Value Added

MAPLE LEAF FOODS INC. | 2012 ANNUAL REPORT

Financial Highlights

For years ended December 31 *(In millions of Canadian dollars, except share information)*	**2012**	2011	2010	2009[i]	2008[i]
Consolidated results					
Sales	**4,865**	4,894	4,968	5,222	5,243
Adjusted operating earnings[ii]	**280**	259	215	196	128
Net earnings (loss)[iii]	**115**	82	29	52	(37)
Return on net assets[iv]	**10.8%**	10.0%	8.6%	5.9%	3.4%
Financial position					
Net assets employed[v]	**2,101**	1,907	1,966	2,416	2,348
Shareholders' equity	**891**	865	924	1,189	1,143
Net borrowings	**1,171**	984	902	1,016	1,023
Per share					
Adjusted earnings[ii]	**1.06**	1.01	0.73	0.57	0.29
Net earnings (loss)[iii]	**0.83**	0.59	0.22	0.40	(0.29)
Dividends	**0.16**	0.16	0.16	0.16	0.16
Book value	**6.36**	6.18	6.60	8.69	8.84
Number of shares (millions)					
Weighted average	**139.4**	138.7	135.6	129.8	126.7
Outstanding at December 31	**140.0**	140.0	140.0	136.8	129.3

(i) *2008 and 2009 figures are in accordance with Canadian GAAP, effective on or before January 1, 2010.*
(ii) *Refer to pages 34–37 of Management s Discussion & Analysis for definition.*
(iii) *Attributable to common shareholders.*
(iv) *Calculated by dividing tax-effected earnings, adjusted for items which are not considered representative of the underlying operations of the business, by average monthly net assets employed.*
(v) *Total assets, less cash, future tax assets and non-interest bearing liabilities.*

Sales by Group

Meat Products	62%
Bakery Products	32%
Agribusiness	6%

Domestic vs. International Sales

Domestic	77%
Other International	12%
U.S.	11%

Segmented Operating Results

Protein Group

(In millions of Canadian dollars)	**2012**	2011	% Change[i]
Meat Products Group			
Sales	**3,003**	3,039	(1.2)%
Adjusted operating earnings	**121**	96	26.3%
Total assets	**1,617**	1,466	10.4%
Agribusiness Group			
Sales	**295**	260	13.5%
Adjusted operating earnings	**68**	82	(16.4)%
Total assets	**275**	223	23.4%
Total Protein Group			
Sales	**3,298**	3,299	0.0%
Adjusted operating earnings	**190**	178	6.6%
Total assets	**1,893**	1,689	12.1%

Operating Groups
The Meat Products Group consists of value-added prepared meats; lunch kits; and value-added fresh pork, poultry and turkey products.
The Agribusiness Group operations include hog production and animal by-products recycling operations.
[i] Amounts may not recalculate due to rounding.

Bakery Products Group

(In millions of Canadian dollars)	**2012**	2011	% Change[i]
Total Bakery Products Group			
Sales	**1,567**	1,595	(1.7)%
Adjusted operating earnings	**98**	86	13.1%
Total assets	**1,005**	937	7.3%

The Bakery Products Group is comprised of Maple Leaf s 90.0% ownership in Canada Bread Company, Limited ("Canada Bread"), a producer of fresh and frozen value-added bakery products, and specialty pasta and sauces.
[i] Amounts may not recalculate due to rounding.

Total Assets by Group

Meat Products	50%
Bakery Products	31%
Agribusiness	8%
Non-allocated	11%

Adjusted Operating Earnings

Meat Products	43%
Bakery Products	34%
Agribusiness	23%

During 2012, Maple Leaf Foods continued to execute a comprehensive strategy to achieve significant earnings improvement and sustainable growth by increasing scale and productivity, simplifying its product portfolio and launching exciting new products. We can look back at a year of executing relentlessly against this plan, which will be largely complete by the end of 2014.

Maple Leaf Foods continues to be guided by strongly held corporate values and the determination to be a best-in-class, highly profitable consumer packaged foods company.

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Message to Shareholders

In late 2010 we announced that we were implementing a strategic plan to step-change our profitability and competitiveness from 2011 through 2015. Throughout 2012 we were unrelenting in our execution of this plan and our determination to accelerate our position as one of Canada's leading food companies.

MICHAEL H. McCAIN
President and Chief Executive Officer

The past 12 months have been marked by escalating food inflation, challenging food companies globally. Despite this, I am pleased to report that we made solid progress in both our base businesses and our strategic initiatives.

During 2012, we achieved an EBITDA margin of 8.6%, compared to 8.0% in 2011 and 7.2% in 2010. We also maintained a strong balance sheet and a debt to EBITDA ratio of 2.8x. We remain confident that we will achieve our long-term EBITDA margin target of 12.5% in 2015.

Our adjusted operating earnings were $280.0 million compared to $259.0 million in 2011. Adjusted earnings per share were $1.06 compared to $1.01 last year. While we know we are doing the right things and our strategies to increase profitability are working, we did not fully deliver the targets we set for ourselves last year. Our performance was significantly impacted by challenging pork markets and lower consumer demand in fresh bakery. We achieved solid improvements in almost every other aspect of our consumer-facing businesses. Throughout the year we strengthened our ability to expand margins through innovative products and marketing programs – strengths that are fundamental to our long-term growth.

2012 BUSINESS REVIEW

Meat Products Group

Meat Products Group sales for 2012 declined 1.2% to $3,003.4 million from $3,039.5 million in 2011. Adjusted operating earnings increased 26.3% to $121.3 million compared to $96.0 million last year. Although pork margins in the North American industry were the worst in a decade, we more than offset the impact through gains in our prepared meats and poultry businesses. Prepared meats earnings grew steadily throughout 2012, despite higher input costs. This was partially achieved through price increases implemented in 2011 and early 2012 to manage rising input costs.

More important, we fuelled growth and margin expansion through innovation and brand building. We listened to consumer concerns about healthier eating and rising food costs and developed products made with natural ingredients and packaged for convenience and value, most notably through further extension of our Naturals line of products. As a result we increased our market share across our core prepared meats categories for our flagship Maple Leaf® and Schneiders® brands. We also achieved strong results in our poultry business as we channeled more products into value-added sales. Volume growth of branded Maple Leaf Prime chicken was driven by the success of product and packaging innovations such as Maple Leaf Prime Naturally Portions™.

8.6%

We achieved an EBITDA margin of 8.6% in 2012, compared to 8.0% in 2011 and 7.2% in 2010.

$750 million

Our strategic capital investment of approximately $750 million over three years is among the largest single investments in the history of the Canadian food industry.

13.1%

Bakery Products Group adjusted operating earnings increased 13.1% despite weaker industry-wide consumer demand.

Also contributing to higher earnings were benefits from our network transformation initiatives, including the closure of three facilities and consolidation of production at other plants. We also realized significant benefits from continued simplification of our prepared meats portfolio.

Bakery Products Group

Bakery Products Group sales declined 1.7% to $1,566.6 million compared to $1,594.5 million in 2011. Adjusted operating earnings increased 13.1% to $97.6 million compared to $86.3 million last year.

While earnings increased in 2012, lower volumes, particularly in the fresh bakery business, challenged us throughout the year. There are several reasons for weaker demand including consumer concerns about gluten and carbohydrates, tighter family budgets and changes in consumer shopping patterns.

The fresh bakery team is successfully tackling these challenges through a number of initiatives. We are proactively working with industry partners through the Healthy Grains Institute, a not-for-profit organization launched in 2012 that is reaching out to consumers and nutrition and health professionals with factual information about the importance of grains in our diet. We are also executing integrated social media, promotional and television campaigns that reinforce health, convenience and great taste. Supporting this, we are offering consumers even more healthy choices.

But bread is also about fun and a little indulgence. We've re-launched Villaggio®, one of our strongest brands. Driven by new consumer-preferred packaging, strong in-store displays, coupons and advertising, Villaggio® sales and market share have increased significantly. We have programs in place to continue this growth in 2013.

All these initiatives have had an impact on stemming the decline in volume experienced in the first few months of the year. But this is a longer-term challenge affecting the entire industry, and we are continuing to step up our efforts to drive growth.

Our North American frozen bakery business improved throughout the year, delivering earnings that were significantly ahead of 2011. We delivered new business and higher sales volumes; protected margins through price increases; and reduced selling, general and administrative expenses. Our ability to partner with customers that lead their market channels has solidified this business and helped create a myriad of new innovative products. We are very pleased with the momentum in this business.

Our U.K. bakery business has benefited from a tighter focus on our core categories of bagels, croissants and specialty breads and our decision to exit less profitable categories. We closed our bakery in Walsall, U.K., and focused production in our facilities in Rotherham, London and Maidstone, reducing operating costs and establishing a higher value sales mix. We are installing a third bagel line at Rotherham to support the launch of a new campaign around the extraordinarily popular line of New York Bakery Co.® bagels. We also secured a significant new customer account in our U.K. croissant business, which will expand capacity utilization at our Maidstone facility.

Performance in our fresh pasta business was very disappointing last year and impacted results in the Bakery Products Group. We experienced supply chain issues coupled with higher costs that were not offset through pricing. Actions are underway to restore historic levels of profitability in this business.

Agribusiness Group

Sales in the Agribusiness Group for 2012 increased 13.5% to $294.7 million in 2012 from $259.6 million in 2011. Adjusted operating earnings declined 16.4% to $68.4 million compared to $81.9 million last year. Lower earnings largely reflected higher feed costs and lower market prices for hogs. Earnings in the by-products recycling operations also declined year-over-year as raw material and operating costs increased.

PROGRESS ON OUR STRATEGIC PLAN

In 2012, we made steady progress on the implementation of our strategic plan to increase margins and shareholder returns. Our strategic capital investment of approximately $750 million over three years is among the largest single investments in the history of the Canadian food industry. It will introduce new manufacturing technologies to Canada and make our Company more competitive globally and significantly more profitable.

During 2012, our strategic capital expenditures were $212 million, focused on three major initiatives:

- $176 million in our prepared meats network
- $11 million to complete our Hamilton bakery
- $25 million on our SAP implementation

This is less than we initially anticipated, reflecting lower expenditures in our base businesses and approximately $60 million less in strategic capital spending due to timing of equipment delivery, with no material impact on construction timing.

Expanding Prepared Meats Margins

We began a journey in 2007 to dramatically improve profitability in our Protein Group. Through the restructuring of our pork operations we increased our Protein EBITDA margins from 4.0% in 2006 to 6.6% in 2010. We are now mid-way through executing a transformation in our prepared meats business, which contributed to delivering an EBITDA margin of 8.2% in 2012, with a target to reach 12.5% in 2015.

Our strategic initiatives are expanding margins by attacking costs and creating efficiencies in two ways: increasing scale and establishing a simplified portfolio of higher margin, higher volume products.

26.3%

Adjusted operating earnings in our Meat Products Group increased 26.3% to $121.3 million compared to $96.0 million in 2011.

Double productivity

We've installed link sausage technology that is the first of its kind in Canada, which, in combination with the expansion, is expected to more than double productivity at our facility in Saskatoon.

Scale

The expansion of our cooked sausage plant in Saskatoon was completed last summer, with commissioning and volume ramp-up continuing through 2013 with the transfer of production from other facilities in Eastern Canada. We've installed link sausage technology that is the first of its kind in Canada, which, in combination with the expansion, is expected to more than double productivity at this facility.

We began the process of consolidating our bacon production into a single, world-class operation by expanding our prepared meats facility in Winnipeg. The total footprint of this plant is 345,000 square feet, making it the second largest in our prepared meats network. The expansion was completed and commissioning began on schedule in late 2012.

Construction of our 402,000 square foot state-of-the-art prepared meats plant in Hamilton, Ontario, is also underway, with commissioning scheduled to commence later in 2013. This facility will consolidate the production of deli and sliced meats and wieners now being produced in five plants in three provinces. This plant has been designed to attain a silver certification under the LEED® ("Leadership in Energy and Environmental Design") New Construction program, a green building rating system of environmental performance criteria.

We have also made substantial progress on consolidating our distribution network. We completed the transformation of our Western Canadian network with the transfer of volume into our Saskatoon distribution centre and the closure of our warehouse in British Columbia. To serve Eastern Canada more efficiently we began construction of a new distribution centre in Ontario, which will commence operations later in 2013. We will consolidate five distribution centres into this scale facility by the end of 2014.

While these are large and complex projects, we have dedicated and highly experienced teams assigned to each one of them, using Six Sigma project methodologies to provide a high degree of rigour to each phase of execution. We are transferring production gradually to new plants to reduce risk and maintain continuous service to customers. We are very pleased at the progress of our plan to date, which is demonstrating a fine balance between growing the existing business and executing very complex change across the organization.

Simplification

During 2012, we continued to streamline our key categories by eliminating or standardizing more than 1,400 unique products. Streamlining the portfolio into fewer, larger volume and higher margin products is simply good business, but it is also a critical forerunner to deriving maximum benefit from the technologies and capacity at the new scale facilities. The impact on raw material, packaging and processing costs – and consequently on margin expansion – has exceeded our expectations.

When we are finished we will have standardized or eliminated approximately half of our prepared meat products – reducing downtime, line changeovers, allergens and unique recipe formulations – and shifted our focus to higher volume, more profitable products. After our network transformation, our “Simplify” plan is the biggest contributor to margin expansion in our prepared meats business, without requiring any capital investment.

Consolidating Our Bakery Volume

Commissioning of our new bakery in Hamilton, Ontario, continued throughout 2012. Opened in 2011, this is Canada’s largest commercial bakery, producing white and whole wheat breads, buns and English muffins. Additional lines were commissioned during the year as two smaller bakeries were closed. Duplicative overhead costs will continue until production at a third Toronto bakery is transferred and the facility closes in 2013. The new Hamilton facility will be accretive to results in 2013, with benefits ramping up in 2014 and beyond.

Implementing SAP

By the end of 2012, implementation of our SAP enterprise resource planning software was approximately 80% complete. Our conversion to SAP was launched in spring 2009 and we’ve had 67 go-lives since then, integrating numerous legacy systems onto one operating platform. A new deployment occurred almost monthly, a timetable that SAP acknowledges is one of the most ambitious they have seen. Even more important, the system was installed with minimal modifications to the software. This disciplined approach enforced a standardization of business processes that is an essential precursor to transitioning Maple Leaf to a shared services model, which will yield significant cost and efficiency gains. With our deployments significantly complete, we are also moving beyond implementation to mining the benefits provided by SAP through enhanced analytics and real-time information.

WHAT’S AHEAD IN 2013

We have an aggressive agenda for 2013. Our key planks for earnings growth include improvements in bakery and prepared meats, underpinned by strong innovation, marketing and sales execution, and continuing the steady execution of our strategic plan.

Over the coming year, we will significantly increase our capital investments as we continue to build scale and deliver margin growth across the Company. We plan to spend approximately $485 million in 2013, primarily to complete the construction of our new prepared meats facility in Hamilton and the new Eastern Distribution Centre.

We anticipate continued major growth in our prepared meats business driven in part by our transformation initiatives, but also by the contribution from higher value innovation and category expansion. Product extensions hit the stores early in 2013 as we continue to expand our very popular Maple Leaf® and Schneiders® Country Naturals™ lines into other categories. Commissioning of our expanded facilities in Winnipeg and Saskatoon will also continue, with production transferring from other facilities, and our plant in North Battleford scheduled to close in the first half of 2013.

1,400

We eliminated or standardized more than 1,400 unique prepared meats products, streamlining our portfolio into larger volume and higher margin products.

80%

By the end of 2012, implementation of our SAP enterprise resource planning software was approximately 80% complete.

Values

To establish a benchmark and build upon the transparency that is one of the hallmarks of our values, we are publishing our first sustainability report in 2013.

12.5%

We remain confident that we will achieve our long-term consolidated EBITDA margin target of 12.5% in 2015.

While we have invested significant time and resources to determine and implement the best path to optimize value in our Protein Group, our Bakery Products Group has not benefited from the same comprehensive strategic focus. We are developing a strategic blueprint to realize the full growth and earnings potential of our Bakery Products Group. This includes growth platforms, geographic diversity, category diversification and cost reduction opportunities. This plan will establish a clear path to realizing higher levels of growth and profitability across these businesses.

We will also launch our transition to a business services model, which is where the most tangible near-term gain from our SAP implementation will occur. Today we provide essential internal services to support our businesses from multiple locations. Over the next couple of years, we expect to realize significant and sustained business and financial benefits through centralizing and enhancing how we deliver many of these services.

Embedded within many of our transformation initiatives are opportunities to advance our sustainability platforms: creating a safe and rewarding workplace, reducing our environmental impact, improving the safety and quality of our food products, increasing our scale and competitiveness, enhancing the nutritional benefits of our products, and engaging with our communities. To establish a benchmark and build upon the transparency that is one of the hallmarks of our values, we are publishing our first sustainability report in 2013. The discussion of our accomplishments, challenges and opportunities is supported by data on a wide range of areas that advance our sustainability. I encourage you to download our report at www.mapleleaffoods.com/sustainability.

DELIVERING A STRONGER RETURN TO SHAREHOLDERS

Over the past four years we have successfully transformed our hog and pork processing business, executed strategic transformation initiatives across our bakery businesses and rolled out an integrated SAP system across a large portion of our Company. In 2012 we launched a number of initiatives within our value creation plan, primarily in the prepared meats business. We expect much of the construction phase of that plan to be completed by the end of 2013.

The final year of our plan, 2014, will be one of consolidation. We will close four prepared meats plants and consolidate higher volume production into four scale manufacturing facilities – Brampton, Hamilton, Saskatoon and Winnipeg – and distribution centres in Saskatoon and Guelph.

We've already seen the results of our ambitious plan, driven by higher productivity and yields and lower aggregate overhead:

- Consolidating production at efficient scale facilities will continue to increase productivity to levels consistent with those achieved by global consumer packaged food companies
- New technologies and equipment are increasing yields and supporting innovation and food benefits
- Overhead costs will decline further as we consolidate operations at multiple smaller facilities and migrate to a centralized shared services model

We've said consistently that we are committed to maintaining an investment-grade balance sheet and a disciplined approach to capital investment. We have sufficient capacity to fund our base and strategic capital requirements and provide acceptable levels of liquidity, supported by continued earnings growth. The maturities on our debt extend beyond the plan's peak spending periods, with the next significant maturity in 2014.

While cost reduction will yield the greatest improvement in our near-term margin expansion, growing our market share through innovative products, compelling marketing and excellent sales execution is critical to driving profitable growth over the longer term. We have developed much deeper bench strength and focus in these areas, which will accelerate our earnings growth well beyond 2015.

LOOKING FORWARD

We are heading into a challenging year, in part because of the sheer magnitude of the task that lies ahead of us as we continue our transformation. We know that we have the right plan for our Company and that our strategies are working. But these complex change initiatives are not without challenge or risk. We have identified potential threats and developed mitigation strategies for each one. Our execution to date has been very successful.

At the same time, we are also entering a period of escalating food costs. The USDA has predicted a potential 3% to 4% increase in food costs in 2013 as a result of the worst drought in the U.S. Midwest in 50 years. This will be a challenging, but manageable, issue. We've faced significant food inflation before and we've demonstrated that we can manage rising input costs through strategic buying, responsible price increases, innovation and diligent cost management.

The transformational changes underway at Maple Leaf are essential to our business, but will impact many people who have committed their loyalty and hard work to our Company. We deeply regret the consequences and will treat them with utmost respect and fairness, while working with affected communities to create other sources of employment and taxation.

The final phase of our strategic plan is the most significant contributor to earnings growth. The culmination of our efforts will be a significantly more profitable and competitive company. We acknowledge daily the trust our shareholders place in us and we are committed to rewarding that trust with results.

Sincerely,

MICHAEL H. McCAIN
President and Chief Executive Officer

MICHAEL H. VELS
Executive Vice-President and
Chief Financial Officer

RICHARD A. LAN
Chief Operating Officer, Food Group

J. SCOTT McCAIN
President and Chief Operating Officer,
Agribusiness Group

Message from the Chairman

The primary responsibility of the Maple Leaf Foods Board of Directors is the stewardship and oversight it brings to the management of this great food company. We are focused on doing what's right for our people, the business and the creation of value for all shareholders. This responsibility has never been more demanding than at this time in the Company's history.

The year 2012 was one of transition – for the Company and the Board. Over the past three years, six directors retired and two new directors were elected, reducing the Board size from 14 to 10 directors. I became Chairman, tasked with filling the formidably large shoes of Purdy Crawford, who retired from the Board last year.

On the election of the new Board, there was a significant reassignment of directors to the Board's standing committees as well as committee chairs. Our aim was to take a fresh look at the matters under each committee mandate. In addition to my orientation program with the Company and its operations, I spent a good deal of time meeting individually with directors to ensure alignment around the Company's game plan for the years ahead.

The first priority has to be successful execution of our major value creation and capital expenditure program, and the realization of significant earnings improvements through 2015. The current economic and competitive environment is unforgiving and demands a high level of managerial rigour and adaptability. While progress is being made, the Board is mindful that the next phase of the strategy is critical to achieving our earnings targets.

More than ever, Maple Leaf's success as a public company requires a high standard of corporate governance. Of the 10 members of our Board, eight have been determined by the Corporate Governance Committee to be independent. Our independent directors are experienced business leaders offering a diverse portfolio of skills and competencies. Board engagement is strong and discussions are informed by extensive analysis, candid debate and ready access to Management. To further deepen the Board's understanding of the business, we also operate a unique program called Board Connect. Board Connect pairs each director with an operating company president or senior leader in one of our businesses for a day. This creates a continuing opportunity for an exchange of information and to build a deeper understanding of the business.

We regularly evaluate our practices by monitoring Canadian governance and regulatory developments, evolving our own governance practices based on what is best for the health and safety of our employees, for our customers and for returns to our shareholders. Operating with integrity at all times, we plan to build on the accomplishments of 2012 as we consistently grow value in 2013 and beyond.

Sincerely,

DAVID L. EMERSON
Chairman

Renewal

Over the past three years the Board has been reduced from 14 to 10 directors, a lean board tightly focused on realizing significant earnings improvement.

Board Connect

We operate a unique program that pairs each director with a senior leader for a day. This creates a continuing opportunity for an exchange of information and to build a deeper understanding of the business.

Corporate Governance and Board of Directors

CORPORATE GOVERNANCE

The Board of Directors and Management of the Company are committed to maintaining a high standard of corporate governance. The Board has responsibility for the overall stewardship of the Company and discharges such responsibility by reviewing, discussing and approving the Company's strategic planning and organizational structure and supervising Management with a view to preserving and enhancing the underlying value of the Company. Management of the business within this process and structure is the responsibility of the Chief Executive Officer and Senior Management.

The Board has adopted guidelines to assist it in meeting its corporate governance responsibilities. The roles of the Board, the Chief Executive Officer, the Chairman and the individual committees are clearly delineated. Together with the Chairman and the Corporate Governance Committee, the Board assesses its processes and practices regularly to ensure its governance objectives are met.

COMPOSITION OF THE BOARD OF DIRECTORS

The Board is comprised of experienced directors with a diversity of relevant skills and competencies. The Board of Directors has assessed each of the Company's eight non-management directors to be independent.

A more comprehensive analysis of the Company's approach to corporate governance matters is included in the Management Proxy Circular for the May 2, 2013 annual meeting of shareholders.

BOARD OF DIRECTORS

W. GEOFFREY BEATTIE
Deputy Chairman, Thomson Reuters
(Media and financial data company)

GREGORY A. BOLAND
President and Chief Executive Officer,
West Face Capital Inc.
(Investment manager)

JOHN L. BRAGG, O.C.
Chairman, President and
Co-Chief Executive Officer,
Oxford Frozen Foods
(Food manufacturing)

THE HONOURABLE DAVID L. EMERSON
Chairman, Emerson Services Ltd.
(Privately held professional
services company)

JEFFREY GANDZ
Professor, Managing Director – Program
Design, Richard Ivey School of Business,
University of Western Ontario

CLAUDE R. LAMOUREUX, O.C.
Corporate Director

J. SCOTT McCAIN
President and Chief Operating Officer,
Agribusiness Group,
Maple Leaf Foods Inc.

MICHAEL H. McCAIN
President and Chief Executive Officer,
Maple Leaf Foods Inc.

DIANE E. McGARRY
Corporate Director

JAMES P. OLSON
Corporate Director

Senior Management and Officers

COMMITTEES OF THE BOARD OF DIRECTORS

STANDING COMMITTEES

Audit Committee

D.E. McGARRY, CHAIR
J.L. BRAGG
C.R. LAMOUREUX
J.P. OLSON

Corporate Governance Committee

J. GANDZ, CHAIRMAN
W.G. BEATTIE
G.A. BOLAND
D.L. EMERSON

Environment, Health and Safety Committee

J.L. BRAGG, CHAIRMAN
D.L. EMERSON
J. GANDZ
D.E. McGARRY

Human Resources and Compensation Committee

J.P. OLSON, CHAIRMAN
W.G. BEATTIE
G.A. BOLAND
C.R. LAMOUREUX

CORPORATE COUNCIL

MICHAEL H. McCAIN
President and Chief Executive Officer

J. SCOTT McCAIN
President and Chief Operating Officer, Agribusiness Group

RICHARD A. LAN
Chief Operating Officer, Food Group

MICHAEL H. VELS
Executive Vice-President and Chief Financial Officer

DOUGLAS W. DODDS
Chief Strategy Officer

LESLIE P. DAKENS
Senior Vice-President and Chief Human Resources Officer

ROCCO CAPPUCCITTI
Senior Vice-President, Transactions & Administration and Corporate Secretary

LYNDA J. KUHN
Senior Vice-President, Communications

EXECUTIVE COUNCIL

(Includes members of the Corporate Council and Senior Operating Management as follows)

PETER BAKER
President, Maple Leaf Bakery U.K.

