	2016
Expected RSU life (in years)	**2.58**	3.22
Forfeiture rate	**14.4%**	17.4%
Risk-free discount rate	**0.9%**	0.4%

[(i)] *Weighted average based on number of units granted.*

Director Share Units

If an eligible Director elects to receive his or her retainer and fees as common shares of the Corporation, the Company purchases shares at market rates on behalf of the participating Directors.

Prior to 2013, if an eligible Director elected to receive his or her fees and retainer in the form of DSUs, each DSU had a value equal to the market value of one common share of the Company at the time the DSU is credited to the Director. DSUs attract dividends in the form of additional DSUs at the same rate as dividends on common shares of the Company. The value of each DSU is measured at each reporting date and is equivalent to the market value of a common share of the Company at the reporting date.

In 2013, the Company adopted a new Share Purchase and Deferred Share Unit Plan (the "2013 DSU Plan"), which replaced the Company's existing Share Purchase and Deferred Share Unit Plan (the "2002 DSU Plan"). The 2002 DSU Plan only allows for DSUs to be satisfied in cash, whereas the 2013 DSU Plan allows the Company, at its discretion, the flexibility to satisfy DSUs in common shares, either issued from treasury or purchased by the Company on the open market. DSUs outstanding under the 2002 DSU Plan will be governed by the terms of the 2002 DSU Plan, unless a participant elected in writing that his or her DSUs outstanding under the 2002 DSU Plan are to be governed by the 2013 DSU Plan.

The fair value of director share units expensed during the year ended December 31, 2017 was $1.4 million (2016: $1.4 million).

A summary of the status of the Company's outstanding DSUs as at December 31, 2017 and 2016, and changes during these years is presented below:

	2017		2016	
Units outstanding	**2013 DSU plan**	**2002 DSU plan**	2013 DSU plan	2002 DSU plan
Outstanding, beginning of year	**334,444**	**19,418**	293,234	19,169
Additions: granted	**40,866**	**—**	48,148	—
Additions: dividends reinvested	**4,352**	**259**	4,129	249
Exercised	**(127,920)**	**—**	(11,067)	—
Outstanding, end of year	**251,742**	**19,677**	334,444	19,418
Value of liability at December 31[(i)]	**$ —**	**$ 714**	$ —	$ 554

[(i)] *Value of liability is only applicable to the 2002 plan.*

23. COMPOSITION OF THE COMPANY

Unconsolidated Structured Entity

On August 26, 2016, the Company entered into a new three-year accounts receivable securitization facility. The maximum cash advance available to the Company under this program is $110.0 million. The new facility replaced the Company's existing facility that was due to mature on September 30, 2016. Under this facility, the Company has sold certain of its trade accounts receivable, with very limited recourse, to an unconsolidated third-party trust financed by an international financial institution with a long-term AA debt rating, for cash and short-term notes back to the Company. The receivables are sold at a discount to face value based on prevailing money market rates. The Company retains servicing responsibilities for these receivables. On termination of the previous facility the Company re-purchased all receivables and sold only a portion of these into the new facility.

Under the previous securitization facility, the Company had sold certain of its trade accounts receivable to an unconsolidated structured entity owned by a financial institution, under a revolving securitization program. The Company retained servicing responsibilities for these receivables. The structured entity financed the purchase of these receivables by issuing senior debt instruments to the financial institution, short-term mezzanine notes back to the Company, and an equity interest held by the financial institution. The maximum potential loss that could be borne by subordinated interests in the structured entity was a $1.5 million equity interest.

As at December 31, 2017, trade accounts receivable being serviced under this facility amounted to $124.9 million (2016: $116.2 million). In return for the sale of its trade receivables, the Company will receive cash of $96.0 million (2016: $83.7 million) and notes receivable in the amount of $28.9 million (2016: $32.5 million). The notes receivable are non-interest bearing and are settled on the settlement dates of the securitized accounts receivable. Due to the timing of receipts and disbursements, the Company may, from time to time, also record a receivable or payable related to the securitization facility. As at December 31, 2017, the Company recorded a net payable amount of $14.0 million (2016: $0.9 million net payable) in accounts payable and accruals.

The Company's maximum exposure to loss due to its involvement with a structured entity is equal to the current carrying value of the interest in the notes receivable due from the structured entity. The Company has not recognized any income or losses with its interest in unconsolidated structured entities for the year ended December 31, 2017 and 2016.

24. COMMITMENTS AND CONTINGENCIES

(a) The Company has been named as a defendant in several legal actions and is subject to various risks and contingencies arising in the normal course of business. Management is of the opinion that the outcome of these uncertainties will not have a material adverse effect on the Company's financial position.

The Company was added as a defendant in a class action lawsuit against a group of food retailers and bread manufacturers that are the subject of an investigation by the Competition Bureau relating to pricing practices. Maple Leaf Foods is not part of the investigation. The Company was added as a defendant to the class action as a result of the share ownership position it previously held in Canada Bread, and is of the view that the action does not present a material financial risk to the Company.

(b) In the normal course of business, the Company and its subsidiaries enter into sales commitments with customers, and purchase commitments with suppliers. These commitments are for varying terms and can provide for fixed or variable prices. The Company believes that these contracts serve to reduce risk, and does not anticipate that losses will be incurred on these contracts.

(c) The Company has entered into a number of construction contracts related to the construction of new and expansion of existing facilities. Contract commitments as at December 31, 2017 were $4.5 million (2016: $4.9 million).

(d) The Company has lease, rent, and other commitments that require minimum annual payments as follows:

2018	$	47,523
2019		37,382
2020		29,896
2021		23,914
2022		20,281
Thereafter		46,711
	$	**205,707**

For the year ended December 31, 2017, an amount of $28.9 million was recognized as an expense in earnings in respect of operating leases (2016: $33.2 million).