KENNETH G. CAMPBELL
Senior Vice-President, Manufacturing

MARYANNE D. CHANTLER
President, Olivieri Foods

DANIEL J. CURTIN
President, Canada Bread Frozen Bakery

KEVIN P. GOLDING
President, Rothsay and Maple Leaf Agri-Farms

STEPHEN GRAHAM
Chief Marketing Officer

RANDALL D. HUFFMAN
Chief Food Safety Officer and Senior Vice-President, Quality and Six Sigma

E. JEFFREY HUTCHINSON
Chief Information Officer

BILL KALDIS
Senior Vice-President, Logistics

GARY MAKSYMETZ
President, Maple Leaf Consumer Foods

RORY A. McALPINE
Vice-President, Government and Industry Relations

BARRY McLEAN
President, Canada Bread Fresh Bakery

DEBORAH K. SIMPSON
President, Maple Leaf Business Services

PETER C. SMITH
Vice-President, Corporate Engineering

RICHARD YOUNG
Executive Vice-President, Transformation, Maple Leaf Consumer Foods

OTHER CORPORATE OFFICERS

J. NICHOLAS BOLAND
Vice-President, Investor Relations

GLEN L. GRATTON
Vice-President, Maple Leaf Agri-Farms

DIANNE SINGER
Assistant Corporate Secretary

Management's Discussion and Analysis

February 25, 2013

THE BUSINESS

Maple Leaf Foods Inc. ("Maple Leaf Foods" or the "Company") is a leading Canadian-based value-added meat, meals and bakery company committed to delivering quality food products to consumers around the world. Headquartered in Toronto, Canada, the Company employs approximately 20,000 people at its operations across Canada and in the United States, Europe and Asia.

OPERATING SEGMENTS

The Company's results are organized into three segments: Meat Products Group, Agribusiness Group and Bakery Products Group.

The Meat Products Group includes value-added prepared meats, lunch kits, and value-added fresh pork, poultry and turkey products.

The Agribusiness Group includes hog production, animal by-products recycling and biodiesel operations.

The combination of the Company's Meat Products Group and Agribusiness Group comprises the Protein Group.

The Bakery Products Group is comprised of Maple Leaf Foods' 90.0% ownership in Canada Bread Company, Limited ("Canada Bread"), a producer of fresh and frozen value-added bakery products, and fresh pasta and sauces.

FINANCIAL OVERVIEW

In 2012, sales decreased 0.6% to $4,864.8 million compared to $4,893.6 million last year. After adjusting for the impact of divestitures and currency fluctuations, sales decreased 0.3% as higher selling prices and improved product mix were offset by lower volumes.

Adjusted Operating Earnings(1) increased 8.1% to $280.0 million in 2012 compared to $259.0 million last year, driven by strong performance in the Meat and Bakery Products Groups. Adjusted Earnings per Share(2) was $1.06 in 2012 compared to $1.01 last year. Adjusted Earnings per Share in 2011 included $12.2 million, or $0.09 per share, relating to tax adjustments associated with a prior acquisition.

Net earnings were $122.7 million ($0.83 basic earnings per share) in 2012 compared to $87.3 million ($0.59 basic earnings per share) last year. Net earnings included $47.5 million ($0.25 per share) of pre-tax costs related to restructuring activities (2011: $79.8 million, or $0.41 per share).

Several items are excluded from the discussions of underlying earnings performance as they are not representative of ongoing operational activities. Refer to the section entitled Non-IFRS Financial Measures at the end of this Management Discussion and Analysis on page 34 for a description and reconciliation of all non-IFRS financial measures.

Notes:

(1) *Adjusted Operating Earnings, a non-IFRS measure, is used by Management to evaluate financial operating results. It is defined as earnings before income taxes adjusted for items that are not considered representative of on-going operational activities of the business, and items where the economic impact of the transactions will be reflected in earnings in future periods when the underlying asset is sold or transferred.*

(2) *Adjusted Earnings per Share, a non-IFRS measure, is used by Management to evaluate on-going financial operating results. It is defined as basic earnings per share attributable to common shareholders, and is adjusted for all items that are not considered representative of on-going operational activities of the business, and items where the economic impact of the transactions will be reflected in earnings in future periods when the underlying asset is sold or transferred.*

Please refer to the section entitled Non-IFRS Financial Measures starting on page 34 of this Management's Discussion and Analysis for description and reconciliation of all non-IFRS financial measures.

SELECTED FINANCIAL INFORMATION

The following table summarizes selected financial information for the three years ended December 31:

($ millions except earnings per share)	**2012**	2011	2010
Sales	**$ 4,864.8**	$ 4,893.6	$ 4,968.1
Adjusted Operating Earnings[(i)]	**$ 280.0**	$ 259.0	$ 214.5
EBITDA[(i)]	**$ 418.7**	$ 391.2	$ 357.9
EBITDA %[(i)]	**8.6%**	8.0%	7.2%
Net earnings	**$ 122.7**	$ 87.3	$ 35.6
Adjusted Earnings per Share[(i)]	**$ 1.06**	$ 1.01	$ 0.73
Basic earnings per share	**$ 0.83**	$ 0.59	$ 0.22
Diluted earnings per share	**$ 0.81**	$ 0.58	$ 0.21
Total assets	**$ 3,243.7**	$ 2,940.5	$ 2,834.9
Net Debt[(i)]	**$ 1,171.3**	$ 984.0	$ 901.8
Total long-term liabilities	**$ 1,742.7**	$ 1,421.6	$ 756.2
Return on Net Assets ("RONA")[(i)]	**10.8%**	10.0%	8.6%
Cash provided by operating activities	**$ 218.1**	$ 244.8	$ 285.2
Cash dividends per share	**$ 0.16**	$ 0.16	$ 0.16

[(i)] *Refer to the section entitled Non-IFRS Financial Measures starting on page 34 of this document.*

DISCUSSION OF FACTORS IMPACTING THE COMPANY'S OPERATIONS AND RESULTS

Value Creation Plan

In 2011, the Company began the execution of a comprehensive plan that would transform the Company into a stronger, more competitive and more profitable business. The Value Creation Plan (the "Plan") was based on extensive research to benchmark operating costs and margins against large North American food companies and identified significant opportunities to increase profitability and margins through changes in supply chain, information systems and pricing strategies.

The Plan is designed to increase margins in each year through 2015. It focuses on lowering costs in the prepared meats business through reducing product complexity, closing less efficient manufacturing and distribution operations and consolidating production and distribution into a smaller number of efficient scale facilities or "centres of excellence". In the Bakery Group, cost reductions are related to a new, more efficient fresh bakery in Hamilton, Ontario. Throughout the Company, the implementation of SAP and more effective pricing strategies are expected to reduce costs, improve operating efficiencies and drive higher gross margins. These and other initiatives are expected to result in earnings before interest, tax, depreciation and amortization ("EBITDA") margins of 12.5% in 2015.

Value Creation Initiatives – 2012 Progress to Date

Complexity Reduction

In 2012, the Company benefited from cost reductions that began in 2011, through initiatives to standardize product formulations, sizes and specifications, and eliminate lower volume, lower value product lines in prepared meats. These complexity reduction initiatives generated immediate financial returns by creating longer, more efficient production runs and less distribution complexity and will enable the transfer of production to larger, scale facilities. The first phase of complexity reduction initiatives, which focus on wieners, deli and sliced meats, sausage and value-added ham, is substantially complete.

Early Closure of Prepared Meats Plants

During 2011, the Company completed the closure of two prepared meats facilities; a manufacturing facility in Berwick, Nova Scotia was closed in April and sold in June; and a manufacturing facility in Surrey, British Columbia was closed and sold in September. The production from these plants was transferred to existing facilities. These early value creation initiatives were accretive to earnings in 2011 and 2012.

New Ontario Fresh Bakery Plant

In 2012, the Company commissioned a new, more efficient fresh bakery in Hamilton, Ontario. In early 2012, two of three bakeries in the Greater Toronto Area were closed and production was transferred to the Hamilton bakery. Closure of the third Ontario bakery is scheduled for the second quarter of 2013.

Optimizing Pricing and Promotions

The Company is supporting margin through increasing the effectiveness of its pricing, promotions and category management strategies. This includes managing inflationary costs through appropriate price increases; reducing the percentage of products sold on promotion; increasing the impact of its in-store promotional activities; and continuing to increase the value of its selling mix through innovation, brand building and effective category management. Supported by these initiatives, the Company realized strong margin growth in its prepared meats business in 2012.

SAP Implementation

As of the end of 2012 the Company had successfully completed 67 SAP go-lives, with 13 taking place during the year. As a result, most of the Company's businesses now operate on SAP, with increased controls and capabilities. The installations to date have been successful, with short-term operating issues resulting from implementation in the fresh bakery Western Canada operations resolved. Remaining implementations still to be completed include two fresh bakery regions, the fresh pasta business, and some supply chain and distribution functionality related to the construction of new manufacturing and distribution facilities in the prepared meats operations.

Rationalizing Prepared Meats Network

The Company's prepared meats network is the legacy of numerous acquisitions, resulting in many regional, sub-scale facilities. By the end of 2014 the Company expects to consolidate prepared meats production from eight smaller facilities to three existing plants and one new facility in Hamilton, Ontario. Of these eight smaller plants, two were closed during 2011. A bacon plant in North Battleford, Saskatchewan is expected to close in 2013, while the remaining five plants in Kitchener, Hamilton, Moncton, Toronto and Winnipeg, are expected to be closed by the end of 2014. Total capital investment related to network enhancements is estimated to be approximately $560 million. When complete by 2015, the Company believes that it will be a more competitive and significantly more profitable business, with an excellent platform for growth. As at the end of 2012, the Company had invested $202 million in its prepared meats network.

The new facility in Hamilton, Ontario, with an expected investment of approximately $395 million, will focus on high efficiency production of wieners and deli meats, consolidating production of deli, sliced meats and wieners from five existing plants in three provinces. Construction of the 402,000 square foot state-of-the-art facility is underway, with commissioning scheduled to commence later in 2013.

The Company expects to invest approximately $155 million to expand and upgrade three other existing facilities in Saskatoon, Winnipeg and Brampton. The Saskatoon facility will specialize in cooked smoked sausages, wieners and meat snacks, the Winnipeg plant will become a centre of excellence for value-added ham products and bacon, and the Brampton location will focus on the production of boxed meats and fresh and frozen sausages. These expansions also provide additional production capacity to support growth from new product innovation.

The expansion of the cooked sausage plant in Saskatoon was completed in the summer of 2012, with commissioning continuing through 2013 as production is transferred from facilities in Eastern Canada.

The process of consolidating bacon production into an expanded facility in Winnipeg, Manitoba began towards the end of 2012, as bacon lines were installed and tested. Management expects that the production transfer from its bacon plant in North Battleford, Saskatchewan will be completed in the first half of 2013, enabling the closure of that facility.

Investing in Leading Edge Technologies

The transition to fewer, more efficient facilities will enable the installation of best in class technologies that will enable the Company to attain world-class levels of product preparation, cooking, and packaging to enhance productivity and overall product quality, and further enhance food safety.

Increasing Productivity and Distribution Efficiencies

The rationalization of sub-scale plants and the investments in new technologies are expected to enable significant increases in manufacturing productivity. Changes in the distribution network are also being made to reduce costs and improve efficiencies, involving the consolidation of operations from five distribution centres into two large distribution centres by the end of 2014. The Company's existing distribution centre located in Saskatoon, Saskatchewan, serves as a western Canadian hub, while a new facility currently under construction in Ontario will establish the eastern hub. Substantial progress has been made with the transfer of volume into the Saskatoon distribution centre and the closure of the warehouse in Coquitlam, British Columbia is now complete.

The new 282,000 square foot distribution centre in Ontario will combine ambient, refrigerated and frozen products into one facility. The centre will be operated by a third-party logistics provider, and is expected to be commissioned in 2013, with the final consolidation of existing distribution centres in Moncton, Burlington and Kitchener expected to be completed in 2014.

A Simpler, Scale Prepared Meats Supply Network

In all, Maple Leaf Foods is reducing its prepared meats manufacturing and distribution network by 10 facilities, including two plants and one distribution centre already closed during 2011. The network redesign is expected to result in a net loss of approximately 1,550 positions.

The Company expects to realize savings from multiple sources across the organization well before the execution plan is complete in 2014. Throughout the period of the Value Creation Plan, 60% of savings are expected to come from:

- Enhanced throughput and productivity from larger scale and new technologies;
- Improved product yield, reduced waste and better packaging;
- Lower total overhead and reduced labour; and
- Reduced shipping costs.

The benefits of this strategy are expected to result in EBITDA margins of 12.5% in 2015 in both the Protein and Bakery Product Groups. For 2012, the Company had originally expected to achieve combined EBITDA margins of 9.5%: 8.5% in Protein and 11.5% in Bakery. As a result of challenging primary pork processor markets and a significant reduction in fresh bakery industry volumes during the first quarter, the Company reduced its full year EBITDA margin expectations in the second quarter of 2012. Actual EBITDA margins for 2012 were 8.6%; 8.2% in Protein and 9.9% in Bakery.

Capital Investment Plan and Leverage Ratios

Between 2010 and 2014, the Company expects to invest approximately $750 million in the Plan. This includes $560 million supporting its prepared meats network transformation, $100 million in the new fresh bakery in Hamilton, Ontario, and $90 million for the implementation of SAP. The Company further expects that approximately $120 million of cash costs and $50 million in non-cash restructuring charges will be incurred.

Of these amounts, Management estimates that $370 million of capital expenditures, $100 million of cash restructuring costs and $40 million of non-cash restructuring charges are expected to be incurred between 2013 and 2015.

Total capital expenditures for 2012, including investments in the supply chain, were originally estimated to be $435 million. In the second quarter of 2012, the Company reduced its estimate of total capital expenditures for 2012 to approximately $350 million. Actual capital expenditures for 2012 were $306.3 million. The lower amounts of spending compared to estimates were as a result of changes in timing of cash expenditures for strategic projects that do not reflect significant changes in estimated construction completion. Spending on base business operations was lower than previous estimates, due to deferral of capital projects.

As at December 31, 2012, the Company had $272.5 million of property and equipment under construction relating primarily to the Plan.

The majority of remaining spending is anticipated to occur during 2013. Management monitors spending and earnings levels carefully, and intends to limit debt incurrence in order to maintain the ratio of Net Debt to EBITDA on or around 3.0x, although these ratios may be temporarily exceeded as peak construction occurs during the first half of 2013.

During 2013, Management estimates that total capital spending, including strategic projects, will be approximately $425 million.

Systems Conversion

In January 2009, the Company began an initiative to consolidate all of its information technology systems onto a single platform, in order to standardize processes, reduce costs and enable a transition to shared services structure. Management selected SAP software as its new platform and has since taken a rapid but carefully designed approach to implementation. The many successful implementations since the beginning of this initiative in 2009 have been enabled by changing existing business practices to standardized SAP processes, significantly limiting software modifications and rigorously controlling master data. SAP has brought new capabilities to most of the Company's operations, setting a strong foundation for better analytics and further efficiency gains.

Fluctuating Input Prices

In 2012, prices of many commodities that influence cost of production in the Company's business maintained at the elevated levels noted in 2011, which continued to pressure margins for the Company and the food industry. Commodities or products used by the Company that experienced elevated prices included live hogs, live chicken, fresh pork, wheat, corn and crude oil. To manage the impact of these higher costs, price increases were consistently implemented across the majority of the Company's consumer-facing businesses. In addition, the Company implemented several cost containment and operational improvement initiatives, and in certain instances purchased commodities on a forward fixed price basis to manage short-term fluctuations in commodity prices.

The following table outlines the change in key commodity values that affected the Company's business and financial results:

	As at December 31,	Annual averages			
	2012[i]	**2012**	2011	Change	2010
Pork cutout (USD per cwt)[ii]	**$ 82.37**	**$ 84.65**	$ 93.65	(9.6%)	$ 81.10
Composite primal values (USD per cwt)[ii]					
Belly	**$ 125.11**	**$ 117.11**	$ 122.77	(4.6%)	$ 106.38
Ham	**$ 62.20**	**$ 67.37**	$ 77.48	(13.0%)	$ 73.00
Trim	**$ 57.00**	**$ 65.32**	$ 87.57	(25.4%)	$ 77.94
Hog market price per cwt (CAD per cwt)[ii]	**$ 81.58**	**$ 85.39**	$ 89.12	(4.2%)	$ 77.58
Hog market price per cwt (USD per cwt)[ii]	**$ 82.23**	**$ 85.42**	$ 90.10	(5.2%)	$ 75.31
Poultry meat market price (CAD per kg)[iii]	**$ 3.51**	**$ 3.52**	$ 3.31	6.3%	$ 3.32
Poultry live bird cost (CAD per kg)[iii]	**$ 1.81**	**$ 1.66**	$ 1.60	3.7%	$ 1.39
Wheat (USD per bushel)[iv]	**$ 8.66**	**$ 8.67**	$ 9.07	(4.4%)	$ 6.23
Corn (USD per bushel)[iv]	**$ 6.98**	**$ 6.95**	$ 6.80	2.2%	$ 4.27
Soybeans (USD per bushel)[iv]	**$ 14.24**	**$ 14.68**	$ 13.17	11.4%	$ 12.87
Oil (USD per barrel)[iv]	**$ 91.83**	**$ 94.11**	$ 94.88	(0.8%)	$ 79.48

(i) *Spot prices for the week ended December 31, 2012 based on CME (Ontario hogs) or WCB (Western Canada hogs) (Source: USDA)*

(ii) *Five-day average of CME or WCB (Source: USDA)*

(iii) *Market price (Source: Express Market Inc.) and Live Cost (Source: Chicken Farmers of Ontario)*

(iv) *Daily close prices (Sources: Bloomberg, CBOT, Minneapolis Wheat Exchange)*

In 2012, industry pork processing margins were unusually low, and reached multi-year lows. As a result, the Company's primary pork processing operations recorded significantly lower earnings that partly offset the significant improvements in the prepared meats operations.

During 2012, the Company's fresh poultry processing margins moderately improved, as market prices for fresh meat increased at a slightly higher rate than the cost of live birds. Reduced fresh meat prices, and in particular reduced fresh pork values, lowered input costs of the Company's further processed meats business. Hog producers in North America were negatively affected by lower market prices in 2012 and higher feed costs.

Wheat, dairy and fuel constitute significant input costs to the Company's bakery operations. Wheat prices, which had risen significantly in 2010 and early 2011, remained largely at the same levels in 2012. The Company continues to utilize forward contracts hedging as part of its strategy to provide some protection against the effects of higher wheat costs. Dairy products, in particular butter and cheese, also continued to be expensive after significant increases in 2011.

Impact of Currency

The following table outlines the changes in currency rates that have affected the Company's business and financial results:

	As at December 31,	Annual averages			
	2012	**2012**	2011	Change	2010
U.S. dollar / Canadian dollar[i]	**$ 1.01**	**$ 1.00**	$ 1.01	-1.0%	$ 0.97
U.K. pounds sterling / Canadian dollar[i]	**£ 1.62**	**£ 1.58**	£ 1.59	-0.1%	£ 1.59
Japanese yen / Canadian dollar[i]	**¥ 87.11**	**¥ 79.86**	¥ 80.68	-1.0%	¥ 85.24

(i) *Source: Bank of Canada daily noon rates*

The Canadian dollar maintained parity on average in 2012 relative to the U.S. dollar. In general, a stronger Canadian dollar compresses margins in the Company's primary pork processing operations, and to a lesser extent in the rendering operations, as sales values for export products are reduced. Conversely, a stronger Canadian dollar decreases the cost of raw materials and ingredients in the domestic prepared meats and fresh bakery businesses. The branded packaged goods businesses are able to react to changes in input costs over time through pricing, cost reduction or investment in value-added products. However, over the longer-term, a stronger Canadian dollar also reduces the relative competitiveness of the domestic Canadian packaged goods operation, as imports of goods from the U.S. become more competitive. The Company is implementing a strategy to reduce costs and improve productivity in order to compete more effectively with large U.S. food companies.

Overall for 2012, currency rate changes did not have a material net impact on earnings.

OPERATING REVIEW

The following table summarizes sales by business segment for the three years ended December 31:

($ millions)	**2012**	2011	Change	2010
Meat Products Group	**$ 3,003.4**	$ 3,039.5	-1.2%	$ 3,181.1
Agribusiness Group	**294.7**	259.6	13.5%	199.5
Protein Group	**$ 3,298.2**	$ 3,299.1	0.0%	$ 3,380.6
Bakery Products Group	**$ 1,566.6**	$ 1,594.5	-1.7%	$ 1,587.5
Total Sales	**$ 4,864.8**	$ 4,893.6	-0.6%	$ 4,968.1

The following table summarizes Adjusted Operating Earnings by business segment for the three years ended December 31:

($ millions)	**2012**	2011	Change	2010
Meat Products Group	**$ 121.3**	$ 96.0	26.3%	$ 81.3
Agribusiness Group	**68.4**	81.9	-16.4%	50.5
Protein Group	**$ 189.7**	$ 177.9	6.6%	$ 131.8
Bakery Products Group	**97.6**	86.3	13.1%	94.4
Non-allocated Costs in Adjusted Operating Earnings[(i)]	**(7.3)**	(5.2)	41.6%	(11.7)
Adjusted Operating Earnings	**$ 280.0**	$ 259.0	8.1%	$ 214.5

[(i)] *Non-allocated costs comprise expenses not separately identifiable to business segment groups, and do not form part of the measures used by the Company when assessing the segments' operating results.*

Protein Group

Sales for the Protein Group, which includes the Company's Meat Products Group and Agribusiness Group, were $3,298.2 million in 2012, compared to $3,299.1 million in 2011. Adjusted Operating Earnings increased 6.6% to $189.7 million in 2012 from $177.9 million for 2011. Results for the Company's Meat Products Group and Agribusiness Group should be viewed in combination due to intercompany transactions and correlated factors within these operations.

Meat Products Group

Includes value-added prepared meats, lunch kits; and fresh pork, poultry and turkey products sold to retail, foodservice, industrial and convenience channels. Includes leading Canadian brands such as Maple Leaf®, Schneiders® and many leading sub-brands.

Sales decreased 1.2% to $3,003.4 million from $3,039.5 million in 2011. After adjusting for the impact of a slightly weaker Canadian dollar on the sales value of pork exports, sales decreased by 1.6%, due primarily to lower sales volumes in the prepared meats and fresh pork businesses and lower market prices for fresh pork. This was partly offset by price increases in the prepared meats business and higher pricing and volumes in the fresh poultry business.

Adjusted Operating Earnings in 2012 increased 26.3% to $121.3 million compared to $96.0 million last year. Significant earnings improvements in the prepared meats and fresh poultry businesses were partly offset by a significant decline in industry primary pork processing margins.

Earnings in the prepared meats business improved as a result of price increases that were implemented in order to manage higher input costs, improved sales mix from higher margin products and innovation, and the discontinuance of certain low margin foodservice business. Earnings also benefited from strategic initiatives that increased efficiencies, including plant closures and simplification of the prepared meats product portfolio. Partially offsetting these benefits were lower volumes in retail and foodservice categories.

Increased earnings in the fresh poultry operations were driven by sales of higher value products, such as the Maple Leaf *Prime®* brand, and improved sales mix in higher value channels. The business also benefited from favourable industry poultry processor margins.

Earnings in primary pork processing operations declined due to unfavourable market conditions in North America. This decline was partly offset by better pricing and margins for international exports.

Agribusiness Group

Consists of Canadian hog production and animal by-product recycling operations, including biodiesel manufacturing and distribution.

Sales increased 13.5% to $294.7 million in 2012 from $259.6 million in 2011, due to higher toll feed sales and increased biodiesel sales volumes. This growth was partly offset by lower average selling prices for biodiesel and rendered by-products.

Adjusted Operating Earnings declined 16.4% to $68.4 million compared to $81.9 million last year, as a result of lower results in hog production and by-product recycling operations. Hog production earnings declined due to a combination of higher feed costs and lower market prices for hogs. Higher prices paid for rendering feedstock and lower finished goods prices, as well as higher operating costs, were partly offset by increased biodiesel volumes.

Bakery Products Group

Includes fresh and frozen bakery products, including breads, rolls, bagels, specialty and artisan breads, sweet goods, and fresh pasta and sauces sold to retail, foodservice and convenience channels. It includes national brands such as Dempster's®, Tenderflake®, Olivieri® and New York Bakery Co™, and many leading regional brands.

Sales declined 1.7% to $1,566.6 million in 2012, compared to $1,594.5 million in the prior year. After adjusting for the sale of the Company's fresh sandwich product line in February 2011, the closure of a bakery in the U.K., and currency translation on sales in the U.S. and U.K., sales were consistent with last year. The Bakery Products Group as a whole benefited from both the full year impact of 2011 price increases and pricing implemented during 2012, as well as higher sales volumes in the North American frozen bakery business. These benefits were offset by lower sales volumes in the fresh pasta, U.K. and fresh bakery businesses.

Adjusted Operating Earnings for 2012 increased 13.1% to $97.6 million compared to $86.3 million last year, as the earnings improvements in the fresh bakery, North American frozen bakery, and U.K. bakery businesses were partly offset by lower earnings in the fresh pasta business.

In the fresh bakery business, earnings increased due to a combination of price increases implemented during 2011 and positive hedging activities that reduced raw material costs in 2012. Also contributing to earnings were overhead savings resulting from the closure of a bakery in Delta, British Columbia and increasing efficiencies in the newly commissioned Hamilton bakery. Partially offsetting these benefits were the impact of lower industry volumes, primarily in the first quarter, and higher inflationary costs. In 2011, the Company was operating three smaller bakeries in the Greater Toronto Area as it gradually consolidated production at its new fresh bakery in Hamilton, Ontario. During 2012 two of these facilities were closed, reducing duplicative overhead costs year-over-year. Closure of the third Ontario bakery is planned for the second quarter of 2013.

Improved earnings in the North American frozen bakery operations was due to higher pricing and volumes, as well as positive hedging activities that lowered raw material costs, partly offset by higher inflationary costs. In the U.K. bakery business, earnings increased as a result of improved sales mix and overhead savings from the closure of a bakery in Walsall, England and the related exit of low margin bread categories in early 2012. Promotional spending was lower due to the costs associated with re-launching the New York Bakery bagel brand in 2011. These improvements were partly offset by lower volumes and higher inflationary costs.

The pasta business experienced supply chain issues during the year that resulted in lower volumes and higher operational costs. Earnings were also negatively impacted by higher raw material and other input costs, unfavourable sales mix, increased promotional spending, and an inventory adjustment during the first quarter of 2012.

Non-allocated Costs

Amounts included in Adjusted Operating Earnings but not allocated to segmented operating earnings are $7.3 million for 2012 (2011: $5.2 million). These amounts relate to costs incurred for the implementation of SAP and consulting fees. Earnings from Operations include other non-allocated amounts, namely a loss of $3.4 million due to changes in fair value of biological assets (2011: loss of $1.0 million) and a $3.3 million unrealized loss on commodity futures contracts (2011: gain of $5.0 million).

The changes in the fair value of biological assets and unrealized (gains) losses on commodity futures contracts have been excluded from Adjusted Operating Earnings in order to provide a more comparable assessment of the Company's operating results, as these amounts are not reflective of the operating earnings of the Company for the respective periods.

GROSS MARGIN

Gross margin in 2012 was $768.0 million (15.8% of sales) compared to $767.2 million (15.7% of sales) last year. Improvement in the Meat Products Group margins was driven by margin expansion in the prepared meats business as a result of price increases, improved product sales mix driven by innovation and operational efficiency gains. In the Bakery Products Group, gross margins improved as a result of the full year benefit of 2011 price increases, pricing implemented during 2012, and positive hedging activities that reduced raw material costs. Partly offsetting margin expansion in Meat Products and Bakery Products Group were lower margins in the Company's hog products and by-products recycling operations.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses decreased by 1.9% to $494.7 million in 2012 compared to $504.2 million last year, representing 10.2% and 10.3% of sales respectively. The decrease was the result of lower compensation expense, and lower marketing spending following significant spending in 2011 to support the re-launch of the Company's New York Bakery brand in the U.K. These savings were partly offset by higher advertising and promotional spending in the fresh pasta business. In addition, the reduced compensation expense was partially offset by a $3.5 million increase in non-cash pension expense in 2012 driven by changes in pension asset returns and discount rates.

OTHER INCOME / EXPENSE

Other income for 2012 was $9.2 million compared to $10.3 million last year.

Other income in 2012 included $5.3 million related to a purchase gain on the acquisition of a hog production business, $3.5 million in insurance receipts related to a fire at the Company's meat processing operations on Lagimodiere Road in Winnipeg, Manitoba, $1.4 million from a legal settlement related to the Company's fresh sandwich product line sold in 2011, and $1.0 million of gains of sale of assets. These income amounts were partly offset by $2.0 million in legal expenses relating to the hog production acquisitions and the 2013 divestiture of a potato processing facility in Lethbridge, Alberta.

In 2011 other income was comprised primarily of $7.0 million relating to gains on the sale of property and equipment, and $1.7 million in insurance receipts related to a fire at the Company's ham processing operations in Winnipeg, Manitoba.

RESTRUCTURING AND OTHER RELATED COSTS

During the year ended December 31, 2012, the Company recorded restructuring and other related costs of $54.4 million ($40.8 million after-tax), before the impact of any reversals during the year.

Of this pre-tax amount, the Company's Meat Products Group incurred a total of $42.5 million in restructuring and other related costs. These costs include $29.5 million related to changes in its manufacturing and distribution network, comprising accelerated depreciation on assets of $24.6 million, severance and other employee related costs of $4.6 million and $0.3 million in other project related costs. A further $7.9 million pertained to severance and other employee related costs related to organizational changes and $4.2 million primarily for severance and other employee benefits in connection with the closure of a production facility in Ayr, Ontario. The balance of the restructuring costs of $0.9 million was incurred in connection with other on-going restructuring initiatives of the Meat Products Group.

The Company's Bakery Products Group incurred a total of $11.9 million in restructuring and other related costs during the year. Of this amount, $5.8 million was incurred by the U.K. bakery business related to accelerated depreciation and other costs in connection with the closure of two bakeries in the U.K. A further $5.5 million related to the closures of two bakeries in Toronto, Ontario and a third in Delta, British Columbia. The balance of restructuring costs of $0.6 million was incurred in connection with other on-going restructuring initiatives of the Bakery Products Group.

During the year ended December 31, 2011, the Company recorded restructuring and other related costs of $79.8 million ($59.9 million after-tax). Of this pre-tax amount, the Company's Meat Products Group incurred a total of $31.1 million in restructuring and other related costs. These costs include $26.5 million related to changes in its manufacturing and distribution network as part of implementing the Plan, comprising severance and other employee related benefits of $11.5 million; accelerated depreciation on assets of $4.1 million; lease commitment cancellation costs of $4.7 million; and other cash costs of $6.2 million. Other restructuring costs incurred related to the closure of the Surrey, British Columbia plant of $4.3 million and included severance and other employee related benefits of $3.7 million; and asset write-offs and cash costs of $0.6 million. The balance of the restructuring costs of $0.3 million was incurred in connection with other ongoing restructuring initiatives of the Meat Products Group.

The Company's Bakery Products Group incurred a total of $46.4 million in restructuring and other related costs during the year ended December 31, 2011. Of this, $24.2 million was incurred by the U.K. bakery business, related to the closure of the Walsall, Cumbria and Park Royal plants. These costs include severance of $4.0 million, lease cancelation charges of $7.8 million, asset write downs and accelerated depreciation of $11.7 million and other costs of $0.7 million. The Bakery Products Group also incurred $9.3 million in restructuring costs related to the closure of the Laval, Quebec frozen bakery and the Delta, British Columbia fresh bakery and $2.9 million of restructuring costs related to the sale of the sandwich product line. The Bakery Products Group also incurred $7.5 million related to changes in management structure and related severance. The balance of the restructuring costs of $2.5 million was incurred in connection with other on-going restructuring initiatives.

The Company also recorded $2.3 million during the year ended December 31, 2011 in restructuring costs for initiatives across the Company related to changes in management structure and related severances.

The following table provides a summary of costs recognized and cash payments made in respect of the above-mentioned restructuring and other related costs as at December 31, 2012 and December 31, 2011, all on a pre-tax basis:

($ thousands)	**Severance**	**Site closing**	**Asset impairment and accelerated depreciation**	**Retention**	**Pension**	**Total**
Balance at December 31, 2011	**$ 25,692**	**$ 16,813**	**$ –**	**$ 1,448**	**$ –**	**$ 43,953**
Charges	**17,006**	**4,464**	**30,357**	**1,101**	**1,459**	**54,387**
Reversals	**(3,955)**	**(2,524)**	**(245)**	**(152)**	**–**	**(6,876)**
Cash payments	**(24,691)**	**(8,442)**	**–**	**(1,198)**	**–**	**(34,331)**
Non-cash items	**–**	**1,485**	**(30,112)**	**–**	**719**	**(27,908)**
Other	**944**	**(306)**	**–**	**(638)**	**–**	**–**
Balance at December 31, 2012	**$ 14,996**	**$ 11,490**	**$ –**	**$ 561**	**$ 2,178**	**$ 29,225**

($ thousands)	Severance	Site closing	Asset impairment and accelerated depreciation	Retention	Pension	Total
Balance at December 31, 2010	$ 26,760	$ 7,857	$ –	$ 445	$ –	$ 35,062
Charges	22,262	20,312	25,312	2,549	9,360	79,795
Cash payments	(23,330)	(11,356)	–	(1,546)	–	(36,232)
Non-cash items	–	–	(25,312)	–	(9,360)	(34,672)
Balance at December 31, 2011	$ 25,692	$ 16,813	$ –	$ 1,448	$ –	$ 43,953

INTEREST EXPENSE

Interest expense for 2012 was $71.7 million compared to $70.7 million last year. The impact of higher debt balances was partially offset by increased capitalization of borrowing costs. The Company's average borrowing rate for 2012 was 5.7% (2011: 6.0%). As at December 31, 2012, 70.1% of indebtedness was fixed and not exposed to interest rate fluctuations, compared to 87.4% in the previous year.

INCOME TAXES

The Company's income tax expense represents an effective tax rate of 27.4% (2011: 23.1%) on earnings from operations before restructuring charges and other related costs, and taxes recoverable on restructuring and other related costs at a rate of 24.8% (2011: 24.9%). The lower tax rate on operating earnings in 2011 was a result of the Company recording income tax reductions aggregating $12.2 million for the year, primarily comprised of adjustments arising from a prior acquisition in its fresh bakery business. The Company's effective tax rate for 2011 before these adjustments would have been 29.5%.

TRANSACTIONS WITH RELATED PARTIES

The Company has a 90.0% controlling interest in Canada Bread, a publicly traded subsidiary that is consolidated into the Company's results. Transactions between the Company and its consolidated entities have been eliminated on consolidation.

McCain Capital Corporation ("MCC") which was a 31.3% shareholder of the Company, until December 2, 2011, owned shares in another Canadian business, McCain Foods Limited. On December 2, 2011, MCC reorganized its shareholdings such that it is no longer a related party of the Company. As a result of this, the Company is no longer a related party with McCain Foods Limited. For the period of 2011 that McCain Foods Limited was a related party, the Company recorded sales to McCain Foods Limited of $2.9 million in the normal course of business at market prices.

Day & Ross Transportation Group, a subsidiary of McCain Foods Limited, was a related party to the Company until December 2, 2011. For the period of 2011 during which Day & Ross Transportation Group was a related party, the Company incurred costs of $6.2 million in respect of transportation services from Day & Ross Transportation Group in the normal course of business at market prices.

The Company sponsors a number of defined benefit and defined contribution pension plans as described in Note 10 in the consolidated financial statements. During 2012, the Company received $1.1 million (2011: $1.5 million) from the defined benefit pension plans for the reimbursement of expenses incurred by the Company to provide services to these plans. In 2012, the Company's contributions to these plans were $42.2 million (2011: $33.3 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 of the Company comprises the following expenses:

($ thousands)	**2012**	2011
Short-term employee benefits		
Salaries, bonuses and fees	**$ 13,388**	$ 18,589
Company car allowance	**474**	417
Other benefits	**1,135**	193
Total short-term employee benefits	**$ 14,997**	$ 19,199
Post-employment benefits	**1,555**	1,480
Share-based benefits	**18,553**	13,941
Total remuneration	**$ 35,105**	$ 34,620

During 2011 and 2012, key management did not exercise share options granted under the Maple Leaf Foods Share Incentive Plan.

GOVERNMENT INCENTIVES

During 2012, the Company recorded government incentives in earnings totalling $10.1 million (2011: $9.8 million). Of this amount, $7.8 million (2011: $8.2 million) related to incentives from the Canadian government to support the development of renewable energies. A further $1.5 million (2011: $1.5 million) related to AgriStability benefits from the Province of Ontario and $0.8 million (2011: $0.1 million) related to other incentives.

During 2012, the Company also received a $4.4 million interest-free loan from the Canadian government related to investments in primary pork processing. The loan is repayable over a period of ten years beginning in 2013. The benefit of the below-market rate of interest is treated as a government incentive and has been capitalized to the assets associated with the project and is recognised in earnings over their useful life as a reduction of depreciation.

During 2011, the Company recorded incentives of $2.6 million from the Province of Ontario to purchase equipment as required by the Canadian Food Inspection Agency. This amount has been recorded as a reduction to the carrying value of the assets associated with the project and is recognised in earnings over their useful life as a reduction of depreciation.

ACQUISITIONS AND DIVESTITURES

On December 14, 2012, the Company acquired specific assets and liabilities held by The Puratone Corporation, Pembina Valley Pigs Ltd., and Niverville Swine Breeders Ltd., (collectively "Puratone"), privately held entities engaged in hog production. The purchase price was $44.5 million, and the Company settled the transaction in cash.

On November 27, 2012, the Company acquired specific assets and liabilities held by Paradigm Farms Ltd. ("Paradigm"), a privately held entity engaged in hog production, related to the purchase of the business of Puratone. The purchase price was $2.2 million, and the Company settled the transaction in cash.

The acquisitions of Paradigm and Puratone resulted from Management's requirement to secure supply for the Company's hog processing operations. The acquisitions have been accounted for as business combinations in accordance with International Financial Reporting Standard ("IFRS") 3 *Business Combinations* and resulted in a combined gain of $5.3 million recorded in other income ($4.1 million net of tax). Of this amount, $0.7 million relates to the acquisition of Paradigm with the remaining $4.6 million related to the acquisition of Puratone. The gain on business combinations was the result of acquiring Paradigm and Puratone at a time when these businesses were experiencing significant financial difficulties.

Transaction costs of $1.1 million associated with the acquisitions have been excluded from the consideration paid and have been recognised as an expense in other income (expense) for the current year.

The Company is still working to finalize the amounts recorded in the business combination.

On February 1, 2012, the Company purchased the operations and production quotas of a poultry farm in Alberta for a cash purchase price of $31.1 million. The acquisition was accounted for as a business combination. In 2012, the Company sold $8.0 million of the production quotas which resulted in a pre-tax gain of $0.5 million. The gains were recorded as a disposal of assets held for sale in other income. Management expects to sell the remaining farm and production quotas within a 12-month period.

During the fourth quarter of 2011, the Company sold the assets of a poultry farm, including the sale of turkey commercial growing quota, to a third party for proceeds of $4.6 million. This transaction generated a gain on sale of $3.7 million, primarily related to the growing quota.

In the third quarter of 2011, the Company sold its interest in a waste disposal business in Newfoundland for proceeds of $1.1 million. This transaction generated a gain on sale of $0.6 million. On September 30, 2011, the Company completed the sale of its prepared meats facility in Surrey, British Columbia for proceeds of $10.5 million resulting in a gain on sale of $4.1 million. In addition, on September 30, 2011, Canada Bread acquired the business of Humber Valley Bakery, a small fresh bakery in Newfoundland for $0.6 million, with the value assigned to intangibles and customer relationships. The Company incorporated the production of the acquired business into its existing facilities.

On April 11, 2011, the Company completed the sale of a bakery facility in Cumbria, U.K., which resulted in cash restructuring costs of $0.3 million.

On February 18, 2011, the Company completed the sale of substantially all of the remaining assets that comprised its sandwich product line to Premium Brands Inc., a Canadian manufacturer of food products, for $8.0 million. The transaction resulted in total restructuring costs of $2.9 million, of which $0.6 million were cash costs, and a gain on sale of $0.9 million.

INVESTMENT IN CANADA BREAD COMPANY, LIMITED

There were no changes in the Company's investment in Canada Bread during 2012 and 2011.

CAPITAL RESOURCES

The food industry segments in which the Company operates are generally characterized by high sales volume and rapid turnover of inventories and accounts receivable. In general, accounts receivable and inventories are readily convertible into cash. Investment in working capital is affected by fluctuations in the prices of raw materials, seasonal and other market-related fluctuations. For example, although an increase or decrease in pork or grain commodity prices may not affect margins, the pricing change can have a material effect on investment in working capital, primarily inventory and accounts receivable. Due to its diversity of operations, the Company has in the past consistently generated a strong base level of operating cash flow, even in periods of higher commodity prices and restructuring of its operations. These operating cash flows provide a base of underlying liquidity that the Company supplements with credit facilities to provide longer-term funding and to finance fluctuations in working capital levels.

The Company had $5.2 million of debt that matured in September 2012 and was funded through cash flow from operations.

On October 31, 2012, the Company increased its existing revolving credit facility by $250.0 million, increasing the total facility to $1.05 billion and extended the maturity of the facility by one year. This facility is unsecured and bears interest based on short-term interest rates. The facility, which matures on May 16, 2016, is intended to meet the Company's funding requirements for general corporate purposes, and to provide appropriate levels of liquidity. Further details are available in Note 14 in the consolidated financial statements.

The following table summarizes available and drawn debt facilities at December 31:

($ millions)	**2012**	2011
Credit facilities		
Maple Leaf Foods Inc.	**$ 1,878.0**	$ 1,640.5
Subsidiaries	**121.7**	93.1
Total available	**$ 1,999.7**	$ 1,733.6
Drawn amount		
Maple Leaf Foods Inc.	**$ 1,377.5**	$ 1,129.6
Subsidiaries	**64.0**	57.1
Letters of credit	**122.5**	141.3
Total drawn	**$ 1,564.0**	$ 1,328.0
% drawn	**78.2%**	76.6%

The Company's debt facilities are subject to certain restrictions and require the maintenance of certain debt and cash flow ratios. The Company was in compliance with all of the requirements of its lending agreements during 2012. As at December 31, 2012, net debt to EBITDA excluding the change in fair value of non-designated interest rate swaps was 2.8x (2011: 2.5x) and net debt to EBITDA including the change in fair value of non-designated interest rate swaps was 2.8x (2011: 2.6x).

To access competitively priced financing, and to further diversify its funding sources, the Company operates two three-year committed accounts receivable securitization facilities. Under the facilities, the Company sells certain accounts receivable, with very limited recourse, to an entity owned by an international financial institution with a long-term AA-debt rating. The receivables are sold at a discount to face value based on prevailing money market rates. At the end of 2012, the Company had $287.3 million (2011: $254.3 million) of trade accounts receivable serviced under these facilities. In return for the sale of its trade receivables, the Company received cash of $161.8 million (2011: $155.8 million) and notes receivable in the amount of $125.5 million (2011: $98.5 million). The maximum amount available to the Company under these programs is $170.0 million. The facilities expire in October 2013 and Management expects to renew the agreements prior to expiry.

These securitization facilities are subject to certain restrictions and require the maintenance of certain covenants. The Company was in compliance with all of the requirements of the facilities during 2012. These facilities were accounted for as an off-balance sheet transaction under IFRS. If these facilities were terminated, the Company would recognize the securitized amounts on the consolidated balance sheet and consider alternative financing if required.

The weighted average term of the Company's debt is 4.0 years.

Where cost effective to do so, the Company may finance automobiles, manufacturing equipment, computers and office equipment with operating lease facilities.

CAPITAL EXPENDITURES

Capital expenditures for 2012 were $306.3 million compared to $229.2 million in 2011 driven by higher investments related to the Company's Value Creation Plan.

The increased investments in the Plan included expansion of its facilities in Saskatoon, Saskatchewan and Winnipeg Manitoba, as well as the new prepared meats facility in Hamilton, Ontario, the continued implementation of a new SAP information system and investments in the new fresh bakery in Hamilton, Ontario.

As the Company focuses on its transformation agenda, capital expenditures in the base business operations were lower than last year. The Company currently estimates its capital expenditures for the full year of 2013 will be approximately $425 million.

CASH FLOW AND FINANCING

Total debt, net of cash balances, was $1,171.3 million at the end of 2012, compared to $984.0 million as at December 31, 2011. The increase in debt for the year is largely due to investment in property and equipment and business acquisitions, offset by cash generated from operations.

Cash Flow from Operating Activities

Cash flow from continuing operations for 2012 decreased to $218.1 million compared to $244.8 million last year. Cash flow benefited from higher Adjusted Operating Earnings, but was reduced as a result of increased pension contributions and timing of interest payments. During 2012 the Company had interest payments on notes payable issued in 2011.

Cash Flow from Financing Activities

Cash flow from financing activities was an inflow of $236.0 million for 2012 compared to an outflow of $56.0 million last year. The change was mainly attributable to higher debt levels to finance business acquisitions and capital spending during the year.

Cash Flow from Investing Activities

Cash flow from investing activities was an outflow of $375.5 million for 2012 compared to an outflow of $209.4 million last year, due to higher capital expenditures of $77.2 million primarily related to network transformation initiatives in the prepared meats business and $77.7 million for the acquisition of businesses during 2012.

CONTRACTUAL OBLIGATIONS

The following table provides information about certain of the Company's significant contractual obligations as at December 31, 2012:

Payments(i) due by fiscal year:

($ millions)	**Total**	2013	2014	2015	2016	2017	Thereafter
Long-term debt	**$ 1,213.5**	$ 6.6	$ 208.9	$ 103.6	$ 545.8	$ 0.6	$ 348.1
Cross-currency swaps related to long-term debt	**46.1**	–	40.1	–	–	–	6.0
	$ 1,259.6	$ 6.6	$ 249.0	$ 103.6	$ 545.8	$ 0.6	$ 354.1
Contractual obligations including leases	**317.1**	67.2	55.5	46.3	38.2	26.2	83.7
	$ 1,576.7	$ 73.8	$ 304.5	$ 149.9	$ 584.0	$ 26.8	$ 437.8

(i) *Does not include contractual interest payments, payments related to bank indebtedness, accounts payable and accrual charges.*

As at December 31, 2012 the Company had entered into construction contracts of $428.4 million relating to the prepared meats network transformation project and the new bakery in Hamilton, Ontario.

Management is of the opinion that its cash flow and sources of financing provide the Company with sufficient resources to finance ongoing business requirements and its planned capital expenditure program for at least the next 12 months. Additional details concerning financing are set out in Notes 14 and 23 in the consolidated financial statements.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT ACTIVITIES

Through the normal course of business the Company is exposed to financial and market risks that have the potential to affect its operating results. In order to manage these risks the Company operates under risk management policies and guidelines which govern the hedging of price and market risk in the foreign exchange, interest rate and commodity markets as well as funding and investing activities.

The Company engages in hedging to manage price and market risk associated with core operating exposures, and does not engage in significant trading activity of a speculative nature.

The Company's Risk Management Committee meets frequently to discuss current market conditions, review current hedging programs and trading activity, and approve any new hedging or trading strategies.

In order to limit the impact of market price fluctuations on operating results, the majority of core hedging programs are designated as hedging relationships and managed as part of the Company's hedge accounting portfolio.

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 senior debt and internal cash flows.

The Company uses leverage in its capital structure to reduce the cost of capital. The Company's goal 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 net debt to EBITDA and EBITDA to net interest expense.

In addition to senior debt and equity, the Company uses operating 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 the 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, an equity compensation program established in 2006. The Company purchased 0.8 million shares in 2012 in respect of awards under the equity compensation program (2011: 2.5 million).

For the year ended December 31, 2012, total equity increased by $27.9 million to $958.0 million. During the same period, total debt net of cash and cash equivalents increased by $187.4 million to $1,171.3 million.

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 grocery and foodservice sectors. 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. As at December 31, 2012 approximately $0.4 million (2011: $0.8 million) of the Company's accounts receivable were greater than 60 days past due. The Company maintains an allowance for doubtful accounts that represents its estimate of uncollectible amounts. This allowance includes a provision related to specific losses estimated on individual exposures. As at December 31, 2012, the Company has recorded an allowance for doubtful accounts of $0.2 million (2011: $5.8 million). There are no significant impaired accounts receivable that have not been provided for in the allowance for doubtful accounts. The Company believes that the allowance for uncollectible accounts sufficiently covers any credit risk related to past due or impaired accounts receivable balances.

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, as well as the large number and geographic dispersion of smaller customers. The Company does, however, conduct a significant amount of business with a small number of large grocery retailers. The Company's five largest customers comprise approximately 43.8% (2011: 42.6%) of consolidated pre-securitized accounts receivable at December 31, 2012 and the two largest customers comprise approximately 21.5% (2011: 19.8%) of consolidated sales.

The Company is exposed to credit risk on its cash and cash equivalents (comprising primarily deposits and short-term placements with Canadian chartered banks) and non-exchange-traded derivatives contracts. The Company mitigates this credit risk by only dealing with counterparties that are major international financial institutions with long-term debt ratings of A- or better.

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 Company manages liquidity risk by monitoring forecasted and actual cash flows, reducing 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.

During the fourth quarter of 2012, the Company extended the term of interest rate swaps totalling $260.0 million which were entered into in the second quarter of 2010 with a start date of December 8, 2011. These swaps were originally executed as an economic hedge against future interest, but the structure of the Company's outstanding debt did not allow for these swaps to be accounted for using hedge accounting. The expiry date of the swaps was extended from December 8, 2015 to December 8, 2017. Effective December 13, 2012, the Company has designated these swaps as hedging instruments in a hedging relationship which will partially reduce the impact of changes in interest costs attributable to variability in market interest rates. These swaps effectively fix the interest rate until 2017 at an average rate of 3.37% on the first $260.0 million of the Company's outstanding variable rate debt and are accounted for as cash flow hedges.

As at December 31, 2012, the Company had available undrawn committed credit of $389.2 million (2011: $379.5 million) under the terms of its principal banking arrangements. These banking arrangements, which mature in 2016, 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 does from time to time enter into interest rate swaps to manage its current and anticipated market exposure, and to achieve an overall desired borrowing rate.

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 actively monitors the market to ensure that the desired overall funding rate, as well as the targeted proportionate fixed to variable debt mix, is achieved.

As at December 31, 2012, 70.1% of the Company's outstanding debt was not exposed to interest rate movements (2011: 87.4%).

Foreign Exchange Risk

Foreign exchange risk refers to the risk that the value of financial instruments or cash flows associated with the instruments will fluctuate due to changes in foreign exchange rates. The Company enters into currency derivative agreements to manage its current and anticipated exposures in the foreign exchange markets.

The Company's foreign exchange risk arises primarily from transactions in currencies other than Canadian dollars. The primary currencies to which the Company is exposed are the U.S. dollar through U.S.-denominated sales and borrowings, the British pound, and Japanese yen.

The Company uses cross-currency interest rate swaps to mitigate its exposure to changes in exchange rates related to U.S. dollar-denominated debt. These swaps are used primarily to effectively convert fixed-rate U.S. dollar-denominated notes payable to fixed-rate notes denominated in Canadian dollars, and are accounted for as cash flow hedges.

The Company uses foreign exchange forward contracts to manage exposures arising from product sales in the U.S. and Japan. Qualifying forward contracts in U.S. dollars and Japanese yen that are designated as hedges within the Company's hedge accounting portfolio are accounted for as cash flow hedges.

Commodity Price Risk

The Company is directly exposed to price fluctuations in commodities such as wheat, live hogs, and fuel costs, and the purchase of other agricultural commodities used as raw materials, such as feed grains. In order to minimize the impact of these price fluctuations on the Company's operating results, the Company may use fixed price contracts with suppliers, exchange-traded futures and options.

Derivatives designated as a hedge of an anticipated or forecasted transaction are accounted for either as cash flow or fair value hedges, and managed within the Company's hedge accounting portfolio.

The Company applies the "normal purchases" classification to certain contracts that are entered into for the purpose of procuring commodities to be used in production.

For a comprehensive discussion on the Company's risk management practices and derivative exposures, please refer to Note 17 in the consolidated financial statements.

CHANGE IN FAIR VALUE OF NON-DESIGNATED INTEREST RATE SWAPS

During the year ended December 31, 2012, the Company recorded a gain of $7.3 million ($5.4 million after-tax) due to changes in the fair value of interest rate swaps.