25. RELATED PARTY TRANSACTIONS

The Company sponsors a number of defined benefit and defined contribution plans. During the year ended December 31, 2017, the Company's contributions to these plans were $26.4 million (2016: $9.3 million).

Key Management personnel are those persons having authority and responsibility for planning, directing, and controlling the activities of the Company and/or its subsidiary, directly or indirectly, including any external director of the Company and/or its subsidiary.

Remuneration of key Management personnel of the Company is comprised of the following expenses:

	2017	2016
Short-term employee benefits		
Salaries, bonuses, and fees	**$ 13,448**	$ 13,084
Company car allowances	**316**	288
Other benefits	**139**	147
Total short-term employee benefits	**$ 13,903**	$ 13,519
Post-employment benefits	**902**	840
Share-based compensation	**12,753**	12,596
Total remuneration	**$ 27,558**	$ 26,955

During the year ended December 31, 2017, key Management personnel of the Company exercised 0.4 million (2016: 0.1 million) share options granted under the Maple Leaf Foods Share Option Plan for an amount of $5.9 million (2016: $1.3 million).

The Company’s largest shareholder is McCain Capital Inc. (“MCI”) which is beneficially owned and controlled by Mr. Michael H. McCain, Chief Executive Officer and President of the Company. For the year ended December 31, 2017, the Company received services from MCI in the amount of $0.5 million (2016: $0.6 million), which represented the market value of the transactions with MCI. As at December 31, 2017, $0.1 million (2016: $0.2 million) was owing to MCI relating to these transactions.

McCain Financial Advisory Services ("MFAS"), is an entity jointly controlled by individuals including Mr. Michael H. McCain. For the year ended December 31, 2017, the Company provided services to MFAS for a nominal amount which represented the market value of the transactions.

26. GEOGRAPHIC AND CUSTOMER PROFILE

Following the sale of the bakery and rendering businesses, the Company undertook significant reorganization of the internal leadership and reporting structure, as previously disclosed. The reorganization is now complete and the Company is arranged as a single, focused protein company. As such, the Company has transitioned to a single reporting segment.

Information About Geographic Areas

Property and equipment and investment property located outside of Canada was $9.4 million as at December 31, 2017 (2016: $0.2 million). Of this amount, $0.2 million (2016: $0.2 million) was in Japan and $9.2 million (2016: $0.0 million) was located in the U.S. Goodwill of $89.2 million (2016: $0.0 million) was attributed to operations outside of Canada.

Revenues earned outside of Canada for the year ended December 31, 2017, were $865.4 million (2016: $762.5 million). Of the total amount earned outside of Canada, $344.7 million (2016: $314.8 million) was earned in Japan and $294.7 million (2016: $236.1 million) was earned in the U.S. Revenue by geographic area is determined based on the shipping location.

Information About Major Customers

For the year ended December 31, 2017, the Company reported sales to two customers representing 12.0% and 10.3% (2016: one customer representing 13.2%) of total sales. No other sales were made to any one customer that represented in excess of 10% of total sales.

27. BUSINESS COMBINATIONS

On May 1, 2017, the Company acquired specific assets, liabilities and assembled workforce from a privately-held hog production operation for total consideration of $10.3 million. The acquisition has been accounted for as a business combination and no goodwill was recognized.

On March 10, 2017, the Company acquired 100% of the outstanding shares of Lightlife Foods Holdings, Inc. ("Lightlife"), a privately held U.S. based corporation engaged in the production and distribution of plant protein products.

Recognized goodwill is attributable to the skills, talent and artisanal expertise of Lightlife's work force and the Company's leadership position in the fast-growing plant protein market. The amount of goodwill expected to be deductible for tax purposes is $6.1 million.

The fair value of consideration transferred for the acquisition of Lightlife consists of the following:

		Purchase price
		March 10, 2017
Agreed-upon purchase price	$	188,566
Working capital adjustments		2,117
Total consideration paid in cash	**$**	**190,683**

The Company has finalized the amounts recorded in the business combination which resulted in the following adjustments to the preliminary purchase price allocation:

	Preliminary Amounts	Adjustments	Final Amounts
Current assets			
Cash	$ 766	$ —	$ 766
Accounts receivable[(i)]	3,968	—	3,968
Inventories	4,539	1,065	5,604
Prepaid expenses and other assets	626	—	626
Income taxes receivable	50	—	50
Non-current assets			
Property and equipment	14,536	(4,825)	9,711
Goodwill	133,854	(38,215)	95,639
Intangible assets	37,709	63,224	100,933
Current liabilities			
Accounts payable and accruals	(3,043)	—	(3,043)
Non-current liabilities			
Deferred tax liability	(2,322)	(21,249)	(23,571)
Total net assets acquired	**$ 190,683**	**$ —**	**$ 190,683**

(i) *Contractual cash flows not expected to be collected are not significant.*

During the year ended December 31, 2017, the Company recorded transaction costs of $7.6 million (2016: $0.0 million) related to acquisition activities, that have been excluded from the consideration paid and have been recognized as an expense in other income (expense).

28. SUBSEQUENT EVENTS

On November 30, 2017, the Company signed a definitive agreement to acquire 100% of the outstanding shares of The Field Roast Grain Meat Company, SPC, a privately held U.S. based corporation engaged in the production and distribution of premium grain-based protein and vegan cheese products. The transaction was subject to customary U.S. regulatory review, and was completed on January 29, 2018. The purchase price was US$120.0 million plus transaction costs settled through a combination of cash-on-hand and borrowings under the existing revolving credit facility as described in Note 13. The transaction will be accounted for as a business combination.