During 2011, the Company recorded a loss of $11.0 million ($8.0 million after-tax) due to changes in the fair value of interest rate swaps.

During the second quarter of 2010, the Company entered into $590.0 million of interest rate swaps. Swaps totalling $330.0 million started on April 28, 2010 and have an expiry date of April 28, 2015 with an average interest rate of 3.34%. The remaining swaps totalling $260.0 million which started on December 8, 2011 with an average interest rate of 4.18% were extended and designated in a formal hedging relationship during the current year as previously described. During the first quarter of 2011, the Company entered into swaps to offset $330.0 million of existing interest rate swaps with an expiry date of April 28, 2015. The offsetting interest rate swaps were executed as new fixed-rate private placement debt, finalized in the fourth quarter of 2010 and reduced the Company's expected floating rate debt requirements by $355.0 million. Under the offsetting interest rate swaps, the Company receives an average fixed rate of 2.52% and pays a floating rate of interest on a notional amount of $330.0 million. These offsetting interest rate swaps effectively neutralize the mark-to-market income volatility on the notional amount of $330.0 million created by the existing interest rate swaps with an expiry date of April 28, 2015.

The Company currently has no net-exposure to non-designated interest rate swaps.

SHARE CAPITAL AND DIVIDENDS

As at December 31, 2012, there were 140,044,089 voting common shares issued and outstanding (2011: 140,044,089).

In each of the quarters of 2012, the Company declared and paid cash dividends of $0.04 per voting common share, representing a total annual dividend of $0.16 per voting common share and aggregate dividend payments of $22.2 million (2011: $22.4 million).

OTHER MATTERS

On February 25, 2013, Maple Leaf Foods declared a dividend of $0.04 per share payable March 28, 2013 to shareholders of record at the close of business March 8, 2013. Unless indicated otherwise by the Company in writing on or before the time the dividend is paid, the dividend will be considered an Eligible Dividend for the purposes of the "Enhanced Dividend Tax Credit System".

SHAREHOLDER RIGHTS PLAN

On July 28, 2011, the Company announced a Shareholder Rights Plan (the "Rights Plan"). The Rights Plan was amended on December 5, 2011 and approved as amended by shareholders at a special meeting of the shareholders on December 14, 2011. The Rights Plan must be reconfirmed by the shareholders at every third annual meeting following confirmation of the Rights Plan. If the Rights Plan is not reconfirmed, by the shareholders, it terminates and has no further force and effect. The Rights Plan was not adopted in response to any actual or anticipated transaction, but rather to allow the Board of Directors of Maple Leaf Foods and its shareholders sufficient time to consider fully any transaction involving the acquisition or proposed acquisition of 20% or more of the outstanding common shares of the Company. The Rights Plan allows the Board of Directors time to consider all alternatives and to ensure the fair treatment of shareholders should any such transaction be initiated. One right has been issued with respect to each common share of Maple Leaf Foods issued and outstanding as of the close of business on July 27, 2011. Should such an acquisition occur or be announced, each right would, upon exercise, entitle a rights holder, other than the acquiring person and related persons, to purchase common shares of Maple Leaf Foods at a 50% discount to the market price at the time.

EMPLOYEE BENEFIT PLANS

The cost of pensions and other post-retirement benefits earned by employees is actuarially determined using the projected unit credit method calculated on service and Management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs. Management employs external experts to advise it when deciding upon the appropriate estimates to use to value employee benefit plan obligations and expenses. These estimates are determined at the beginning of 2012 and re-evaluated if changes in estimates and market conditions indicate that there may be a significant effect on the Company's financial statements.

During 2012, to reflect decreased discount rates, actual asset returns and other adjustments to actuarial assumptions, employee benefit assets and liabilities recorded on the Company's balance sheet were re-valued. This resulted in a decrease in employee benefit assets of $5.7 million, and an increase in employee benefit liabilities of $112.2 million. The net cumulative effect of these adjustments was recorded by a $117.9 million ($87.7 million after-tax) increase in other comprehensive loss. The adjustment further resulted in the creation of a net deferred tax asset of $30.3 million and a $87.1 million decrease in retained earnings net of minority interest.

During 2011, to reflect both decreased discount rates and actual asset returns, and adjustments to other actuarial assumptions, employee benefit assets and liabilities recorded on the Company's balance sheet were re-valued. This, combined with a gain on asset ceiling and minimum funding requirement, resulted in a decrease in employee benefit assets of $9.5 million, and an increase in employee benefit liabilities of $144.2 million. The net cumulative effect of these adjustments was recorded by a $153.7 million ($114.7 million after-tax) increase in other comprehensive loss. The adjustment further resulted in the creation of a net deferred tax asset of $39.1 million and a $114.7 million decrease in retained earnings net of minority interest.

Management considers that these adjustments were the result of significant market volatility changes that affected the valuation of plan assets and liabilities.

The Company operates both defined contribution and defined benefit plans. The assets of the defined benefit plans are invested primarily in foreign and domestic fixed income and equity securities that are subject to fluctuations in market prices. Discount rates used to measure plan liabilities are based on long-term market interest rates. Fluctuations in these market prices and rates can impact pension expense and funding requirements. In 2012, the investment return on the Company's defined benefit pension plan assets was 10.0% compared to 0.5% in 2011. Long-term market interest rates decreased, impacting the discount rate used to measure the plan liabilities.

The Company's contributions are funded through cash flows generated from operations. Management anticipates that future cash flows from operations will be sufficient to fund expected future contributions. Contributions to defined benefit plans during 2012 were $22.8 million (2011: $14.3 million).

The Company plans to contribute $47.1 million to the pension plans in 2013, inclusive of defined contribution and multi-employer plans.

SUBSEQUENT EVENTS

On January 4, 2013, the Company sold its potato processing product facility and related assets in Lethbridge, Alberta to Cavendish Farms Corporation for proceeds of $57.8 million, resulting in a pre-tax gain of approximately $44.5 million.

On January 30, 2013, the Company announced plans to close a bakery in Grand Falls, New Brunswick and a bakery in Edmonton, Alberta in the first half of 2013. The Company expects to incur approximately $6.3 million before tax in restructuring costs, of which approximately $4.2 million are cash costs.

SUMMARY OF QUARTERLY RESULTS

The following is a summary of unaudited quarterly financial information (in thousands of dollars except per share information):

(Unaudited)		First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Sales	**2012**	**$ 1,160,823**	**$ 1,260,250**	**$ 1,238,929**	**$ 1,204,777**	**$ 4,864,779**
	2011	1,147,942	1,238,201	1,262,153	1,245,328	4,893,624
	2010	1,191,507	1,271,366	1,293,211	1,212,035	4,968,119
Net earnings (loss)	**2012**	**$ 763**	**$ 32,526**	**$ 32,581**	**$ 56,844**	**$ 122,714**
	2011	10,547	24,582	43,007	9,195	87,331
	2010	19,892	4,934	(19,856)	30,643	35,613
Earnings per share						
Basic(i)(ii)	**2012**	**$ –**	**$ 0.21**	**$ 0.22**	**$ 0.39**	**$ 0.83**
	2011	0.08	0.17	0.29	0.06	0.59
	2010	0.14	0.02	(0.16)	0.21	0.22
Diluted(i)(ii)	**2012**	**$ –**	**$ 0.21**	**$ 0.21**	**$ 0.38**	**$ 0.81**
	2011	0.07	0.16	0.28	0.06	0.58
	2010	0.13	0.02	(0.16)	0.21	0.21
Adjusted EPS(i)(ii)(iii)	**2012**	**$ 0.11**	**$ 0.28**	**$ 0.29**	**$ 0.38**	**$ 1.06**
	2011	0.18	0.30	0.34	0.21	1.01
	2010	0.07	0.16	0.22	0.27	0.73

(i) *Earnings per share and adjusted earnings per share are based on amounts attributable to common shareholders.*

(ii) *May not add due to rounding.*

(iii) *Refer to Non-IFRS Financial Measures starting on page 34.*

Quarterly sales in 2012 were affected by the following significant items:

- price increases implemented during 2011 and 2012
- lower sales volumes in the Company's fresh bakery business
- lower sales volume of fresh pork
- higher volumes and improved pricing of value-added products in the poultry business
- the sale of the fresh sandwich product line by the Bakery Products Group at the beginning of 2011
- the exit from fresh and in-store bakery bread production in the U.K.

Quarterly net earnings in 2012 were affected by the following significant items:

- significant declines in industry pork processing margins in North America, which were partially offset by favourable domestic sales contracts and improved international margins
- lower sales volumes in the Company's fresh bakery business
- improved sales mix in the prepared meats business
- benefits from the implementation of the Company's Value Creation Plan
- lower results in hog production and by-product recycling due to higher feed and input costs and a decline in market values
- inventory write-down in the fresh pasta business during the first quarter of 2012
- duplicative overhead costs related to the Company's new fresh bakery in Hamilton, Ontario
- closure of the Walsall, U.K. facility in March 2012 related to the exit of certain bread categories in the U.K.
- lower selling, administrative and general management costs

- restructuring and other related costs
- changes in fair value of non-designated interest rate swaps, biological assets and (gains) losses on commodity futures contracts
- receipt of an insurance claim related to a fire
- settlement of a legal suit in the second quarter of 2012 related to the Company's fresh sandwich product line which was sold in 2011
- gain on business combination in the fourth quarter of 2012 from the acquisition of hog farms, and associated legal costs
- a reassessment of environmental remediation costs in the fourth quarter of 2012 on prepared meats facilities marked for closure.

Quarterly sales in 2011 were affected by the following significant items:

- price increases implemented to offset higher input costs
- the sale of the Burlington, Ontario, pork processing facility in 2010, which significantly reduced sales in the Meat Products Group in 2011
- the sale of the fresh sandwich product line by the Bakery Products Group at the beginning of 2011
- the appreciation of the Canadian dollar relative to the U.S. dollar and the British pound, which reduced the sales value of fresh pork and frozen bakery products sold in the U.S. and U.K.
- higher market values for the Company's rendered by-products.

Quarterly net earnings in 2011 were affected by the following significant items:

- timing of price increases implemented in 2011 relative to the rise of input costs in both prepared meats business and the Bakery Products Group
- margin expansion in prepared meats and pork processing as a result of favourable product mix and new product innovation initiatives
- increased live bird costs, which compressed poultry processor margins
- improved results in by-products rendering, reflecting higher sales values that outpaced increases in raw material costs
- benefits from strategic and other cost reduction initiatives, including personnel reduction, product simplification, and plant closures and consolidation of volume into other facilities
- duplicative overhead costs related to the commissioning of the new fresh bakery in Hamilton, Ontario
- supply chain disruptions related to the installation of SAP in the fresh bakery Western Canada operations in the fourth quarter
- higher hog prices in excess of increases in the Company's net cost of grain which increased hog production earnings
- changes in fair value of non-designated interest rate swaps, biological assets and (gains) losses on commodity futures contracts
- restructuring and other related costs
- income tax adjustments of $2.4 million in the first quarter and $9.8 million in the third quarter of 2011, associated primarily with tax benefits arising from a prior acquisition in the fresh bakery business. These adjustments resulted in a lower tax rate on operating earnings
- gains on sale of assets, including the facility in Surrey, British Columbia, in the third quarter and assets of a poultry farm, including the sale of turkey commercial growing quota, in the fourth quarter of 2011.

For an explanation and analysis of quarterly results, refer to Management's Discussion and Analysis for each of the respective quarterly periods filed on SEDAR and also available on the Company's website at www.mapleleaffoods.com.

SUMMARY OF 2012 FOURTH QUARTER RESULTS

The following is a summary of sales by business segment:

(Unaudited)	Fourth Quarter	
($ thousands)	**2012**	2011
Meat Products Group	**$ 740,764**	$ 781,813
Agribusiness Group	**$ 73,410**	$ 63,499
Protein Group	**$ 814,174**	$ 845,312
Bakery Products Group	**$ 390,603**	$ 400,016
Total Sales	**$ 1,204,777**	$ 1,245,328

The following is a summary of Adjusted Operating Earnings by business segment:

(Unaudited)	Fourth Quarter	
($ thousands)	**2012**	2011
Meat Products Group	**$ 48,133**	$ 27,472
Agribusiness Group	**$ 12,660**	$ 14,744
Protein Group	**$ 60,793**	$ 42,216
Bakery Products Group	**$ 31,410**	$ 16,129
Non-allocated Costs in Adjusted Operating Earnings[(i)]	**$ (901)**	$ (898)
Adjusted Operating Earnings[(ii)]	**$ 91,302**	$ 57,447

[(i)] *Non-allocated costs comprise expenses not separately identifiable to business segment groups, and do not form part of the measures used by the Company when assessing the segments' operating results.*

[(ii)] *Please refer to the section entitled Reconciliation of Non-IFRS Financial Measures in the press release dated February 26, 2013 concerning the Company's financial results for the fourth quarter of 2012 for a description and reconciliation.*

Sales for the fourth quarter of 2012 declined 3.3% to $1,204.8 million compared to $1,248.3 million last year, or 2.2% after adjusting for the impacts of the divestitures and foreign exchange, primarily as a result of lower sales volumes.

Adjusted Operating Earnings for the fourth quarter of 2012 were $91.3 million compared to $57.4 million last year, due to strong improvements in the Meat and Bakery Products Groups, partly offset by an earnings decline in the Agribusiness Group.

The prepared meats business benefited from price increases to manage higher input costs, an improved sales mix driven by higher margin product innovation and the discontinuance of lower margin foodservice business. Strategic initiatives, including product simplification, also contributed to higher earnings. Other positive effects impacting earnings for the quarter included cost reductions from simplification of the Company's product portfolio and $5.9 million in reduction in provisions related to re-assessments of environmental remediation costs on facilities planned for closure. Sales of higher value products, such as the Maple Leaf *Prime*® brand, combined with improved sales mix in higher value channels contributed to higher earnings in the fresh poultry operations while earnings in primary pork processing declined from last year due to continued weaker industry margins, although improved from earlier in the year.

Improved performance in the Bakery Products Group for the fourth quarter benefited from earnings growth in the fresh bakery and North American frozen bakery businesses, partly offset by lower earnings in the fresh pasta business, while earnings in the U.K. bakery operations were consistent with prior year. The Company benefited from efficiency gains resulting from the closure of its fresh bakery in Delta, British Columbia in late 2011 and from lower input costs as a result of hedging activities. In the fourth quarter of 2011, the Company was impacted by higher costs resulting from its SAP installation in Western Canada that were not repeated in 2012. Higher duplicative overhead costs were also incurred last year as the Company continued to operate three bakeries while transferring production to a new, more efficient bakery in Hamilton, Ontario.

Net earnings were $56.8 million or $0.39 basic earnings per share in the fourth quarter of 2012 compared to net earnings of $9.2 million or $0.06 basic earnings per share last year.

SEASONALITY

The Company is sufficiently large and diversified that seasonal factors within each operation and business tend to offset each other and in isolation do not have a material impact on the Company's consolidated earnings. For example, in general, pork processing margins tend to be higher in the last half of the year when hog prices historically decline and, as a result, earnings from hog production operations tend to be lower. Strong demand for grilled meat products positively affects the fresh and processed meats operations in the summer, while back-to-school promotions support increased sales of bakery, sliced meats and lunch items in the fall. Higher demand for turkey and ham products occurs in the spring and fourth quarter holiday seasons.

ENVIRONMENT

Maple Leaf Foods is committed to maintaining high standards of environmental responsibility and positive relationships in the communities where it operates. Each of its businesses operates within the framework of an environmental policy entitled "Our Environmental Commitment" that is approved by the Board of Directors' Environment, Health and Safety Committee. The Company's environmental program is monitored on a regular basis by the Committee, including compliance with regulatory requirements, the use of internal environmental specialists and independent, external environmental experts. In 2012, the Company worked in partnership with various levels of government to ensure that all environmental permits were obtained for the various projects in its Transformation agenda and assure a high level of environmental protection for future plant operations. It has kept the community informed about progress on its new meat processing plant in Hamilton, Ontario through regular community open houses. The Company continues to invest in environmental infrastructure related to water, waste and air emissions to ensure that environmental standards continue to be met or exceeded, while implementing procedures to reduce the impact of operations on the environment. Expenditures related to current environmental requirements are not expected to have a material effect on the financial position or earnings of the Company. However, there can be no assurance that certain events will not occur that will cause expenditures related to the environment to be significant and have a material adverse effect on the Company's financial condition or results of operations. Such events could include, but not be limited to, additional environmental regulation or the occurrence of an adverse event at one of the Company's locations.

As a large food company there are health, environmental and social issues that go beyond short-term profitability that Management believes must shape its business if the Company is to realize a sustainable future. On the environmental front, the Company is undertaking multiple initiatives, in conjunction with key customers, to reduce packaging and track greenhouse gas emissions and the mileage it takes to produce and deliver food products. Increasingly, sound environmental practices are becoming a key component of maintaining a competitive advantage.

As part of its sustainability initiatives, the Company achieved LEED® Gold certification at its new office and product development centre in Mississauga. LEED® stands for Leadership in Energy and Environmental Design and is widely recognized as a green building standard. The Company is in the final verification stages for LEED® certification at its new bakery in Hamilton, Ontario, which opened in 2011. The Company also intends to pursue LEED® certification for its new meat processing plant in Hamilton, Ontario. Construction for this plant began in 2012, and is expected to be fully commissioned in 2014, at which time the LEED® verification process is expected to begin. The Company also renewed its efforts in developing a formal corporate environmental sustainability program in 2012. Metrics and initiatives are under development for key focus areas such as energy and water consumption reduction, greenhouse gas management, manufacturing waste reduction and sustainable packaging.

RISK FACTORS

The Company operates in the food processing and agricultural business, and is therefore subject to risks and uncertainties related to this business that may have adverse effects on the Company's results of operations and financial condition. The following risk factors should be considered carefully. These risk factors and other risks and uncertainties not currently known to the Company, or that the Company currently considers immaterial, could materially and adversely affect the Company's future operating results and could cause actual events to differ materially from those described in forward-looking information (including any financial outlooks) relating to the Company.

Risks Related to the Business of Maple Leaf Foods

Implementing the Company's Comprehensive Value Creation Plan

The Company's Value Creation Plan announced in October 2010 is complex, lengthy and transformational. Although the Company has experience implementing complex projects and plans, there can be no assurance that the Company will be successful in executing the Plan and achieving its expected benefits. As with any complex project or plan, events will transpire outside the Company's control that were not anticipated or expected when the Plan was launched such as changes in the competitive landscape, changes in foreign exchange rates and other unforeseen events. If the Plan is unsuccessful or implemented or executed incorrectly or if the benefits of the plan are not fully achieved, it could have a material adverse effect on the Company's financial condition and results of operations.

In particular, the Plan entails the construction of two large-scale facilities, one of which is in commercial production while the other is in progress. Under the Plan, the Company is also reconfiguring its distribution systems into a fewer larger distribution centres. The construction and start-up of new plants presents a number of risks including: errors in the assessment of labour rates and other operating costs, failure to achieve operating cost efficiencies, cost overruns in construction, delays in completion of the project, disruptions to service levels during the construction period, loss of reputation with customers and adverse impacts on the quality of the Company's products, loss of volumes in realignment of product lines, and competitive pressures resulting in loss of sales during transition periods. As a result of these initiatives, the Company's operations will be more concentrated in a fewer number of facilities resulting in the risk that any unforeseen disruption in such facilities could have a greater effect on the operations of the Company as a whole. In addition, as part of the Plan, the Company has announced the closure of some existing plants. It is likely that additional existing plants will also be closed. The closure of existing plants carries risks such as inaccurate assessments of the costs of decommissioning, disruptions in service during closure and errors in the estimates of residual value of the assets. In addition, to facilitate the Plan, the Company may decide to divest portions of its business. There is no guarantee that any such divestiture will not result in a material impact to the Company's operations. Altogether, these risks could result in a material adverse impact to the Company's financial condition and results of operations.

The Plan requires strategic capital expenditures (over and above base or maintenance capital), which are currently estimated to be approximately $370 million between 2013 and 2015 inclusive. While the pace of spending is expected to be balanced with margin improvement, with interim margin targets achieved before committing to new levels of capital investment, and while the Company believes it has the underlying cash flow and balance sheet strength required to support the capital investments with no incremental requirement for new capital from shareholders, there can be no assurance that the capital required to implement the plan will be available as and when required or on commercially reasonable or acceptable terms.

Systems Conversion, Standardization and Common Systems

The Company regularly implements process improvement initiatives to simplify and harmonize its systems and processes to optimize performance and reduce the risk of errors in financial reporting. The Company is currently undertaking an initiative to replace its information systems with SAP, an integrated enterprise-wide computing system. The Company has dedicated considerable resources to the implementation of SAP and carefully designed an implementation plan to reduce operational disruptions. However, there can be no guarantee that the implementation will not disrupt the Company's operations, or be completed within the identified period of time and budget. In addition, there cannot be any guarantee that the implementation will improve current processes or operating results or reduce the risk of errors in financial reporting. Any of these failures could have a material adverse impact on the Company's financial condition and results of operations.

The installation of SAP and standardization of systems within the Company will create the opportunity to implement shared administration systems across the organization for the purpose of reducing costs and increasing efficiency. Such an implementation may not achieve the desired savings or efficiency, may result in disruptions to the Company's operations, and may increase the risk of errors in financial reporting. Any of these failures could have a material adverse impact on the Company's financial condition and results of operations.

Food Safety and Consumer Health

The Company is subject to risks that affect the food industry in general, including risks posed by food spoilage, accidental contamination, product tampering, consumer product liability, and the potential costs and disruptions of a product recall. The Company's products are susceptible to contamination by disease-producing organisms, or pathogens, such as *E. Coli, Salmonella* and *Listeria*. There is a risk that these pathogens, as a result of food processing, could be present in the Company's products. The Company actively manages these risks by maintaining strict and rigorous controls and processes in its manufacturing facilities and distribution systems and by maintaining prudent levels of insurance. However, the Company cannot assure that such systems, even when working effectively, will eliminate the risks related to food safety. The Company could be required to recall certain of its products in the event of contamination or adverse test results, similar to the recall in 2008, or as precautionary measures, similar to other recalls initiated in the past. There is also a risk that not all of the product subject to the recall will be properly identified, or that the recall will not be successful or not effected in a timely manner. Any product contamination could subject the Company to product liability claims, adverse publicity and government scrutiny, investigation or intervention, resulting in increased costs and decreased sales. Any of these events could have a material adverse impact on the Company's financial condition and results of operations.

Leverage and Availability of Capital

The ability of the Company to secure short and long-term financing on terms acceptable to the Company is critical to grow and fund its business and manage its liquidity. In particular, at various stages in the implementation of the Plan, the Company will require significant amounts of capital. The ability to secure such additional capital on commercially reasonable and acceptable terms will in part determine the success or failure of the Company's Plan. As a result, the failure or inability of the Company to secure short and long-term financing in the future on terms that are commercially reasonable and acceptable to the Company could have a significant impact on the Company's financial condition and results of operations. In addition, a downgrade in the Company's credit quality would likely increase the Company's borrowing costs for both short-term and long-term debt, which could have a material adverse impact on the Company's financial condition and results of operations. Even if the Company does successfully raise additional capital when needed, if it issues equity securities, investors will be diluted, and if it raises additional debt, it will be further leveraged and could be subject to restrictive covenants such as restrictions on paying dividends.

Business Acquisitions, Divestitures and Capital Expansion Projects

While the Company's focus has been integration of existing operations and supply chain optimization, the Company continues to review opportunities for strategic growth through acquisitions. These acquisitions may involve large transactions or realignment of existing investments, and present financial, managerial and operational challenges, which if not successfully overcome may reduce the Company's profitability. These risks include the diversion of Management's attention from existing core businesses, difficulties integrating or separating personnel and financial and other systems, adverse effects on existing business relationships with suppliers and customers, inaccurate estimates of the rate of return on acquisitions or investments, inaccurate estimates of fair value made in the accounting for acquisitions and amortization of acquired intangible assets, which would reduce future reported earnings, potential loss of customers or key employees of acquired businesses, and indemnities and potential disputes with the buyers or sellers. Any of these items could materially adversely affect the Company's financial condition and results of operations.

The Company may from time to time determine that certain of its operations are not required to be owned to support its core business operations and may seek to sell an operation if it believes it can realize sufficient value from its sale. The sale may divert Management's attention from existing core businesses during the sale process, create difficulties in separating personnel, financial and other systems, and cause adverse effects on existing business relationships with suppliers and customers. Any of these items could materially adversely affect the Company's financial condition and result in a reduction of earnings beyond the earnings of any operation to be sold.

Pension Plan Assets and Liabilities

In the normal course of business, the Company provides post-retirement pension benefits to its employees under both defined contribution and defined benefit pension plan arrangements. The funded status of the plans significantly affects the net periodic benefit costs of the Company's pension plans and the ongoing funding requirements of those plans. Among other factors, changes in interest rates, mortality rates, early retirement rates, investment returns and the market value of plan assets can affect the level of plan funding, increase the Company's future funding requirements and cause volatility in the net periodic pension cost and the Company's financial results. Furthermore, the Company has merged and is in the process of merging a number of its defined benefit pension plans. The funding status of the individual plans depends in part on whether the mergers are approved. Failure by the regulators to approve the mergers could also result in an increase to the Company's funding requirements. Any increase in pension expense or funding requirements could have a material adverse impact on the Company's financial condition and results of operations.

Hog and Pork Market Cyclicality and Supply

The Company's results of operations and financial condition are partially dependent upon the cost and supply of hogs and the selling prices for fresh meat products, both of which are influenced by constantly changing market forces of supply and demand over which the Company has little or no control. These prices for the most part are denominated in or related to U.S. dollars, which adds further variability due to fluctuations in exchange rates. The North American primary pork processing markets are highly competitive, with major and regional companies competing in each market. The market prices for pork products regularly experience periods of supply and demand imbalance, and are sensitive to changes in industry processing capacity. Other factors that can influence the supply and market price of live hogs include fluctuations in the size of herds maintained by North American hog suppliers, environmental and conservation regulations, economic conditions, the relative cost of feed for hogs, weather and livestock diseases. There can be no assurance that all or part of any such increased costs experienced by the Company from time to time can be passed along to consumers of the Company's products directly or in a timely manner. The factors described above may also impact the supply of hogs available for processing at the Company's pork processing plants by negatively impacting the financial strength of the various independent farming operations upon which the Company relies upon to meet its requirements for hogs. For example, in 2012, two of the Company's largest hog suppliers sought creditor protection and although the Company has managed to secure the continued supply of hogs necessary for its operations, there is no assurance that it will continue to be able to do so. If the Company were unable to secure a sufficient supply of hogs, the Company's financial condition and results of operations could be materially adversely affected.

Livestock

The Company's operations and the demand for the Company's products can be significantly affected by outbreaks of disease among livestock, or attributed to livestock whether it occurs within the Company's production operations or in the operations of third parties.

The Company monitors herd health status and has strict bio-security procedures and employee training programs throughout its hog production system. However, there is no guarantee these processes will not fail. In addition, not all livestock procured by the Company may be subject to these processes, as the majority of hog and poultry livestock processed by the Company is purchased from independent third parties. In addition to risks associated with maintaining the health of the Company's livestock, any outbreak of disease elsewhere in the world could reduce consumer confidence in the meat products affected by the particular disease and generate adverse publicity. Accordingly, there can be no assurance that an outbreak of animal disease in Canada or elsewhere will not have a material adverse effect on the Company's financial condition and results of operations.

Maple Leaf Foods has developed a comprehensive internal contingency plan for dealing with animal disease occurrences or a more broad-based pandemic and has taken steps to support the Canadian government in enhancing both the country's prevention measures and preparedness plans. There can be no assurance, however, that these prevention measures or plans will be successful in minimizing or containing the impact of an outbreak of animal disease and that such outbreak will not have a material adverse effect on the Company's financial condition and results of operations.

Foreign Currencies

A significant amount of the Company's revenues and costs are either denominated in or directly linked to other currencies (primarily U.S. dollars, British pounds, and Japanese yen). In periods when the Canadian dollar has appreciated both rapidly and materially against these foreign currencies, revenues linked to U.S. dollars or Japanese yen are immediately reduced while the Company's ability to change prices or realize natural hedges may lag the immediate currency change. The effect of such sudden changes in exchange rates can have a significant immediate impact on the Company's earnings. Due to the diversity of the Company's operations, normal fluctuations in other currencies do not generally have a material impact on the Company's profitability in the short term due to either natural hedges and offsetting currency exposures (for example, when revenues and costs are both linked to other currencies) or the ability in the near term to change prices of its products to offset adverse currency movements. However, as the Company competes in international markets, and faces competition in its domestic markets from U.S. competitors, significant changes in the Canadian to U.S. dollar exchange rate can have, and have had, significant effects on the Company's relative competitiveness in its domestic and international markets, which can have, and have had, significant effects on the Company's financial condition and results of operations. Financial results from operations in the U.K. are recorded in the British pound, however, consolidated financial results are reported in Canadian dollars. As a result, earnings and financial position are affected by foreign exchange fluctuations through translation risk. Translation risk is the risk that financial statements for a particular period, or at a certain date, depend on the prevailing exchange rate of the British pound against the Canadian dollar. Accordingly, these exchange rate fluctuations could have a material adverse effect on the Company's financial condition and results of operations.

Commodities

The Company is a purchaser of, and its business is dependent on, certain commodities such as wheat, feed grains, livestock and energy (oil-based fuel, natural gas and electricity), in the course of normal operations. Commodity prices are subject to fluctuation and such fluctuations are sometimes severe. The Company may use commodity futures and options for hedging purposes to reduce the effect of changing prices in the short term but such hedges may not be successful in mitigating this commodity price risk and may in some circumstances subject the Company to loss. On a longer-term basis, the Company attempts to manage the risk of increases in commodities and other input costs by increasing the prices it charges to its customers, however, no assurance can be given that customers will continue to purchase the Company's products if prices rise. Any fluctuations in commodity prices that the Company is unable to properly hedge or mitigate could have a material adverse effect on the Company's financial condition and results of operations.

International Trade

The Company exports significant amounts of its products to customers outside Canada and certain of its inputs are affected by global commodity prices. The Company's international operations are subject to inherent risks, including change in the free flow of food products between countries, fluctuations in currency values, discriminatory fiscal policies, unexpected changes in local regulations and laws, and the uncertainty of enforcement of remedies in foreign jurisdictions. In addition, foreign jurisdictions could impose tariffs, quotas, trade barriers and other similar restrictions on the Company's international sales and subsidize competing agricultural products. All of these risks could result in increased costs or decreased revenues, either of which could have a material adverse effect on the Company's financial condition and results of operations.

Regulation

The Company's operations are subject to extensive regulation by government agencies in the countries in which it operates, including the Canadian Food Inspection Agency, the Ministry of Agriculture in Canada, provincial Ministries of the Environment in Canada and the United States Department of Agriculture. These agencies regulate the processing, packaging, storage, distribution, advertising and labelling of the Company's products, including food safety standards. The Company's manufacturing facilities and products are subject to inspection by federal, provincial and local authorities. The Company strives to maintain compliance with all laws and regulations and maintains all permits and licenses relating to its operations. Nevertheless, there can be no assurance that the Company is in compliance with such laws and regulations, has all necessary permits and licenses and will be able to comply with such laws and regulations, permits and licenses in the future. Failure by the Company to comply with applicable laws and regulations and permits and licenses could subject the Company to civil remedies, including fines, injunctions, recalls or seizures, as well as potential criminal sanctions, which could have a material adverse effect on the Company's financial condition and results of operations. Various governments throughout the world are considering regulatory proposals relating to genetically modified organisms, drug residues in food ingredients, food safety, and market and environmental regulation that, if adopted, may increase the Company's costs. There can be no assurance that additional regulation will not be enacted. In fact, new regulations and standards were enacted to address the risks associated with certain pathogens in response to the Company's August 2008 recall of ready-to-eat meat products. If any of these or other proposals or regulations are enacted, the Company could experience a disruption in the supply or distribution of its products, increased operating costs and significant additional cost for capital improvements. The Company may be unable to pass on the cost increases associated with such increased regulatory burden to its customers without incurring volume loss as a result of higher prices. Any of these events could have a material adverse effect on the Company's financial condition and results of operations.

Legal Matters

In the normal course of its operations, the Company becomes involved in various legal actions relating to its commercial relationships, employment matters and product liabilities, among other things. The Company believes that the resolution of these claims will not have a material effect on the Company, based in part on the availability of insurance. However, the final outcome with respect to actions outstanding, pending or with respect to future claims cannot be predicted with certainty. Furthermore, even if any action is settled within insurance limits, this can result in increases to the Company's insurance premiums. Therefore there can be no assurance that their resolution will not have a material adverse effect on the Company's financial condition or results of operations.

Consumer Trends

Success of the Company depends in part on the Company's ability to respond to market trends and produce innovative products that anticipate and respond to the changing tastes and dietary habits of consumers. From time to time, certain products are deemed more or less healthy and this can impact consumer buying patterns. The Company's failure to anticipate, identify or react to these changes or to innovate could result in declining demand and prices for the Company's products, which in turn could have a material adverse effect on the Company's financial condition and results of operations.

Environmental Regulation

The Company's operations are subject to extensive environmental laws and regulations pertaining to the discharge of materials into the environment and the handling and disposition of wastes (including solid and hazardous wastes) or otherwise relating to protection of the environment. Failure to comply could have serious consequences, such as criminal as well as civil penalties, liability for damages and negative publicity for the Company. No assurances can be given that additional environmental issues relating to presently known matters or identified sites or to other matters or sites will not require additional expenditures, or that requirements applicable to the Company will not be altered in ways that will require the Company to incur significant additional costs. In addition, certain of the Company's facilities have been in operation for many years and, over time, the Company and other prior operators of such facilities may have generated and disposed of waste which is or may be considered to be hazardous. Future discovery of previously unknown contamination of property underlying or in the vicinity of the Company's present or former properties or manufacturing facilities and/or waste disposal sites could require the Company to incur material unforeseen expenses. Occurrences of any such events could have a material adverse effect on the Company's financial condition and results of operations.

Consolidating Customer Environment

As the retail grocery and foodservice trades continue to consolidate and customers grow larger and more sophisticated, the Company is required to adjust to changes in purchasing practices and changing customer requirements, as failure to do so could result in losing sales volumes and market share. The Company's net sales and profitability could also be affected by deterioration in the financial condition of, or other adverse developments in the relationship with, one or more of its major customers. Any of these events could have a material adverse effect on the Company's financial condition and results of operations.

Competitive Industry Environment

The food industry is intensely competitive and in many product categories in which the Company operates, there are low barriers to entry. Competition is based on product availability, product quality, price, effective promotions and the ability to target changing consumer preferences. The Company experiences price pressure from time to time as a result of competitors' promotional efforts and in product categories and markets characterized by low capacity utilization. Increased competition could result in reduced sales, margins, profits and market share, all of which could have a material adverse effect on the Company's financial condition and results of operations.

Employment Matters

The Company and its subsidiaries have approximately 20,000 full and part-time employees, which include salaried and union employees, many of whom are covered by collective agreements. These employees are located in various jurisdictions around the world, each such jurisdiction having differing employment laws and practices and differing liabilities for employment violations, which may result in punitive or extraordinary damages. While the Company maintains systems and procedures to comply with the applicable requirements, there is a risk that failures or lapses by individual managers could result in a violation or cause of action that could have a material adverse effect on the Company's financial condition and results of operations. Furthermore, if a collective agreement covering a significant number of employees or involving certain key employees were to expire or otherwise cease to have effect leading to a work stoppage, there can be no assurance that such work stoppage would not have a material adverse effect on the Company's financial condition and results of operations. The Company's success is also dependent on its ability to recruit and retain qualified personnel. The loss of one or more key personnel could have a material adverse effect on the Company's financial condition and results of operations.

Direct Store Delivery Disruptions

A significant portion of the Company's fresh bakery products are distributed through direct store delivery systems using independent distributors. Although appropriate contractual arrangements are in place with these distributors and the Company attempts to maintain good relations with its distributors, a negative change in the Company's relations with them, changes in regulations or an adverse ruling by regulatory agencies regarding the Company's independent distributorship program or claims against the Company for the actions of the independent distributors, could have a material adverse effect on the Company's financial condition and results of operations.

Product Pricing

The Company's profitability is dependent in large part on the Company's ability to make pricing decisions regarding its products that on one hand encourage consumers to buy yet on the other hand recoup development and other costs associated with that product. Products that are priced too high will not sell and products priced too low will lower the Company's profit margins. Accordingly, any failure by the Company to properly price its products could have a material adverse effect on the Company's financial condition and results of operations.

Supply Chain Management

Successful management of the Company's supply chain is critical to the Company's success. Insufficient supply of products threatens the Company's ability to meet customer demands while over capacity threatens the Company's ability to generate competitive profit margins. Accordingly, any failure by the Company to properly manage the Company's supply chain could have a material adverse effect on the Company's financial condition and results of operations.

Strategic Risk Management

Successful identification and management of the strategic risks facing the Company from time to time is critical to the Company's success. Failure to properly adapt to changes in strategic risks (such as changes in technology, the food industry, customers, consumers and competitors, among other things) could have a material adverse effect on the Company's financial condition and results of operations.

CRITICAL ACCOUNTING ESTIMATES

The preparation of consolidated financial statements in accordance with IFRS requires Management to make judgments, 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.

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

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

Long-lived Assets Valuation

The Company performs impairment testing on its long-lived assets annually for goodwill and intangible assets, and when circumstances indicate that there may be impairment, for other long-lived assets. Management judgment is involved in determining if there are circumstances indicating that testing for impairment is required, and in determining the grouping of assets to identify their Cash Generating Units ("CGU") 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 Management judgment and estimation.

The values associated with intangible assets and goodwill involve 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.

Provisions for Inventory

Management makes estimates of the future customer demand for products when establishing appropriate provisions for inventory. In making these estimates, Management considers product life of inventory and the profitability of recent sales of inventory. In many cases, product sold by the Company turns quickly and inventory on-hand values are lower, thus reducing the risk of material misstatement. However, code, or "best before" dates are very important in the determination of realizable value, and inventory values are significant. 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 (loss) will be affected.

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 minus 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 cost 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 cost to sell are recognized in the statement of 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.

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 the projected level of sales volume for the relevant period and the historical promotional expenditure rate compared to contracted rates. 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, accrued liabilities, net earnings and comprehensive income (loss) will be affected.

Employee 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 expected plan investment performance, salary escalation, retirement ages of employees, mortality rates and expected health care costs. 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. 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 (loss) will be affected.

Significant actuarial assumptions adopted in measuring the Company's accrued benefit obligations and benefit plan expenses are as follows:

	2012	2011
Weighted average discount rate used to calculate net benefit plan expense	**4.50%**	5.00%
Weighted average discount rate used to calculate year end benefit obligation	**3.75%**	4.50%
Expected long-term rate of return on plan assets	**7.25%**	7.25%
Rate of compensation increase	**3.50%**	3.50%
Medical cost trend rates	**6.00%**	6.50%

The effect on the following items of a 1% increase and decrease in health care costs, assuming no change in benefit levels, is as follows:

($ thousands)	1% increase	1% decrease
End-of-year obligation	$ 4,118	$ (4,536)
Aggregate of 2012 current service cost and interest cost	198	(222)

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 judgment 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.

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 (loss).

Stock-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 for certain stock-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 and net earnings and comprehensive income (loss).

Depreciation and Amortization

The Company's property and equipment and definite life intangible assets are depreciated and amortized on a straight-line basis, taking into account the expected 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 (loss).

RECENT ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED

Financial Instruments – Recognition and Measurement

In October 2010, the International Accounting Standards Board ("IASB") published amendments to IFRS 9 *Financial Instruments* (IFRS 9 (2010)) which provide added guidance on the classification and measurement of financial liabilities. IFRS 9 (2010) supersedes IFRS 9 (2009) and is effective for annual periods beginning on or after January 1, 2015, with early adoption permitted. For annual periods beginning before January 1, 2015, either IFRS 9 (2009) or IFRS 9 (2010) may be applied. The Company intends to adopt IFRS 9 (2010) in its financial statements for the annual period beginning on January 1, 2015. The extent of the impact of adoption of IFRS 9 (2010) has not yet been determined.

Financial Assets and Liabilities

In December 2011 the IASB published amendments to International Accounting Standard ("IAS") 32 *Financial Instruments: Presentation* and issued new disclosure requirements in IFRS 7 *Financial Instruments: Disclosures*. The effective date for the amendments to IAS 32 is annual periods beginning on or after January 1, 2014. The effective date for the amendments to IFRS 7 is annual periods beginning on or after January 1, 2013. These amendments are to be applied retrospectively.

The amendments to IAS 32 clarify when an entity has a legally enforceable right to offset as well as clarify, when a settlement mechanism provides for net settlement, or gross settlement that is equivalent to net settlement. The amendments to IFRS 7 contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting arrangements or similar arrangements. The Company intends to adopt the amendments to IFRS 7 in its financial statements for the annual period beginning on January 1, 2013, and the amendments to IAS 32 in its financial statements for the annual period beginning January 1, 2014. The Company will include the additional disclosures required by the amendments to IFRS 7 in its 2013 financial statements. The extent of the impact of adoption of amendments to IAS 32 has not yet been determined.

Consolidated Financial Statements

In May 2011, the IASB issued IFRS 10 *Consolidated Financial Statements*. IFRS 10 replaces portions of IAS 27 *Consolidated and Separate Financial Statements*, that addresses consolidation, and supersedes SIC-12 *Consolidation – Special Purpose Entities ("SPE"),* in its entirety. IFRS 10 provides a single model to be applied in the analysis of control of all investees, including entities that currently are SPEs in the scope of SIC-12. In addition, the consolidation procedures specified in IFRS 10 are carried forward substantially unmodified from IAS 27.

Joint Arrangements

In May 2011, the IASB issued IFRS 11 *Joint Arrangements*. IFRS 11 supersedes IAS 31 *Interest in Joint Ventures* and SIC-13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. Through an assessment of the rights and obligations in an arrangement, IFRS 11 establishes principles to determine the type of joint arrangement, which are classified as either joint operations or joint ventures and provides guidance for financial reporting activities required by the entities that have an interest in arrangements that are controlled jointly. Investments in joint ventures are required to be accounted for using the equity method.

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

Disclosure of Interests in Other Entities

In May 2011, the IASB issued IFRS 12 *Disclosure of Interests in Other Entities,* which contains disclosure requirements for companies that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities.

IFRS 10, IFRS 11 and IFRS 12, and the amendments to IAS 27 and IAS 28 are all effective for annual periods beginning on or after January 1, 2013. Early adoption is permitted, so long as IFRS 10, IFRS 11 and IFRS 12, and the amendments to IAS 27 and IAS 28 are adopted at the same time. However, entities are permitted to incorporate any of the disclosure requirements in IFRS 12 into their financial statements without early adopting IFRS 10, IFRS 11, amendments to IAS 27 and IAS 28. The Company intends to adopt IFRS 10, IFRS 11 and IFRS 12 and the amendments to IAS 27 and IAS 28 in its consolidated financial statements for the annual period beginning on January 1, 2013. The impact of the adoption of IFRS 10, IFRS 11 and IFRS 12 and the amendments to IAS 27 and IAS 28 is not expected to be material to the financial statements, and the additional disclosures required by these standards will be included in its 2013 financial statements.

Fair Value Measurement

In May 2011, the IASB published IFRS 13 *Fair Value Measurement*, which is effective prospectively for annual periods beginning on or after January 1, 2013. IFRS 13 replaces the fair value measurement guidance contained in individual IFRS with a single source of fair value measurement guidance. The standard also establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. The Company intends to adopt IFRS 13 prospectively in its financial statements for the annual period beginning on January 1, 2013. The Company will provide required additional disclosures on fair valued items beginning with its first quarter 2013 financial statements.

Presentation of Financial Statements

In June 2011, the IASB published amendments to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income*, which are effective for annual periods beginning on or after July 1, 2012 and are to be applied retrospectively. Early adoption is permitted. These amendments require that a company present separately the items of other comprehensive income that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. The Company intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2013. The Company will change the presentation of its consolidated statement of other comprehensive income starting in the first quarter of 2013.

Employee Benefits

In June 2011, the IASB published an amended version of IAS 19 *Employee Benefits*. Adoption of the amendment is required for annual periods beginning on or after January 1, 2013, with early adoption permitted. The amendment is generally applied retrospectively with certain exceptions. The amendment will require the calculation of expected return on plan assets to be based on the rate used to discount the defined benefit obligation. The amendment also requires other changes and additional disclosures. The Company intends to adopt the amendment in its financial statements for the annual period beginning on January 1, 2013.

If the Company had adopted the portion of the new standard relating to the calculation of expected return on plan assets being based on the rate used to discount the defined benefit obligation, and administrative fees being expensed as incurred in 2012, the impact would be an increase in pre-tax pension expense of $35.2 million ($25.9 million after-tax) for the 2012 fiscal year. This would be offset through other comprehensive income (loss). Management is in the process of assessing the full impact of the remaining amendments to this standard.

The Company estimates that the impact of adopting the amendments to IAS 19 related to pensions in its 2013 financial statements will be an increase in pre-tax pension expense for 2013 of approximately $39 million.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Company's disclosure controls and procedures are designed to provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, is accumulated and communicated to Management in a timely manner so that information required to be disclosed by the Company under securities legislation is recorded, processed, summarized and reported within the time periods specified in applicable securities legislation.

The Company's Management, under the direction and supervision of the Company's Chief Executive Officer and Chief Financial Officer, is also responsible for establishing and maintaining internal control over financial reporting. These controls are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

The Company's Chief Executive Officer and Chief Financial Officer have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Company's internal control over financial reporting and disclosure controls and procedures as at December 31, 2012 and have concluded that such controls and procedures are effective.

In addition, there have been no changes in the Company's internal control over financial reporting that occurred during the period beginning January 1, 2012 and ended on December 31, 2012 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

NON-IFRS FINANCIAL MEASURES

The Company uses the following non-IFRS measures: Adjusted Operating Earnings, Adjusted EPS, EBITDA, Net Debt and Return on Net Assets ("RONA"). Management believes that these non-IFRS measures provide useful information to investors in measuring the financial performance of the Company and for the reasons outlined below. These measures do not have a standardized meaning prescribed by IFRS and therefore they may not be comparable to similarly titled measures presented by other publicly traded companies and should not be construed as an alternative to other financial measures determined in accordance with IFRS.

Adjusted Operating Earnings

Adjusted Operating Earnings, a non-IFRS measure, is used by Management to evaluate financial operating results. It is defined as earnings before income taxes adjusted for items that are not considered representative of on-going operational activities of the business, and items where the economic impact of the transactions will be reflected in earnings in future periods when the underlying asset is sold or transferred. The table below provides a reconciliation of net earnings as reported under IFRS in the audited consolidated statements of earnings for the years then ended to Adjusted Operating Earnings. Management believes that this basis is the most appropriate on which to evaluate operating results, as they are representative of the on-going operations of the Company.

	December 31, 2012				
($ thousands)	**Meat Products Group**	**Agribusiness Group**	**Bakery Products Group**	**Unallocated costs**	**Consolidated**
Net earnings					**$ 122,714**
Income taxes					**47,889**
Earnings from operations before income taxes					**$ 170,603**
Interest expense					**71,685**
Change in the fair value of non-designated interest rate swaps					**(7,297)**
Other (income) expense	**(2,323)**	**(4,885)**	**(1,635)**	**(388)**	**(9,231)**
Restructuring and other related costs	**36,438**	**–**	**11,073**	**–**	**47,511**
Earnings from Operations	**$ 121,272**	**$ 68,436**	**$ 97,634**	**$ (14,071)**	**$ 273,271**
(Increase) decrease in fair value of biological assets	**–**	**–**	**–**	**3,436**	**3,436**
Unrealized (gains) losses on commodity futures contracts	**–**	**–**	**–**	**3,330**	**3,330**
Adjusted Operating Earnings	**$ 121,272**	**$ 68,436**	**$ 97,634**	**$ (7,305)**	**$ 280,037**

($ thousands)	Meat Products Group	Agribusiness Group	Bakery Products Group	Unallocated costs	Consolidated
	December 31, 2011				
Net earnings					$ 87,331
Income taxes					24,469
Earnings from operations before income taxes					$ 111,800
Interest expense					70,747
Change in the fair value of non-designated interest rate swaps					10,960
Other (income) expense	(8,547)	(958)	(414)	(413)	(10,332)
Restructuring and other related costs	31,130	-	46,356	2,309	79,795
Earnings from Operations	$ 95,987	$ 81,895	$ 86,294	$ (1,206)	$ 262,970
(Increase) decrease in fair value of biological assets	-	-	-	1,027	1,027
Unrealized (gains) losses on commodity futures contracts	-	-	-	(4,981)	(4,981)
Adjusted Operating Earnings	$ 95,987	$ 81,895	$ 86,294	$ (5,160)	$ 259,016

($ thousands)	Meat Products Group	Agribusiness Group	Bakery Products Group	Unallocated costs	Consolidated
	December 31, 2010				
Net earnings					$ 35,613
Income taxes					19,077
Earnings from operations before income taxes					$ 54,690
Interest expense					64,874
Change in the fair value of non-designated interest rate swaps					24,922
Other (income) expense	(992)	698	(57)	189	(162)
Restructuring and other related costs	64,001	(22)	15,548	1,581	81,108
Earnings from Operations	$ 81,281	$ 50,505	$ 94,399	$ (753)	$ 225,432
(Increase) decrease in fair value of biological assets	–	–	–	(10,841)	(10,841)
Unrealized (gains) losses on commodity futures contracts	–	–	–	(112)	(112)
Adjusted Operating Earnings	$ 81,281	$ 50,505	$ 94,399	$ (11,706)	$ 214,479

Adjusted Earnings per Share

Adjusted Earnings per Share, a non-IFRS measure, is used by Management to evaluate on-going financial operating results. It is defined as basic earnings per share attributable to common shareholders, and is adjusted for items that are not considered representative of on-going operational activities of the business, and items where the economic impact of the transactions will be reflected in earnings in future periods when the underlying asset is sold or transferred. The table below provides a reconciliation of basic earnings per share as reported under IFRS in the audited consolidated statements of earnings for the years then ended to Adjusted Earnings per Share. Management believes this basis is the most appropriate on which to evaluate financial results as they are representative of the on-going operations of the Company.

December 31, *($ per share)*	**2012**	2011	2010
Basic earnings per share	**$ 0.83**	$ 0.59	$ 0.22
Restructuring and other related costs(i)	**0.25**	0.41	0.44
Non operational gains, net of legal fees(ii)	**(0.02)**	(0.02)	–
Change in the fair value of non-designated interest rate swaps(iii)	**(0.04)**	0.06	0.13
Change in the fair value of unrealized (gains) losses on commodity futures contracts(iii)	**0.02**	(0.03)	–
Change in the fair value of biological assets(iii)	**0.02**	0.01	(0.06)
Adjusted Earnings per Share(iv)	**$ 1.06**	$ 1.01	$ 0.73

(i) *Includes per share impact of restructuring and other related costs, net of tax and non-controlling interest.*

(ii) *Gains associated with non-operational activities, including gains related to restructuring activities and on business combinations, and associated legal fees are net of tax.*

(iii) *Includes per share impact of the change in fair value of non-designated interest rate swaps, unrealized (gains) losses on commodity futures contracts and the change in fair value of biological assets, net of tax.*

(iv) *May not add due to rounding.*

Earnings Before Interest, Tax, Depreciation and Amortization

EBITDA is calculated as earnings from operations and before interest and income taxes plus depreciation and intangible asset amortization, adjusted for items that are not considered representative of on-going operational activities of the business, and items where the economic impact of the transactions will be reflected in earnings in future periods when the underlying asset is sold or transferred. The following table provides a reconciliation of net earnings as reported under IFRS in the audited consolidated statements of earnings for the years then ended to EBITDA. Management believes EBITDA is useful in assessing the performance of the Company's on-going operations and its ability to generate cash flows to fund its cash requirements, including the Company's capital investment program.

December 31, *($ thousands)*	**2012**	2011	2010
Net earnings	**$ 122,714**	$ 87,331	$ 35,613
Income taxes	**47,889**	24,469	19,077
Earnings from operations before income taxes	**$ 170,603**	$ 111,800	$ 54,690
Interest expense	**71,685**	70,747	64,874
Restructuring and other related costs	**47,511**	79,795	81,108
Non operational gains, net of legal fees(i)	**(3,354)**	(4,129)	–
Change in the fair value of non-designated swaps, biological assets and unrealized (gains) losses on commodity futures contracts	**(531)**	7,006	13,969
Depreciation and amortization	**132,739**	125,990	143,211
EBITDA	**$ 418,653**	$ 391,209	$ 357,852

(i) *Gains associated with non-operational activities, including gains related to restructuring activities and on business combinations, and associated legal fees are net of tax.*

Net Debt

The following table reconciles Net Debt used in net debt to EBITDA ratios reflected on page 13 to amounts reported under IFRS in the audited consolidated balance sheets as at the years ended as indicated below.

The Company calculates Net Debt as long-term debt and bank indebtedness, less cash and cash equivalents. Management believes this measure is useful in assessing the amount of financial leverage employed.

December 31, *($ thousands)*	**2012**	2011	2010
Bank indebtedness	**$ 48,243**	$ 36,404	$ 15,858
Current portion of long-term debt	**6,573**	5,618	496,835
Long-term debt	**1,206,945**	941,956	389,078
Sub-total	**$ 1,261,761**	$ 983,978	$ 901,771
Cash and cash equivalents	**90,414**	–	–
Net Debt	**$ 1,171,347**	$ 983,978	$ 901,771

Return on Net Assets

Return on Net Assets is calculated by dividing tax-effected earnings from operations, adjusted for items which are not considered representative of the underlying operations of the business, by average monthly net assets. Net assets are defined as total assets less cash, future tax assets and non-interest bearing liabilities. Management believes that RONA is an appropriate basis upon which to evaluate long-term financial performance.

FORWARD-LOOKING STATEMENTS

This document contains, and the Company's oral and written public communications often contain, "forward-looking information" within the meaning of applicable securities law. These statements are based on current expectations, estimates, forecasts and projections about the industries in which the Company operates and beliefs and assumptions made by the Management of the Company. Such statements include, but are not limited to, statements with respect to objectives and goals, as well as statements with respect to beliefs, plans, objectives, expectations, anticipations, estimates and intentions. Specific forward-looking information in this document includes, but is not limited to, statements with respect to the anticipated benefits, timing, actions, costs and investments associated with the Company's Value Creation Plan, expectations regarding Net Debt to EBITDA ratios during the implementation of the Plan, expectations regarding the use of derivatives, futures and options, expectations regarding improving efficiencies, the expected use of cash balances, source of funds for ongoing business requirements including renewal of existing securitization facilities, capital investments and debt repayment, expectations regarding acquisitions and divestitures, the timing of new plant openings and old plant closures, job losses and LEED® certification, expectations regarding the impact of new accounting standards, expectations regarding sufficiency of the allowance for uncollectible accounts and expectations regarding pension plan performance and future pension plan liabilities and contributions. Words such as "expect", "anticipate", "intend", "attempt", "may", "will", "plan", "believe", "seek", "estimate", and variations of such words and similar expressions are intended to identify such forward-looking information. These statements are not guarantees of future performance and involve assumptions and risks and uncertainties that are difficult to predict.

In addition, these statements and expectations concerning the performance of the Company's business in general are based on a number of factors and assumptions including, but not limited to: the condition of the Canadian, U.S., U.K. and Japanese economies; the rate of exchange of the Canadian dollar to the U.S. dollar, British pound and the Japanese yen; the availability and prices of raw materials, energy and supplies; product pricing; the availability of insurance; the competitive environment and related market conditions; improvement of operating efficiencies whether as a result of the Value Creation Plan or otherwise; continued access to capital; the cost of compliance with environmental and health standards; no adverse results from ongoing litigation; no unexpected actions of domestic and foreign governments; and the general assumption that none of the risks identified below or elsewhere in this document will materialize. All of these assumptions have been derived from information currently available to the Company including information obtained by the Company from third-party sources. These assumptions may prove to be incorrect in whole or in part. In addition, actual results may differ materially from those expressed, implied or forecasted in such forward-looking information, which reflect the Company's expectations only as of the date hereof.

Factors that could cause actual results or outcomes to differ materially from the results expressed, implied or forecasted by forward-looking information includes, among other things:

- the risks associated with implementing and executing the Company's Value Creation Plan
- the risks associated with changes in the Company's systems and processes
- the risks posed by food contamination, consumer liability and product recalls
- the risks associated with the Company's outstanding indebtedness
- the risks associated with acquisitions, divestitures and capital expansion projects
- the impact on pension expense and funding requirements of fluctuations in the market prices of fixed income and equity securities and changes in interest rates
- the cyclical nature of the cost and supply of hogs and the competitive nature of the pork market generally
- the risks related to the health status of livestock
- the impact of a pandemic on the Company's operations
- the Company's exposure to currency exchange risks
- the ability of the Company to hedge against the effect of commodity price changes through the use of commodity futures and options
- the impact of changes in the market value of the biological assets and hedging instruments
- the impact of international events on commodity prices and the free flow of goods
- the risks posed by compliance with extensive government regulation
- the risks posed by litigation
- the impact of changes in consumer tastes and buying patterns
- the impact of extensive environmental regulation and potential environmental liabilities
- the risks associated with a consolidating retail environment
- the risks posed by competition
- the risks associated with complying with differing employment laws and practices globally, the potential for work stoppages due to non-renewal of collective agreements, and recruiting and retaining qualified personnel
- the risks associated with the Company's independent distributors
- the risks associated with pricing the Company's products
- the risks associated with managing the Company's supply chain
- the risks associated with failing to identify and manage the strategic risks facing the Company.

The Company cautions the reader that the foregoing list of factors is not exhaustive. These factors are discussed in more detail under the heading "Risk Factors" presented previously in this document. The reader should review such section in detail.

Some of the forward-looking information may be considered to be financial outlooks for purposes of applicable securities legislation including, but not limited to, statements concerning future EBITDA margins, capital expenditures, cash costs and non-cash restructuring charges. These financial outlooks are presented to allow the Company to benchmark the results of its Value Creation Plan. These financial outlooks may not be appropriate for other purposes and readers should not assume they will be achieved.

The Company does not intend to, and the Company disclaims any obligation to, update any forward-looking information, whether written or oral, or whether as a result of new information, future events or otherwise except as required by law.

Additional information concerning the Company, including the Company's Annual Information Form, is available on SEDAR at www.sedar.com.

Maple Leaf Foods Inc. is a leading Canadian value-added meat, meals and bakery company committed to delivering quality food products to consumers around the world. Headquartered in Toronto, Canada, the Company employs approximately 20,000 people at its operations across Canada and in the United States, Europe and Asia.

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, 2012 and December 31, 2011, the consolidated statements of earnings, 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, 2012 and December 31, 2011, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants, Licensed Public Accountants
Toronto, Canada

February 25, 2013

Consolidated Balance Sheets

As at December 31, *(In thousands of Canadian dollars)*	**2012**	2011
Assets		
Current assets		
Cash and cash equivalents	**$ 90,414**	$ —
Accounts receivable *(Note 4)*	**116,503**	133,504
Notes receivable *(Note 4)*	**125,487**	98,545
Inventories *(Note 5)*	**301,804**	293,231
Biological assets *(Note 6)*	**78,127**	49,265
Income taxes recoverable	**41,527**	43,789
Prepaid expenses and other assets	**12,590**	24,688
Assets held for sale *(Note 7)*	**37,087**	—
	$ 803,539	$ 643,022
Property and equipment *(Note 8)*	**1,212,177**	1,067,246
Investment property *(Note 9)*	**11,979**	11,232
Employee benefits *(Note 10)*	**107,831**	133,942
Other long-term assets	**13,663**	11,926
Deferred tax asset *(Note 20)*	**132,558**	127,456
Goodwill *(Note 11)*	**753,156**	753,739
Intangible assets *(Note 12)*	**208,793**	191,896
Total assets	**$ 3,243,696**	$ 2,940,459
Liabilities And Equity		
Current liabilities		
Bank indebtedness *(Note 14)*	**$ 48,243**	$ 36,404
Accounts payable and accruals	**446,911**	482,059
Provisions *(Note 13)*	**26,335**	44,255
Current portion of long-term debt *(Note 14)*	**6,573**	5,618
Other current liabilities	**14,961**	20,409
	$ 543,023	$ 588,745
Long-term debt *(Note 14)*	**1,206,945**	941,956
Employee benefits *(Note 10)*	**420,933**	350,853
Provisions *(Note 13)*	**25,800**	28,936
Other long-term liabilities *(Note 15)*	**80,084**	88,153
Deferred tax liability *(Note 20)*	**8,912**	11,703
Total liabilities	**$ 2,285,697**	$ 2,010,346
Shareholders' equity		
Share capital *(Note 16)*	**$ 902,810**	$ 902,810
Deficit	**(72,701)**	(78,674)
Contributed surplus	**75,913**	64,327
Accumulated other comprehensive loss *(Note 16)*	**(13,263)**	(17,042)
Treasury stock	**(1,845)**	(6,347)
Total shareholders' equity	**$ 890,914**	$ 865,074
Non-controlling interest	**67,085**	65,039
Total equity	**$ 957,999**	$ 930,113
Total liabilities and equity	**$ 3,243,696**	$ 2,940,459

Commitments and Contingencies *(Note 23)*

See accompanying Notes to the Consolidated Financial Statements

On behalf of the Board:

MICHAEL H. MCCAIN
DIRECTOR

DIANE MCGARRY
DIRECTOR

Consolidated Statements of Earnings

Years ended December 31, *(In thousands of Canadian dollars, except share amounts)*	**2012**	2011
Sales	**$ 4,864,779**	$ 4,893,624
Cost of goods sold	**4,096,794**	4,126,460
Gross margin	**$ 767,985**	$ 767,164
Selling, general and administrative expenses	**494,714**	504,194
Earnings before the following:	**$ 273,271**	$ 262,970
Restructuring and other related costs *(Note 13)*	**(47,511)**	(79,795)
Change in fair value of non-designated interest rate swaps *(Note 17)*	**7,297**	(10,960)
Other income (expense) *(Note 18)*	**9,231**	10,332
Earnings before interest and income taxes	**$ 242,288**	$ 182,547
Interest expense *(Note 19)*	**71,685**	70,747
Earnings before income taxes	**$ 170,603**	$ 111,800
Income taxes *(Note 20)*	**47,889**	24,469
Net earnings	**$ 122,714**	$ 87,331
Attributed to:		
Common shareholders	**$ 115,296**	$ 82,134
Non-controlling interest	**7,418**	5,197
	$ 122,714	$ 87,331
Earnings per share attributable to common shareholders *(Note 21)*		
Basic earnings per share	**$ 0.83**	$ 0.59
Diluted earnings per share	**$ 0.81**	$ 0.58
Weighted average number of shares (millions)	**139.4**	138.7

See accompanying Notes to the Consolidated Financial Statements

Consolidated Statements of Comprehensive Income (Loss)

Years ended December 31, *(In thousands of Canadian dollars)*	**2012**	2011
Net earnings	**$ 122,714**	$ 87,331
Other comprehensive income (loss)		
Change in accumulated foreign currency translation adjustment	**$ (1,730)**	$ 5,651
Change in unrealized gains and losses on cash flow hedges	**5,251**	282
Change in asset ceiling and minimum funding requirements	**—**	12,680
Change in actuarial gains and losses	**(87,743)**	(128,832)
	$(84,222)	$ (110,219)
Comprehensive income (loss)	**$ 38,492**	$(22,888)
Attributed to:		
Common shareholders	**$ 31,981**	$(26,979)
Non-controlling interest	**6,511**	4,091

See accompanying Notes to the Consolidated Financial Statements

Consolidated Statements of Changes in Total Equity

	Attributable to Common Shareholders						
(In thousands of Canadian dollars)	**Share capital**	**Deficit**	**Contributed surplus**	**Total accumulated other comprehensive loss**	**Treasury stock**	**Non-controlling interest**	**Total equity**
Balance at December 31, 2011	**$ 902,810**	**$(78,674)**	**$64,327**	**$(17,042)**	**$(6,347)**	**$ 65,039**	**$ 930,113**
Net earnings	**–**	**115,296**	**–**	**–**	**–**	**7,418**	**122,714**
Other comprehensive income (loss)	**–**	**(87,094)**	**–**	**3,779**	**–**	**(907)**	**(84,222)**
Dividends declared ($0.16 per share)	**–**	**(22,229)**	**–**	**–**	**–**	**(4,473)**	**(26,702)**
Stock-based compensation expense	**–**	**–**	**24,711**	**–**	**–**	**–**	**24,711**
Issue of stock from treasury		**–**	**(13,525)**	**–**	**13,525**	**–**	**–**
Repurchase of treasury stock	**–**	**–**	**–**	**–**	**(9,023)**	**–**	**(9,023)**
Acquisition of business	**–**	**–**	**–**	**–**	**–**	**(82)**	**(82)**
Other	**–**	**–**	**400**	**–**	**–**	**90**	**490**
Balance at December 31, 2012	**$ 902,810**	**$ (72,701)**	**$ 75,913**	**$ (13,263)**	**$ (1,845)**	**$ 67,085**	**$ 957,999**

	Attributable to Common Shareholders						
	Share capital	**Deficit**	**Contributed surplus**	**Total accumulated other comprehensive loss**	**Treasury stock**	**Non-controlling interest**	**Total equity**
Balance at December 31, 2010	$ 902,810	$ (5,267)	$59,002	$(22,585)	$ (10,078)	$ 62,890	$ 986,772
Net earnings	–	82,134	–	–	–	5,197	87,331
Other comprehensive income (loss)	–	(114,656)	–	5,543	–	(1,106)	(110,219)
Dividends declared ($0.16 per share)	–	(22,386)	–	–	–	(1,830)	(24,216)
Stock-based compensation expense	–	–	19,393	–	–	–	19,393
Issue of stock from treasury	–	(18,499)	(14,068)	–	32,567	–	–
Repurchase of treasury stock	–	–	–	–	(28,836)	–	(28,836)
Decrease in minority interest	–	–	–	–	–	(112)	(112)
Balance at December 31, 2011	$ 902,810	$ (78,674)	$ 64,327	$ (17,042)	$ (6,347)	$ 65,039	$ 930,113

Consolidated Statements of Cash Flows

Years ended December 31, *(In thousands of Canadian dollars)*	**2012**	2011
CASH PROVIDED BY (USED IN):		
Operating activities		
Net earnings	**$ 122,714**	$ 87,331
Add (deduct) items not affecting cash:		
Change in fair value of biological assets	**3,436**	1,027
Depreciation and amortization	**132,739**	125,990
Stock-based compensation	**24,711**	19,393
Deferred income taxes	**18,967**	5,896
Income tax current	**28,922**	18,573
Interest expense	**71,685**	70,747
Gain on sale of long-lived assets	**(624)**	(6,987)
Gain on disposal of assets held for sale	**(459)**	(571)
Gain on business combination *(Note 27)*	**(5,330)**	–
Change in fair value of non-designated interest rate swaps	**(7,297)**	10,959
Change in fair value of derivative financial instruments	**3,107**	(3,924)
Increase (decrease) in net pension liability	**(21,870)**	10,364
Net income taxes paid	**(21,861)**	(17,703)
Interest paid	**(69,896)**	(57,969)
Change in provision for restructuring and other related costs	**13,179**	43,563
Other	**(9,427)**	(5,969)
Change in non-cash operating working capital	**(64,616)**	(55,886)
Cash provided by operating activities	**$ 218,080**	$ 244,834
Financing activities		
Dividends paid	**$ (22,229)**	$ (22,386)
Dividends paid to non-controlling interest	**(3,710)**	(1,830)
Net increase in long-term debt	**272,546**	5,195
Increase in financing costs	**–**	(6,610)
Purchase of treasury stock	**(9,023)**	(28,836)
Other	**(1,619)**	(1,512)
Cash provided by (used in) financing activities	**$ 235,965**	$ (55,979)
Investing activities		
Additions to long-term assets	**$(306,334)**	$ (229,171)
Acquisition of business	**(77,690)**	–
Capitalization of interest expense	**(6,901)**	(5,600)
Proceeds from sale of long-term assets	**7,481**	24,267
Proceeds from sale of assets held for sale	**7,974**	–
Other	**–**	1,103
Cash used in investing activities	**$(375,470)**	$(209,401)
Increase (decrease) in cash and cash equivalents	**$ 78,575**	$ (20,546)
Net cash and cash equivalents, beginning of period	**(36,404)**	(15,858)
Net cash and cash equivalents, end of period	**$ 42,171**	$ (36,404)
Net cash and cash equivalents is comprised of:		
Cash and cash equivalents	**$ 90,414**	$ –
Bank indebtedness	**(48,243)**	(36,404)
Net cash and cash equivalents, end of period	**$ 42,171**	$ (36,404)

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, 2012 and 2011

1. THE COMPANY

Maple Leaf Foods Inc. ("Maple Leaf Foods" or the "Company") is a leading Canadian-based value-added meat, meals and bakery company, serving wholesale, retail and foodservice customers across North America and internationally. The address of the Company's registered office is Suite 1500, 30 St. Clair Avenue West, Toronto, Ontario, M4V 3A2, Canada. The consolidated financial statements of the Company as at and for the year ended December 31, 2012 include the accounts of the Company and its subsidiaries. The Company's results are organized into three segments: Meat Products Group, Agribusiness Group and Bakery Products Group.

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 25, 2013.

(b) Basis of Measurement

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, biological assets, defined benefit plan assets and liabilities, and liabilities associated with certain stock-based compensation, that are stated at fair value.

(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 Judgments

The preparation of consolidated financial statements in accordance with IFRS requires Management to make judgments, 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.

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

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

Long-lived Assets Valuation

The Company performs impairment testing on its long-lived assets annually for goodwill and intangible assets, and when circumstances indicate that there may be impairment, for other long-lived assets. Management judgment is involved in determining if there are circumstances indicating that testing for impairment is required, and in determining the grouping of assets to identify their Cash Generating Units ("CGU") 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 Management judgment and estimation.

The values associated with intangible assets and goodwill involve 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.

Provisions for Inventory

Management makes estimates of the future customer demand for products when establishing appropriate provisions for inventory. In making these estimates, Management considers product life of inventory and the profitability of recent sales of inventory. In many cases, product sold by the Company turns quickly and inventory on-hand values are lower, thus reducing the risk of material misstatement. However, code, or "best before" dates are very important in the determination of realizable value, and inventory values are significant. 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 (loss) will be affected.

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 minus 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 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.

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 the projected level of sales volume for the relevant period and the historical promotional expenditure rate compared to contracted rates. 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, accrued liabilities, net earnings and comprehensive income (loss) will be affected.

Employee 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 expected plan investment performance, salary escalation, retirement ages of employees, mortality rates and expected health care costs. 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. 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 (loss) will be affected.

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 judgment 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.

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 (loss).

Stock-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 for certain stock-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 and net earnings and comprehensive income (loss).

Depreciation and Amortization

The Company's property and equipment and definite life intangible assets are depreciated and amortized on a straight-line basis, taking into account the expected 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 (loss).

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 has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Non-controlling interest represents the portion of a subsidiary's net earnings and net assets that are attributable to shares of such subsidiary not held by the Company. Acquisitions of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity holders; therefore no goodwill is recognized as a result of such transactions.

All intercompany accounts and transactions have been eliminated on consolidation.

(b) Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date that control is transferred to the Company. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. 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 the Company's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If the excess is negative, a purchase gain is recognised immediately in earnings. Transaction costs, other than those associated with the issue of debt or equity, are recognised in earnings as incurred.

Goodwill is not amortized and is tested for impairment annually in October and otherwise as required if events occur that indicate that its carrying amount may not be recoverable. Impairment of goodwill is tested at the CGU group level by comparing the carrying amount to its recoverable amount, consistent with the methodology applied in Note 3(i).

Non-controlling interests that are present ownership interests at the acquisition date and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquired business's identifiable assets. The choice of measurement basis is made on a transaction-by-transaction basis depending on individual factors of the transaction. Other types of non-controlling interest are measured at fair value or, when applicable, on the basis specified in another IFRS.

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 within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in earnings.

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

(c) 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 at that date. Foreign exchange differences arising on translation are recognised in net earnings except for financial assets and liabilities designated as hedges of the net investment in foreign operations or qualifying cash flow hedges, which are recognised in other comprehensive income. 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 recognised in accumulated other comprehensive income in total equity.

When a foreign operation is disposed of, the relevant amount in the cumulative foreign currency translation differences is transferred to profit or loss as part of the profit or loss on disposal. On the partial disposal of a subsidiary that includes a foreign operation, the relevant portion of the cumulative foreign currency translation differences is re-attributed to non-controlling interest. In any other partial disposal of a foreign operation, the relevant portion is reclassified to profit or loss.

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 recognised in other comprehensive income in the cumulate foreign currency translation differences.

(d) 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 financial 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 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.

Assets and liabilities carried at fair value must be classified using a three-level 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 instruments 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 instruments.

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.

Financial assets are assessed at each reporting date to determine whether there is any objective evidence of impairment. A financial asset is considered to be 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 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.

(e) 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, its risk Management's 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 earnings.

When hedge accounting is appropriate, the hedging relationship is designated as a cash flow hedge, a fair value hedge or a hedge of foreign currency exposure of a net investment in a self-sustaining 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 earnings by the change in fair value of the hedged item relating to the hedged risk.

In a net investment hedge, the change in fair value of the hedging instrument is recorded, to the extent effective, directly in other comprehensive income. These amounts are recognized in earnings when the corresponding accumulated other comprehensive income (loss) from self-sustaining foreign operations are recognized in earnings. The Company has designated certain U.S. dollar-denominated notes payable as net investment hedges of U.S. operations.

Hedge ineffectiveness is measured and recorded in current period earnings in the consolidated statements of 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 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 in the consolidated balance sheets, and subsequent changes in their fair value are recorded in the consolidated statements of earnings.

(f) Cash and Cash Equivalents

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

(g) 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 be written 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.

(h) 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, it is valued at cost less accumulated depreciation and any accumulated impairment losses. No active liquid market exists for parent stock as they are rarely sold. Hog parent stock is depreciated on a straight-line basis over three years, 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.

(i) 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 finance costs and income tax expense.

An impairment loss is recognized in the consolidated statements of 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 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.

Long-lived assets are classified as held for sale, and are separately presented in the consolidated balance sheets, when certain criteria are met and the sale is expected to be completed within one year. Any liabilities directly associated with such assets, are also separately presented in the consolidated balance sheets. These assets and liabilities, or disposal groups, are subsequently measured at the lower of their carrying amount or fair value less costs to sell. Non-current assets classified as held for sale are no longer depreciated. Any further gains or losses not previously recognized at the date that long-lived assets are classified as held for sale, shall be recognized in earnings at the date of sale.

(j) Property and Equipment

Property and equipment with the exception of land are 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, and 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	15-40 years
Machinery and equipment	3-10 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.

(k) Investment Property

Investment property comprises properties owned by the Company that are held to either earn rental income, 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, with the exception of land which is recorded at cost less any accumulated impairment losses. The depreciation policies for investment properties are consistent with those of property and equipment.

(l) Intangible Assets

Intangible Assets

Intangible assets include computer software, trademarks, customer relationships, poultry production quota and delivery routes. 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 their estimated useful lives as follows:

Trademarks	10 years
Computer software	3-10 years
Customer relationships	20-25 years

Indefinite life intangibles including trademarks, poultry production quota and delivery routes are tested for impairment annually in the fourth quarter and otherwise as required if events occur that indicate that the 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 the whether the value of the asset decreases over time.

(m) 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 expected plan investment performance, salary escalation, retirement ages of employees, mortality rates, and expected health care costs. Changes in these assumptions could affect future pension expense. The fair value of plan assets is used as the basis of calculating the expected return on plan assets. 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. Past service costs arising from plan amendments are amortized on a straight-line basis over the expected remaining vesting period. To the extent that the benefits vest immediately, the expense is recognized in net earnings.

Actuarial gains and losses due to changes in defined benefit plan assets and obligations are recognized immediately in accumulated other comprehensive income (loss). When a restructuring of a benefit plan gives rise to both a curtailment and settlement of obligations, the curtailment is accounted for prior to the settlement.

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"). In order 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 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 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.

(n) Stock-Based Compensation

The Company applies the fair value method of accounting for stock-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 stock units ("RSUs") including performance share units ("PSUs") is measured based on the fair value of the underlying shares on the grant date. Compensation cost is recognized on a straight-line basis over the expected vesting period of the stock-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.

(o) 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 as a result 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.

(p) Revenue Recognition

The majority of the Company's revenue is derived from the sale of product to retail and foodservice customers as well as the sale of rendering products and 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.

Except for fresh bread, 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. In the case of fresh bread, customer returns are deducted from revenue.

(q) Borrowing Costs

Borrowing costs primarily comprise 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 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 statements of earnings.

(r) Government Incentives

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

Government incentives received with the primary condition that the Company should purchase, construct or otherwise acquire non-current assets are recognised as a deduction from the associated asset on the balance sheet. The incentive is recognised 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 recognised 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.

(s) Income Taxes

Income tax expense comprises current and deferred tax. Income tax is recognized in the consolidated statement of 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 in which those temporary differences are expected to be recovered or settled. 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.

(t) Accounting Standards Adopted During the Period

During the year ended December 31, 2012, the Company adopted certain amendments to IFRS 7 *Financial Instruments: Disclosures*. These amendments require disclosure of information that enables users of financial statements to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and to evaluate the nature of, and risks associated with, the Company's continuing involvement in derecognized financial assets. The adoption of these amendments to IFRS 7 did not have any impact on the disclosures of the Company for the year ended December 31, 2012.

(u) Recent Accounting Pronouncements Not Yet Adopted

Financial Instruments – Recognition and Measurement

In October 2010, the IASB published amendments to IFRS 9 *Financial Instruments* (IFRS 9 (2010)) which provide added guidance on the classification and measurement of financial liabilities. IFRS 9 (2010) supersedes IFRS 9 (2009) and is effective for annual periods beginning on or after January 1, 2015, with early adoption permitted. For annual periods beginning before January 1, 2015, either IFRS 9 (2009) or IFRS 9 (2010) may be applied. The Company intends to adopt IFRS 9 (2010) in its financial statements for the annual period beginning on January 1, 2015. The extent of the impact of adoption of IFRS 9 (2010) has not yet been determined.

Financial Assets and Liabilities

In December 2011 the IASB published amendments to International Accounting Standard ("IAS") 32 *Financial Instruments: Presentation* and issued new disclosure requirements in IFRS 7 *Financial Instruments: Disclosures*. The effective date for the amendments to IAS 32 is annual periods beginning on or after January 1, 2014. The effective date for the amendments to IFRS 7 is annual periods beginning on or after January 1, 2013. These amendments are to be applied retrospectively.

The amendments to IAS 32 clarify when an entity has a legally enforceable right to off-set as well as clarify, when a settlement mechanism provides for net settlement, or gross settlement that is equivalent to net settlement. The amendments to IFRS 7 contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting arrangements or similar arrangements. The Company intends to adopt the amendments to IFRS 7 in its financial statements for the annual period beginning on January 1, 2013, and the amendments to IAS 32 in its financial statements for the annual period beginning January 1, 2014. The Company will include the additional disclosures required by the amendments to IFRS 7 in its 2013 financial statements. The extent of the impact of adoption of amendments to IAS 32 has not yet been determined.

Consolidated Financial Statements

In May 2011, the IASB issued IFRS 10 *Consolidated Financial Statements*. IFRS 10 replaces portions of IAS 27 *Consolidated and Separate Financial Statements*, that addresses consolidation, and supersedes SIC-12 *Consolidation—Special Purpose Entities ("SPE"),* in its entirety. IFRS 10 provides a single model to be applied in the analysis of control of all investees, including entities that currently are SPEs in the scope of SIC-12. In addition, the consolidation procedures specified in IFRS 10 are carried forward substantially unmodified from IAS 27.

Joint Arrangements

In May 2011, the IASB issued IFRS 11 *Joint Arrangements*. IFRS 11 supersedes IAS 31 *Interest in Joint Ventures* and SIC-13 *Jointly Controlled Entities—Non-Monetary Contributions by Venturers*. Through an assessment of the rights and obligations in an arrangement, IFRS 11 establishes principles to determine the type of joint arrangement, which are classified as either joint operations or joint ventures, and provides guidance for financial reporting activities required by the entities that have an interest in arrangements that are controlled jointly. Investments in joint ventures are required to be accounted for using the equity method.

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

Disclosure of Interests in Other Entities

In May 2011, the IASB issued IFRS 12 *Disclosure of Interests in Other Entities,* which contains disclosure requirements for companies that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities.

IFRS 10, IFRS 11 and IFRS 12, and the amendments to IAS 27 and IAS 28 are all effective for annual periods beginning on or after January 1, 2013. Early adoption is permitted, so long as IFRS 10, IFRS 11 and IFRS 12, and the amendments to IAS 27 and IAS 28 are adopted at the same time. However, entities are permitted to incorporate any of the disclosure requirements in IFRS 12 into their financial statements without early adopting IFRS 10, IFRS 11, amendments to IAS 27 and 28. The Company intends to adopt IFRS 10, IFRS 11 and IFRS 12 and the amendments to IAS 27 and IAS 28 in its consolidated financial statements for the annual period beginning on January 1, 2013. The impact of the adoption of IFRS 10, IFRS 11 and IFRS 12 and the amendments to IAS 27 and IAS 28 is not expected to be material to the financial statements, and the additional disclosures required by these standards will be included in its 2013 financial statements.

Fair Value Measurement

In May 2011, the IASB published IFRS 13 *Fair Value Measurement*, which is effective prospectively for annual periods beginning on or after January 1, 2013. IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. The standard also establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. The Company intends to adopt IFRS 13 prospectively in its financial statements for the annual period beginning on January 1, 2013. The Company will provide required additional disclosures on fair valued items beginning with its first quarter 2013 financial statements.

Presentation of Financial Statements

In June 2011, the IASB published amendments to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income*, which are effective for annual periods beginning on or after July 1, 2012 and are to be applied retrospectively. Early adoption is permitted. These amendments require that a company present separately the items of other comprehensive income that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. The Company intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2013. The Company will change the presentation of its consolidated statement of other comprehensive income starting in the first quarter of 2013.

Employee Benefits

In June 2011, the IASB published an amended version of IAS 19 Employee Benefits. Adoption of the amendment is required for annual periods beginning on or after January 1, 2013, with early adoption permitted. The amendment is generally applied retrospectively with certain exceptions. The amendment will require the calculation of expected return on plan assets to be based on the rate used to discount the defined benefit obligation. The amendment also requires other changes and additional disclosures. The Company intends to adopt the amendment in its financial statements for the annual period beginning on January 1, 2013.

If the Company had adopted the portion of the new standard relating to the calculation of expected return on plan assets being based on the rate used to discount the defined benefit obligation, and administrative fees being expensed as incurred in 2012, the impact would be an increase in pre-tax pension expense of $35.2 million ($25.9 million after-tax) for the 2012 fiscal year. This would be offset in other comprehensive income (loss). Management is in the process of assessing the full impact of the remaining amendments to this standard.

4. ACCOUNTS RECEIVABLE AND NOTES RECEIVABLE

Under revolving securitization programs, the Company has sold certain of its trade accounts receivable to an entity owned by a financial institution. The Company retains servicing responsibilities and retains a very limited recourse obligation for delinquent receivables. At December 31, 2012, trade accounts receivable being serviced under these programs amounted to $287.3 million (December 31, 2011: $254.3 million). In return for the sale of its trade receivables, the Company received cash of $161.8 million (December 31, 2011: $155.8 million) and notes receivable in the amount of $125.5 million (December 31, 2011: $98.5 million). The notes receivable are non-interest bearing and are due on the settlement dates of the securitized accounts receivable.

The Company operates trade accounts receivable securitization programs that require the sale of trade accounts receivable to be treated as a sale from an accounting perspective and as a result, trade accounts receivable balances sold under these programs are derecognized in the consolidated balance sheets as at December 31, 2011 and December 31, 2012. The agreements expire in October 2013.

Components of Accounts Receivable are as follows:

As at December 31,	**2012**	2011
Trade receivables	**$ 55,954**	$ 81,477
Less: Allowance for doubtful accounts	**(204)**	(5,789)
Net trade receivables	**55,750**	75,688
Other receivables:		
Commodity taxes receivable	**34,561**	26,141
Interest rate swap receivable	**7,855**	8,204
Government and insurance receivables	**4,709**	7,454
Other	**13,628**	16,017
Total accounts receivable	**$ 116,503**	$ 133,504

The aging of trade receivables is as follows:

As at December 31,	**2012**	2011
Current	**$ 54,547**	$ 72,232
Past due 0-30 days	**976**	7,938
Past due 31-60 days	**39**	534
Past due 61-90 days	**119**	434
Past due > 90 days	**273**	339
Total trade receivables	**$ 55,954**	$ 81,477

The Company maintains an allowance for doubtful accounts that represents its estimate of the uncollectible amounts. This allowance includes a provision related to specific losses estimated on individual exposures.

5. INVENTORIES

As at December 31,	**2012**	2011
Raw materials	**$ 41,901**	$ 46,247
Work in process	**18,811**	16,805
Finished goods	**176,707**	166,251
Packaging	**22,736**	24,580
Spare parts	**41,649**	39,348
Total inventories	**$ 301,804**	$ 293,231

During the year, inventory in the amount of $3,490.0 million (2011: $3,459.0 million) was expensed through cost of goods sold. There were no reversals of previous write downs recognized.

6. BIOLOGICAL ASSETS

	Hog stock		**Poultry stock**		
	Commercial	**Parent**	**Commercial**	**Parent**	**Total**
Balance at December 31, 2011	**$ 31,613**	**$ 8,149**	**$ 4,623**	**$ 4,880**	**$ 49,265**
Additions and purchases	**159,714**	**4,090**	**84,986**	**7,975**	**256,765**
Additions due to business acquisitions	**17,255**	**7,410**	**–**	**–**	**24,665**
Depreciation	**–**	**(3,505)**	**–**	**(6,710)**	**(10,215)**
Change in fair value	**8,612**	**–**	**200**	**–**	**8,812**
Further processing and sales	**(166,515)**	**–**	**(84,052)**	**–**	**(250,567)**
Foreign currency translation	**(598)**	**–**	**–**	**–**	**(598)**
Balance at December 31, 2012	**$ 50,081**	**$ 16,144**	**$ 5,757**	**$ 6,145**	**$ 78,127**

	Hog stock		Poultry stock		
	Commercial	Parent	Commercial	Parent	Total
Balance at December 31, 2010	$ 27,642	$ 7,922	$ 5,083	$ 4,793	$ 45,440
Additions and purchases	153,948	3,620	77,856	5,966	241,390
Depreciation	–	(3,393)	-	(5,879)	(9,272)
Change in fair value	1,284	–	200	–	1,484
Further processing and sales	(151,912)	–	(78,516)	–	(230,428)
Foreign currency translation	651	–	–	–	651
Balance at December 31, 2011	$ 31,613	$ 8,149	$ 4,623	$ 4,880	$ 49,265

Hog stock comprised approximately 0.6 million animals as of December 31, 2012 (December 31, 2011: 0.3 million). During the year, substantially all hog stock was transferred to the Company's primary processing operations.

Poultry stock comprised approximately 6.1 million eggs and 0.6 million birds as of December 31, 2012 (December 31, 2011: 6.2 million eggs and 0.5 million birds). During the year, substantially all poultry stock was transferred to the Company's primary processing operations.

Transfers from biological assets to inventory at point of delivery for the year were $250.6 million (December 31, 2011: $230.4 million).

The change in fair value of commercial hog and poultry stock for the year was a loss of $3.4 million as at December 31, 2012 (December 31, 2011: loss of $1.0 million) and was recorded in cost of goods 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. The Company also insures itself against the potential impacts of these risks.

7. ASSETS HELD FOR SALE

Assets held for sale include those relating to a poultry farm and production quotas in Brooks, Alberta purchased on February 1, 2012, an investment property located in Ayr, Ontario and specific assets related to potato processing operations in Lethbridge, Alberta. During the twelve months ended December 31, 2012 the Company sold a portion of the production quotas for $8.0 million resulting in a pre-tax gain of $0.5 million. All assets associated with the potato processing operations were sold subsequent to year end on January 4, 2013 as described in Note 28.

The investment property is included in non-allocated assets in Note 26, with the remaining assets included in the Meat Products Group.

Assets held for sale comprised the following:

As at December 31,	**2012**
Inventory	**$ 6,148**
Property and equipment	**9,088**
Investment property	**1,419**
Intangible assets	**20,432**
Total assets held for sale	**$ 37,087**

8. PROPERTY AND EQUIPMENT

Cost	**Land**	**Buildings**	**Machinery and equipment**	**Under construction**	**Total**
Balance at December 31, 2011	**$ 61,464**	**$ 697,024**	**$ 1,571,184**	**$ 161,560**	**$ 2,491,232**
Additions	**13,302**	**24,403**	**92,307**	**149,101**	**279,113**
Acquisitions of business	**5,229**	**18,914**	**4,852**	**52**	**29,047**
Transfers to assets held for sale	**(249)**	**(4,904)**	**(22,069)**	**–**	**(27,222)**
Disposals, write-downs and impairment due to restructuring	**(1,048)**	**(6,547)**	**(60,475)**	**–**	**(68,070)**
Other	**(2,761)**	**(228)**	**5,619**	**(5,140)**	**(2,510)**
Transfers from under construction	**–**	**5,473**	**27,609**	**(33,082)**	**–**
Transfers to investment properties	**(1,036)**	**(6,432)**	**–**	**–**	**(7,468)**
Interest capitalized	**403**	**1,868**	**2,800**	**–**	**5,071**
Foreign currency translation	**(15)**	**(403)**	**(1,965)**	**38**	**(2,345)**
Balance at December 31, 2012	**$ 75,289**	**$ 729,168**	**$ 1,619,862**	**$ 272,529**	**$ 2,696,848**
Accumulated depreciation					
Balance at December 31, 2011	**$ –**	**$ 300,256**	**$ 1,123,730**	**$ –**	**$ 1,423,986**
Additions	**–**	**21,871**	**101,248**	**–**	**123,119**
Transfers to assets held for sale	**–**	**(552)**	**(17,583)**	**–**	**(18,135)**
Disposals, write-downs and impairment due to restructuring	**–**	**6,683**	**(41,395)**	**–**	**(34,712)**
Other	**–**	**6,348**	**(9,646)**	**–**	**(3,298)**
Transfers to investment properties	**–**	**(4,344)**	**–**	**–**	**(4,344)**
Foreign currency translation	**–**	**(188)**	**(1,757)**	**–**	**(1,945)**
Balance at December 31, 2012	**$ –**	**$ 330,074**	**$ 1,154,597**	**$ –**	**$ 1,484,671**
Net at December 31, 2012	**$ 75,289**	**$ 399,094**	**$ 465,265**	**$ 272,529**	**$ 1,212,177**

Cost	Land	Buildings	Machinery and equipment	Under construction	Total
Balance at December 31, 2010	$66,394	$ 704,596	$ 1,584,434	$ 94,531	$ 2,449,955
Additions	–	41,030	73,981	67,195	182,206
Transfers	–	–	–	–	–
Disposals and write-downs	–	–	–	–	–
Impairment due to restructuring	(3,673)	(38,514)	(88,427)	–	(130,614)
Other	(76)	(111)	512	–	325
Transfers to investment properties	(1,281)	(10,425)	–	–	(11,706)
Interest capitalized	92	838	1,742	–	2,672
Foreign currency translation	8	(390)	(1,058)	(166)	(1,606)
Balance at December 31, 2011	$ 61,464	$ 697,024	$ 1,571,184	$ 161,560	$ 2,491,232
Accumulated depreciation					
Balance at December 31, 2010	$ –	$ 308,391	$ 1,098,680	$ –	$ 1,407,071
Additions	–	29,052	92,047	–	121,099
Transfers	–	–	–	–	–
Disposals & restructuring charges	–	(29,771)	(64,899)	–	(94,670)
Impairment	–	–	–	–	–
Other	–	(49)	(682)	–	(731)
Transfers to investment properties	–	(7,214)	–	–	(7,214)
Foreign currency translation	–	(153)	(1,416)	–	(1,569)
Balance at December 31, 2011	$ –	$ 300,256	$ 1,123,730	$ –	$ 1,423,986
Net at December 31, 2011	$ 61,464	$ 396,768	$ 447,454	$ 161,560	$ 1,067,246

Impairment of Property and Equipment

During the year the Company recorded $0.4 million (2011: $14.4 million) of impairment in restructuring and other related costs. The Company recognized reversals of impairments of $0.2 million (2011: $0.7 million) also in restructuring and other related costs.

Borrowing Costs

During the year, borrowing costs of $5.1 million were capitalized (2011: $2.7 million), using an average capitalization rate of 5.5% (2011: 6.8%).

9. INVESTMENT PROPERTY

Investment property comprised surplus land and buildings primarily resulting from restructuring activities. The fair value of the Company's investment properties was $33.8 million at December 31, 2012 (2011: $27.6 million). In 2011, the Company obtained appraisals for a total of $14.0 million of the Company's investment properties. For the other investment properties, the Company determined the fair value based on comparable market information.

During the year, the Company earned $0.3 million (2011: $0.3 million) of rental revenue from investment properties and recorded operating costs related to investment properties of $2.1 million (2011: $0.8 million). Rental revenue and related operating costs are recorded in other income unless these amounts were anticipated under a restructuring plan in which case they would be recorded against a related restructuring provision, to the extent that one exists, with any excess then recorded in other income.

The continuity of investment property for the years ended December 31, 2012 and 2011 is as follows:

Cost	**Land**	**Buildings**	**Total**
Balance at December 31, 2011	**$ 5,680**	**$ 22,105**	**$ 27,785**
Transfers from property and equipment	**1,036**	**6,432**	**7,468**
Reclassification to assets held for sale	**(485)**	**(4,351)**	**(4,836)**
Disposals	**(123)**	**(1,145)**	**(1,268)**
Other	**–**	**22**	**22**
Foreign currency translation	**(9)**	**(70)**	**(79)**
Balance at December 31, 2012	**$ 6,099**	**$ 22,993**	**$ 29,092**
Accumulated depreciation			
Balance at December 31, 2011	**$ –**	**$ 16,553**	**$ 16,553**
Transfers from property and equipment	**–**	**4,344**	**4,344**
Reclassification to assets held for sale	**–**	**(3,417)**	**(3,417)**
Depreciation	**–**	**333**	**333**
Disposals	**–**	**(698)**	**(698)**
Foreign currency translation	**–**	**(2)**	**(2)**
Balance at December 31, 2012	**$ –**	**$ 17,113**	**$ 17,113**
Net at December 31, 2012	**$ 6,099**	**$ 5,880**	**$ 11,979**

Cost	Land	Buildings	Total
Balance at December 31, 2010	$ 4,434	$ 11,700	$ 16,134
Transfers from property and equipment	1,281	10,425	11,706
Foreign currency translation	(35)	(20)	(55)
Balance at December 31, 2011	$ 5,680	$ 22,105	$ 27,785
Accumulated depreciation			
Balance at December 31, 2010	$ –	$ 9,302	$ 9,302
Transfers from property and equipment	–	7,214	7,214
Depreciation	–	37	37
Balance at December 31, 2011	$ –	$ 16,553	$ 16,553
Net at December 31, 2012	$ 5,680	$ 5,552	$ 11,232

10. EMPLOYEE BENEFITS

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

	Other post-retirement benefits	**Total pension**	**2012 Total**	Other post-retirement benefits	Total pension	2011 Total
Accrued benefit obligation:						
Balance, beginning of year	**$ 78,278**	**$ 1,236,999**	**$ 1,315,277**	$ 74,018	$ 1,139,451	$ 1,213,469
Current service cost	**645**	**19,773**	**20,418**	558	20,160	20,718
Interest cost	**3,458**	**55,209**	**58,667**	3,645	53,907	57,552
Benefits paid	**(3,217)**	**(77,207)**	**(80,424)**	(3,164)	(74,503)	(77,667)
Actuarial losses	**6,870**	**130,281**	**137,151**	4,221	83,090	87,311
Employee contributions	**–**	**4,515**	**4,515**	–	4,534	4,534
Special termination benefits	**–**	**2,080**	**2,080**	–	3,890	3,890
Curtailments	**(1,110)**	**(1,780)**	**(2,890)**	(1,000)	6,470	5,470
Settlements	**–**	**(13,111)**	**(13,111)**	–	–	–
Balance, end of year	**$ 84,924**	**$ 1,356,759**	**$ 1,441,683**	$ 78,278	$ 1,236,999	$ 1,315,277
Unfunded	**$ 84,924**	**$ 31,243**	**$ 116,167**	$ 78,278	$ 31,184	$ 109,462
Funded[(i)]	**–**	**1,325,516**	**1,325,516**	–	1,205,815	1,205,815
Total obligation	**$ 84,924**	**$ 1,356,759**	**$ 1,441,683**	$ 78,278	$ 1,236,999	$ 1,315,277

(i) *includes wholly and partially funded plans*

	Other post-retirement benefits	**Total pension**	**2012 Total**	Other post-retirement benefits	Total pension	2011 Total
Plan Assets						
Fair value, beginning of year	**$ –**	**$ 1,099,993**	**$ 1,099,993**	$ –	$ 1,180,634	$ 1,180,634
Expected return on plan assets	**–**	**77,964**	**77,964**	–	80,221	80,221
Actuarial gains (losses)	**–**	**19,268**	**19,268**	–	(83,506)	(83,506)
Employer contributions	**3,217**	**19,560**	**22,777**	3,164	11,097	14,261
Employee contributions	**–**	**4,515**	**4,515**	–	4,534	4,534
Benefits paid	**(3,217)**	**(77,207)**	**(80,424)**	(3,164)	(74,503)	(77,667)
Settlements	**–**	**(14,033)**	**(14,033)**	–	–	–
Assets transferred to Company defined contribution plan	**–**	**–**	**–**	–	(18,484)	(18,484)
Fair value, end of year	**$ –**	**$ 1,130,060**	**$ 1,130,060**	$ –	$ 1,099,993	$ 1,099,993
Other	**$ –**	**$ (1,479)**	**$ (1,479)**	$ –	$ (1,627)	(1,627)
Accrued benefit liability, end of year	**$ (84,924)**	**$ (228,178)**	**$ (313,102)**	$ (78,278)	$ (138,633)	$ (216,911)

Amounts recognized in the consolidated balance sheet consist of:

As at December 31,	**2012**	2011
Employee benefit assets	**$ 107,831**	$ 133,942
Employee benefit liabilities	**420,933**	350,853
Net employee benefit position	**$ (313,102)**	$ (216,911)

Pension benefit expense recognized in net earnings:

	2012	2011
Current service cost – defined benefit	**$ 19,773**	$ 20,160
Current service cost – defined contribution and multi-employer plans	**24,871**	24,849
Interest cost	**55,209**	53,907
Expected return on plan assets	**(77,964)**	(80,221)
Past service cost	**–**	–
Curtailment (gain) loss(i)	**(1,780)**	6,470
Special termination benefits(i)	**2,080**	3,890
Settlement loss	**921**	–
Net benefit plan expense	**$ 23,110**	$ 29,055

(i) *A net $0.4M of which is included in restructuring and other related costs*

During the year, the Company expensed salaries of $903.1 million (2011: $916.4 million) and benefits of $217.4 million (2011: $216.4 million) excluding pension and other post retirement benefits.

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

	2012	2011
Actuarial losses	**$ (117,884)**	$ (170,817)
Impact of asset ceiling and minimum funding requirement	**–**	17,089
Net amount recognized in other comprehensive income	**$ (117,884)**	$ (153,728)

The cumulative amount recorded to date through other comprehensive income (loss) before income taxes is $316.9 million (2011: $199.0 million). The expected long-term rate of return on plan assets was determined based on the plans investment mix, the current rate of inflation and historical equity returns. Actual returns on plan assets for the year ended December 31, 2012 was a gain of $97.2 million (2011: loss of $3.3 million).

	2012	2011	2010
Fair value of plan assets	**$ 1,130,060**	$ 1,099,993	$ 1,180,634
Present value of obligation	**1,441,683**	1,315,277	1,213,469
Plan surplus (deficit)	**$ (311,623)**	$ (215,284)	$ (32,835)
Experience gains (losses) on plan assets	**19,493**	(83,506)	14,837
Experience gains (losses) on obligation	**3,646**	(2,216)	(5,670)

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

	2012	2011
Weighted average discount rate used to calculate the net benefit plan expense	**4.50%**	5.00%
Weighted average discount rate used to calculate year end benefit obligation	**3.75%**	4.50%
Expected long-term rate of return on plan assets	**7.25%**	7.25%
Rate of compensation increase	**3.50%**	3.50%
Medical cost trend rates	**6.00%**	6.50%

Plan assets comprised of:

As at December 31,	**2012**	2011
Equity securities	**60%**	59%
Debt securities	**37%**	38%
Other investments and cash	**3%**	3%
	100%	100%

Other post-retirement benefits expense:

	2012	2011
Current service cost	**$ 645**	$ 558
Curtailment gain(i)	**(1,110)**	(1,000)
Interest cost	**3,458**	3,645
Net benefit plan expense	**$ 2,993**	$ 3,203

(i) *Included in restructuring and other related costs*

Impact of 1% change in health care cost trend:

	1% Increase	1% Decrease
Effect on end-of-year obligation	**$ 4,118**	**$ (4,536)**
Aggregate of 2012 current service cost and interest cost	**198**	**(222)**

Measurement dates:	
2012 expense	December 31, 2011
Balance sheet	December 31, 2012

The Company expects to contribute $47.1 million to pension plans in 2013, inclusive of defined contribution plans and multi-employer plans.

Multi-employer Plans

The Company contributes to both the Canadian Commercial Workers Industry Pension Plan and the Bakery and Confectionery Union and Industry Canada Pension Fund, which are multi-employer defined benefit plans for employees who are members of the United Food and Commercial Workers union and the Canadian Bakery and Confectionary union, respectively. These are large scale plans 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 the current service cost – defined contribution and multi-employer plan expense of $24.9 million (2011: $24.8 million) was $5.1 million (2011: $5.4 million) related to payments into these plans. The Company expects to contribute $5.6 million into these plans for the 2013 year.

11. GOODWILL

December 31,	2012	2011
Cost		
Opening balance	**$ 850,922**	$ 849,211
Acquisitions and disposals	**470**	(94)
Foreign currency translation	**267**	1,805
Balance	**$ 851,659**	$ 850,922
Impairment losses		
Opening balance	**$ (97,183)**	$ (96,300)
Foreign currency translations	**(1,320)**	(883)
Balance	**$ (98,503)**	$ (97,183)
Carrying amounts	**$ 753,156**	$ 753,739

For the purposes of annual impairment testing, goodwill is allocated to the following groups of CGUs, being the groups expected to benefit from the synergies of the business combinations in which the goodwill arose:

As at December 31,	**2012**	2011
CGU Groups		
Meat products	**$ 442,925**	$ 442,336
By-product recycling	**13,845**	13,845
Canadian fresh bakery	**173,839**	173,839
North American frozen bakery	**117,077**	118,249
Fresh pasta	**5,470**	5,470
Total goodwill	**$ 753,156**	$ 753,739

Annual impairment testing involves determining the recoverable amount of each CGU group to which goodwill is allocated, and comparing this to the carrying value of the group. The measure of the recoverable amount of each CGU group was calculated based on fair value less costs to sell. As there was no market information available fair value was determined by discounting the future cash flows generated from the continuing use of the group. The calculation of the fair value 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 the growth rates listed below. These rates do not exceed the long-term average growth rate for the countries that the segments operate in.
- The business plan includes forecasts up to, and including, the year 2015 and was based on past experience of actual operating results in conjuncture 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 as shown in the table below were applied in determining the recoverable amount of each CGU group. The discount rate was estimated based on past experience and the weighted average cost of capital of the Company and other competitors in the industry.

	Discount Rate		Growth Rate	
	2012	**2011**	**2012**	**2011**
CGU Group				
Meat products	**13.7%**	13.2%	**2.2%**	2.5%
By-product recycling	**8.8%**	9.7%	**2.2%**	2.5%
Canadian fresh bakery	**10.7%**	13.2%	**2.2%**	2.5%
North American frozen bakery	**8.6%**	10.9%	**2.5%**	2.8%
Fresh pasta	**9.1%**	10.6%	**2.2%**	2.5%

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

12. INTANGIBLE ASSETS

As at December 31,	**2012**	2011
Indefinite life	**$ 81,335**	$ 81,569
Definite life	**127,458**	110,327
Total intangible assets	**$ 208,793**	$ 191,896

	Definite life				
Cost	**Software in use**	**Software in Process**	**Trademarks**	**Customer relationships**	**Total**
Balance at December 31, 2011	**$ 40,959**	**$ 63,597**	**$ 8,220**	**$ 12,948**	**$ 125,724**
Additions	**–**	**24,731**	**–**	**–**	**24,731**
Capitalization of interest	**–**	**1,830**	**–**	**–**	**1,830**
Disposals	**–**	**–**	**–**	**–**	**–**
Transfers	**61,930**	**(61,930)**	**–**	**–**	**–**
Effect of movement in exchange rates	**–**	**–**	**(5)**	**195**	**190**
Balance at December 31, 2012	**$102,889**	**$ 28,228**	**$ 8,215**	**$ 13,143**	**$ 152,475**
Amortization and impairment losses					
Balance at December 31, 2011	**$ 5,589**	**$ –**	**$ 6,777**	**$ 3,031**	**$ 15,397**
Amortization	**8,446**	**–**	**691**	**483**	**9,620**
Balance at December 31, 2012	**$ 14,035**	**$ –**	**$ 7,468**	**$ 3,514**	**$ 25,017**
Net at December 31, 2012	**$ 88,854**	**$ 28,228**	**$ 747**	**$ 9,629**	**$ 127,458**

	Indefinite Life			
Carrying amount	**Trademarks**	**Delivery routes**	**Quota**	**Total**
Balance at December 31, 2011	**$ 52,282**	**$ 924**	**$ 28,363**	**$ 81,569**
Additions	**–**	**2,490**	**–**	**2,490**
Acquisition of business	**–**	**–**	**28,100**	**28,100**
Transfer to assets held for sale	**–**	**–**	**(28,100)**	**(28,100)**
Disposals	**–**	**(2,568)**	**(156)**	**(2,724)**
Balance at December 31, 2012	**$ 52,282**	**$ 846**	**$ 28,207**	**$ 81,335**

	Definite life				
Cost	Software in use	Software in Process	Trademarks	Customer relationships	Total
Balance at December 31, 2010	$ 22,027	$ 49,350	$ 7,932	$ 13,366	$ 92,675
Additions	–	30,251	281	275	30,807
Capitalization of interest	–	2,928	–	–	2,928
Disposals	–	–	–	(830)	(830)
Transfers	18,932	(18,932)	–	–	–
Effect of movement in exchange rates	–	–	7	137	144
Balance at December 31, 2011	$ 40,959	$ 63,597	$ 8,220	$ 12,948	$ 125,724
Amortization and impairment losses					
Balance at December 31, 2010	$ 1,860	$ –	$ 6,125	$ 2,558	$ 10,543
Amortization	3,729	–	652	473	4,854
Balance at December 31, 2011	$ 5,589	$ –	$ 6,777	$ 3,031	$ 15,397
Net at December 31, 2011	$ 35,370	$ 63,597	$ 1,443	$ 9,917	$ 110,327

	Indefinite Life			
Carrying amount	Trademarks	Delivery routes	Quota	Total
Balance at December 31, 2010	$ 52,282	$ 586	$ 29,178	$ 82,046
Additions	–	1,284	–	1,284
Disposals	–	(946)	(815)	(1,761)
Balance at December 31, 2011	$ 52,282	$ 924	$ 28,363	$ 81,569

Amortization

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

Borrowing costs

During the year borrowing costs of $1.8 million (2011: $2.9 million) were capitalized using an average capitalization rate of 5.5% (2011: 6.8%).

Indefinite Life Intangibles

The following table summarizes the indefinite life intangible assets by CGU group:

As at December 31,	**2012**	2011
CGU Groups		
Meat products	**$ 74,908**	$ 75,063
Fresh bakery	**6,427**	6,506
	$ 81,335	$ 81,569

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 11, involves determining the recoverable amount of each indefinite life intangible asset and comparing it to the carrying value. The recoverable values of the Company's indefinite life intangible assets are determined as follows:

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:

	2012	2011
Royalty rate range	**0.5 – 2.0%**	0.5 – 2.0%
Growth rate range	**1.0 – 4.0%**	1.0 – 6.0%
Discount rate	**10%**	10%

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.

Delivery Routes

The recoverable value of delivery routes is determined based on discounted projected cash flows.

13. PROVISIONS

	Legal	Environ-mental	Lease make-good	Restructuring and other related costs(i)	Total
Balance at December 31, 2011	**$ 909**	**$ 22,480**	**$ 5,849**	**$ 43,953**	**$ 73,191**
Charges	**538**	**482**	**174**	**54,387**	**55,581**
Reversals	**(335)**	**(6,274)**	**–**	**(6,876)**	**(13,485)**
Cash payments	**(167)**	**(255)**	**–**	**(34,331)**	**(34,753)**
Non-cash items	**(204)**	**(362)**	**75**	**(27,908)**	**(28,399)**
Balance at December 31, 2012	**$ 741**	**$ 16,071**	**$ 6,098**	**$ 29,225**	**$ 52,135**
Current					**$ 26,335**
Non-current					**25,800**
Total at December 31, 2012					**$ 52,135**

	Legal	Environ-mental	Lease make-good	Restructuring and other related costs(i)	Total
Balance at December 31, 2010	$ 1,302	$ 22,826	$ 7,084	$ 35,062	$ 66,274
Charges	120	–	–	79,795	79,915
Cash payments	(125)	–	–	(36,232)	(36,357)
Non-cash items	(388)	(346)	(1,235)	(34,672)	(36,641)
Balance at December 31, 2011	$ 909	$ 22,480	$ 5,849	$ 43,953	$ 73,191
Current					$ 44,255
Non-current					28,936
Total at December 31, 2011					$ 73,191

(i) *For additional information on restructuring, see table below.*

Restructuring and Other Related Costs

During the year ended December 31, 2012, the Company recorded restructuring and other related costs of $54.4 million ($40.8 million after-tax), before the impact of any reversals during the year.

Of this pre-tax amount, the Company's Meat Products Group incurred a total of $42.5 million in restructuring and other related costs. These costs include $29.5 million related to changes in its manufacturing and distribution network, comprising accelerated depreciation on assets of $24.6 million, severance and other employee related costs of $4.6 million and $0.3 million in other project related costs. A further $7.9 million pertained to severance and other employee related costs related to organizational changes and $4.2 million primarily for severance and other employee benefits in connection with the closure of a production facility in Ayr, Ontario. The balance of the restructuring costs of $0.9 million was incurred in connection with other on-going restructuring initiatives of the Meat Products Group.

The Company's Bakery Products Group incurred a total of $11.9 million in restructuring and other related costs during the year. Of this amount, $5.8 million was incurred by the U.K. bakery business related to accelerated depreciation and other costs in connection with the closure of two bakeries in the U.K. A further $5.5 million related to the closures of two bakeries in Toronto, Ontario and a third in Delta, British Columbia. The balance of restructuring costs of $0.6 million was incurred in connection with other on-going restructuring initiatives of the Bakery Products Group.

During the year ended December 31, 2011, the Company recorded restructuring and other related costs of $79.8 million ($59.9 million after-tax). Of this pre-tax amount, the Company's Meat Products Group incurred a total of $31.1 million in restructuring and other related costs. These costs include $26.5 million related to changes in its manufacturing and distribution network as part of implementing the Value Creation Plan, comprising severance and other employee related benefits of $11.5 million; accelerated depreciation on assets of $4.1 million; lease commitment cancellation costs of $4.7 million; and other cash costs of $6.2 million. Other restructuring costs incurred related to the closure of the Surrey, British Columbia plant of $4.3 million and included severance and other employee related benefits of $3.7 million; and asset write-offs and cash costs of $0.6 million. The balance of the restructuring costs of $0.3 million was incurred in connection with other on-going restructuring initiatives of the Meat Products Group.

The Company's Bakery Products Group incurred a total of $46.4 million in restructuring and other related costs during the year ended December 31, 2011. Of this, $24.2 million was incurred by the U.K. bakery business, related to the closure of the Walsall, Cumbria and Park Royal plants. These costs include severance of $4.0 million, lease cancelation charges of $7.8 million, asset write downs and accelerated depreciation of $11.7 million and other costs of $0.7 million. The Bakery Products Group also incurred $9.3 million in restructuring costs related to the closure of the Laval, Quebec frozen bakery and the Delta, British Columbia fresh bakery and $2.9 million of restructuring costs related to the sale of the sandwich product line. The Bakery Products Group also incurred $7.5 million related to changes in management structure and related severance. The balance of the restructuring costs of $2.5 million was incurred in connection with other on-going restructuring initiatives of the Bakery Products Group.

The Company also recorded $2.3 million during the year ended December 31, 2011 in restructuring costs for initiatives across the Company related to changes in management structure and related severances.

The following table provides a summary of costs recognized and cash payments made in respect of the above-mentioned restructuring and other related costs as at December 31, 2012 and December 31, 2011, all on a pre-tax basis:

	Severance	**Site closing**	**Asset impairment and accelerated depreciation**	**Retention**	**Pension**	**Total**
Balance at December 31, 2011	**$ 25,692**	**$ 16,813**	**$ –**	**$ 1,448**	**$ –**	**$ 43,953**
Charges	**17,006**	**4,464**	**30,357**	**1,101**	**1,459**	**54,387**
Reversals	**(3,955)**	**(2,524)**	**(245)**	**(152)**	**–**	**(6,876)**
Cash payments	**(24,691)**	**(8,442)**	**–**	**(1,198)**	**–**	**(34,331)**
Non-cash items	**–**	**1,485**	**(30,112)**	**–**	**719**	**(27,908)**
Other	**944**	**(306)**	**–**	**(638)**	**–**	**–**
Balance at December 31, 2012	**$ 14,996**	**$ 11,490**	**$ –**	**$ 561**	**$ 2,178**	**$ 29,225**

	Severance	Site closing	Asset impairment and accelerated depreciation	Retention	Pension	Total
Balance at December 31, 2010	$ 26,760	$ 7,857	$ –	$ 445	$ –	$ 35,062
Charges	22,262	20,312	25,312	2,549	9,360	79,795
Cash payments	(23,330)	(11,356)	–	(1,546)	–	(36,232)
Non-cash items	–	–	(25,312)	–	(9,360)	(34,672)
Balance at December 31, 2011	$ 25,692	$ 16,813	$ –	$ 1,448	$ –	$ 43,953

14. BANK INDEBTEDNESS AND LONG-TERM DEBT

As at December 31,	**2012**	2011
Bank indebtedness (e), (f)	**$ 48,243**	$ 36,404
Notes payable:		
due 2011 to 2016 (CAD$30.0 million) *(a)*	**26,270**	32,029
due 2014 (US$98.0 million and CAD$105.0 million) *(b)*	**202,069**	203,883
due 2015 (CAD$90.0 million) *(c)*	**89,488**	89,270
due 2015 (CAD$7.0 million) *(d)*	**7,000**	7,000
due 2016 (US$7.0 million and CAD$20.0 million) *(b)*	**26,778**	26,942
due 2020 (CAD$30.0 million) *(d)*	**29,814**	29,777
due 2021 (US$213.0 million and CAD$102.5 million) *(d)*	**312,715**	316,868
Revolving term facility *(e)*	**510,000**	240,000
Other *(g)*	**9,384**	1,805
	1,213,518	947,574
Less: Current portion	**6,573**	5,618
Long-term debt	**$ 1,206,945**	$ 941,956

The notes payable and the revolving term facility require the maintenance of certain covenants. As at December 31, 2012, the Company was in compliance with all of these covenants.

(a) In April 2004 as part of the acquisition of Schneider Corporation, the Company assumed liabilities outstanding in respect of debentures previously issued by the Schneider Corporation. The debentures provided for principal payments totaling $13.1 million and $60.0 million, bearing interest at fixed annual rates of 10.0% and 7.5%, respectively. The debentures require annual principal repayments over the term of the bonds and have a final maturity date of October 2016. These debentures were recorded at their fair value on the acquisition closing date. The difference between the acquisition date fair value and the face value of the bonds is amortized over the remaining life of the debentures on an effective yield basis. On December 31, 2012, the remaining book value for the 2016 debenture was $26.3 million (2011: $32.0 million) and the remaining principal payments outstanding were $24.9 million (2011: $30.0 million).

(b) In December 2004, the Company issued $500.0 million of notes payable. The notes were issued in five tranches of U.S. and Canadian dollar-denominations, with maturity dates from 2011 to 2016 and bearing interest at fixed annual coupon rates.

In December 2011, the Company repaid US$207.0 million of notes payable, bearing interest at 5.2% per annum. Through the use of cross-currency interest rate swaps, the Company effectively converted US$177.0 million of these notes payable into Canadian dollar-denominated debt bearing interest at an annual fixed rate of 5.4%. The cross-currency swaps were settled in December 2011.

Details of the remaining four tranches are as follows:

Principal	**Maturity Date**	**Annual Coupon**
US$98.0 million	2014	5.6%
CAD$105.0 million	2014	6.1%
US$7.0 million	2016	5.8%
CAD$20.0 million	2016	6.2%

Interest is payable semi-annually. Through the use of cross-currency interest rate swaps, the Company hedged US$98.0 million of debt maturing in 2014 into Canadian dollar-denominated debt bearing interest at an annual fixed rate of 6.0%, and US$2.0 million of debt maturing in 2016 into Canadian dollar-denominated debt bearing interest at an annual fixed rate of 6.1%. At December 31, 2012, the fair value of the swap liabilities were $40.1 million based on year end exchange rates (2011: $38.6 million).

(c) In April 2010 and May 2010, the Company issued CAD$75.0 million of notes payable, bearing interest at 6.08% per annum and CAD$15.0 million of notes payable, bearing interest at 5.76% per annum, respectively. The notes payable have a maturity date of April 2015.

(d) In December 2010, the Company issued notes payable in tranches of U.S. and Canadian dollar-denominations, with maturity dates from 2015 to 2021 and bearing interest at fixed annual coupon rates. The Company received proceeds of CAD$37.0 million in December 2010 and USD $213.0 million and CAD $102.5 million in January 2011.

Details of the four tranches are as follows:

Principal	Maturity Date	Annual Coupon
CAD$7.0 million	2015	4.9%
CAD$30.0 million	2020	5.9%
CAD$102.5 million	2021	5.9%
US$213.0 million	2021	5.2%

Interest is payable semi-annually. Through the use of cross-currency interest rate swaps, the Company hedged US$213.0 million of debt maturing in 2021 into Canadian dollar-denominated debt bearing interest at an annual fixed rate of 6.1%. At December 31, 2012, the fair value of the swap liabilities were $6.0 million based on year end exchange rates (2011: $8.9 million).

(e) On October 31, 2012, the Company increased its existing committed revolving credit facility by $250.0 million increasing the total facility to $1.05 billion and extended the term by one year to May 16, 2016. The facility was increased using the same syndicate of Canadian, U.S. and international institutions. The facility can be drawn in Canadian or U.S. dollars and bears interest payable monthly, based on Banker's Acceptance rates for Canadian dollar loans and LIBOR for U.S. dollar loans. As at December 31, 2012, prime loans of $510.0 million (2011: $240.0 million) were drawn. In addition, within the facility, is a $70.0 million available swing-line payable immediately at the option of the Company. As at December 31, 2012, overdraft loans were drawn on the swing line of $39.5 million, classified as bank indebtedness (2011: $49.0 million), and letters of credit of $111.3 million (2011: $131.5 million) were outstanding. Total utilization under the facility at December 31, 2012 was $660.8 million (2011: $420.5 million). The facility will be used to meet the Company's funding requirements for general corporate purposes, and to provide appropriate levels of liquidity. The lending covenants in the facility are largely consistent with the Company's existing credit arrangements.

(f) The Company has a demand operating line of credit of £5.0 million ($8.0 million) and an overdraft operating facility of £5.0 million ($8.0 million) to provide short-term funding for its U.K. operations. The Company also has additional operating facilities of $40.0 million. As at December 31, 2012, £2.1 million ($3.3 million) (2011: £6.4 million ($10.0 million)) and $20.0 million (2011: $20.0 million) were outstanding respectively and have been classified as bank indebtedness.

(g) The Company has other various lending facilities, with interest rates ranging from non-interest bearing to 7.5% per annum. These facilities are repayable over various terms from 2012 to 2028. As at December 31, 2012, $20.6 million (2011: $11.6 million) was outstanding, of which $11.2 million (2011: $9.8 million) was in respect of letters of credit.

(h) During 2010, the Company completed an agreement with a syndicate of banks, including the majority of the banks in its then currently existing revolving credit facility, to augment the Company's primary revolving credit facility with a $250.0 million short-term bank lending facility with a maturity date of May 31, 2011. The facility was undrawn throughout its duration and in the first quarter of 2011 the Company terminated the facility.

(i) The Company's estimated average effective cost of borrowing for 2012 was approximately 5.7% (2011: 6.0%) after taking into account the impact of interest rate hedges. The weighted average term of the Company's debt is 4.0 years.

Required repayments of long-term debt are as follows:

2013	$ 6,573
2014	208,851
2015	103,575
2016	545,759
2017	610
Thereafter	348,150
Total long-term debt	**$ 1,213,518**

15. OTHER LONG-TERM LIABILITIES

As at December 31,	**2012**	2011
Derivative instruments *(Note 17)*	**$ 62,032**	$ 70,722
Other	**18,052**	17,431
	$ 80,084	$ 88,153

16. CAPITAL AND OTHER COMPONENTS OF EQUITY

Share Capital

	Common shares		Treasury stock	
(thousands of shares)	**2012**	2011	**2012**	2011
On issue at January 1	**139,517**	139,247	**527**	797
Distributions under stock compensation plans	**1,168**	2,770	**(1,168)**	(2,770)
Purchase of treasury stock	**(800)**	(2,500)	**800**	2,500
Balance at December 31	**139,885**	139,517	**159**	527

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.

Shareholder Rights Plan

On July 28, 2011, the Company announced a Shareholder Rights Plan (the "Rights Plan"). The Rights Plan was amended on December 5, 2011 and approved as amended by shareholders at a special meeting of the shareholders on December 14, 2011. The Rights Plan must be reconfirmed by the shareholders at every third annual meeting following confirmation of the Rights Plan. If the Rights Plan is not reconfirmed, by the shareholders, it terminates and has no further force and effect. The Rights Plan was not adopted in response to any actual or anticipated transaction, but rather to allow the Board of Directors of the Company and its shareholders sufficient time to consider fully any transaction involving the acquisition or proposed acquisition of 20 percent or more of the outstanding common shares of the Company. The plan allows the Board of Directors time to consider all alternatives and to ensure the fair treatment of shareholders should any such transaction be initiated. One right has been issued with respect to each common share of the Company issued and outstanding as of the close of business on July 27, 2011. Should such an acquisition occur or be announced, each right would, upon exercise, entitle a rights holder, other than the acquiring person and related persons, to purchase common shares of the Company at a 50 percent discount to the market price at the time.

Treasury Stock

Treasury Stock comprises shares purchased by a trust in order to satisfy the requirements of the Company's Share Incentive Plan, as described in Note 22.

Accumulated Other Comprehensive Loss Attributable to Common Shareholders

	Foreign currency translation adjustments	**Unrealized gain (loss) on cash flow hedges**	**Change in actuarial gains and (losses)**	**Change in asset ceiling and minimum funding requirements**	**Total accumulated other comprehensive income (loss)**
Balance at December 31, 2011	**$ (7,443)**	**$ (9,599)**	**$ –**	**$ –**	**$ (17,042)**
Other comprehensive income (loss)	**(1,533)**	**5,312**	**(87,094)**	**–**	**(83,315)**
Transfer to deficit	**–**	**–**	**87,094**	**–**	**87,094**
Balance at December 31, 2012	**$ (8,976)**	**$ (4,287)**	**$ –**	**$ –**	**$ (13,263)**

	Foreign currency translation adjustments	Unrealized gain (loss) on cash flow hedges	Change in actuarial gains and (losses)	Change in asset ceiling and minimum funding requirements	Total accumulated other comprehensive income (loss)
Balance at December 31, 2010	$ (12,764)	$ (9,821)	$ –	$ –	$ (22,585)
Other comprehensive income (loss)	5,321	222	(127,336)	12,680	(109,113)
Transferred to retained deficit	–	–	127,336	(12,680)	114,656
Balance at December 31, 2011	$ (7,443)	$ (9,599)	$ –	$ –	$ (17,042)

The change in accumulated foreign currency translation adjustments includes tax of $nil for the year ended December 31, 2012 (2011: $0.1 million).

The change in unrealized loss on cash flow hedges includes tax of $1.6 million for the year ended December 31, 2012 (2011: $0.2 million).

The change in actuarial gains and losses includes tax of $30.3 million (2011: $39.1 million).

The Company estimates that $6.9 million of the unrealized loss included in accumulated other comprehensive loss will be reclassified into net earnings within the next twelve 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 and the actual amount reclassified could differ from this estimated amount. During the year ended December 31, 2012, a loss of approximately $1.0 million, net of tax of $0.3 million (2011: $5.3 million, net of tax $2.0 million), was released to earnings from accumulated other comprehensive loss and is included in the net change for the period.

Dividends

The following dividends were declared and paid by the Company:

	2012	2011
$0.16 per qualifying common share (2011: $0.16)	**$ 22,229**	$ 22,386

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 senior debt and internal cash flows.

The Company 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 long-term debt and bank indebtedness, less cash and cash equivalents ("net debt") to earnings before interest, income taxes, depreciation, amortization, restructuring and other related costs ("EBITDA") and interest coverage.

The following ratios are used by the Company to monitor its capital:

	2012	2011
Interest coverage (EBITDA to net interest expense)	**5.8 x**	5.5 x
Leverage ratio (Net debt to EBITDA)	**2.8 x**	2.5 x

The Company's various credit facilities, all of which are unsecured, are subject to certain financial covenants. As at December 31, 2012, the Company was in compliance with all of these covenants.

In addition to senior debt and equity, the Company uses operating 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 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.

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
Bank indebtedness	Other financial liabilities
Accounts payable and accrued liabilities	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 or as fair value hedges as appropriate.*

The fair values and notional amounts of derivative financial instruments are shown below:

	2012			2011		
	Notional amount	**Fair value Asset**	**Fair value Liability**	Notional amount	Fair value Asset	Fair value Liability
Cash flow hedges						
Cross-currency interest rate swaps	**US$ 313,000**	**$ –**	**$ 46,128**	US$ 313,000	$ –	$ 47,568
Foreign exchange forward contracts(i)(ii)	**77,509**	**238**		239,093	2,627	–
Commodity futures contracts(i)(ii)	**14,620**	**14**	**–**	5,453	–	382
Interest Rate Swaps	**260,000**	**–**	**22,434**	–	–	–
Fair value hedges						
Commodity futures contracts(i)(ii)	**$ 24,411**	**$ –**	**$ 90**	$ 108,314	$ 5,033	$ –
Derivatives not designated in a formal hedging relationship						
Interest rate swaps	**$ 660,000**	**$ –**	**$ 6,151**	$ 920,000	$ –	$ 35,882
Foreign exchange forward contracts(i)(ii)	**104,507**	**246**	**–**	72,893	23	–
Commodity futures contracts(i)(ii)	**272,502**	**1,062**	**–**	426,829	4,392	–
Total		**$ 1,560**	**$ 74,803**		$ 12,075	$ 83,832
Current		**$ 1,560**	**$ 12,771**		$ 12,075	$ 13,110
Non-current		**–**	**62,032**		–	70,722
Total		**$ 1,560**	**$ 74,803**		$ 12,075	$ 83,832

(i) *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 twelve months.*

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 fair value of long-term debt as at December 31, 2012 was $1,293.4 million (2011: $993.0 million) as compared to its carrying value of $1,213.5 million (2011: $947.6 million) on the consolidated balance sheet. The fair value of the Company's long-term debt 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 financial instruments were estimated using current market measures for interest rates and foreign exchange rates. Commodity futures and options contracts are exchange-traded and fair value is determined based on exchange prices.

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

For the years ended December 31, 2012 and 2011, the amount of hedge ineffectiveness recognized in earnings was nominal.

The table below sets out fair value measurements of financial instruments using the fair value hierarchy:

	Level 1	Level 2	Level 3	Total
Assets:				
Foreign exchange forward contracts	$ –	$ 484	$ –	**$ 484**
Commodity futures contracts	1,076	–	–	**1,076**
	$ 1,076	**$ 484**	**$ –**	**$ 1,560**
Liabilities:				
Commodity futures contracts	$ 90	$ –	$ –	**$ 90**
Interest rate swaps	–	74,713	–	**74,713**
	$ 90	**$ 74,713**	**$ –**	**$ 74,803**

There were no transfers between levels during the year ended December 31, 2012.

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 or other counterparties to meet their payment obligations.

In the normal course of business, the Company is exposed to credit risk from its customers. The Company performs ongoing credit evaluations of new and existing customers' financial condition and reviews the collectibility of its trade and other receivables in order to mitigate any possible credit losses. As at December 31, 2012 approximately $0.4 million (2011: $0.8 million) of the Company's accounts receivable were greater than 60 days past due. The Company maintains an allowance for doubtful accounts that represents its estimate of uncollectible amounts. This allowance includes a provision related to specific losses estimated on individually significant exposures. As at December 31, 2012, the Company has recorded an allowance for doubtful accounts of $0.2 million (2011: $5.8 million). Average accounts receivable days sales outstanding for the year is consistent with historic trends. There are no significant impaired accounts receivable that have not been provided for in the allowance for doubtful accounts. The Company believes that the allowance for doubtful accounts sufficiently covers any credit risk related to past due or impaired accounts receivable balances.

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, as well as the large number and geographic dispersion of smaller customers. The Company does, however, conduct a significant amount of business with a small number of large grocery retailers. The Company's five largest customers comprise approximately 43.8% (2011: 42.6%) of consolidated pre-securitized accounts receivable at December 31, 2012 and the two largest customers comprise approximately 21.5% (2011: 19.8%) of consolidated sales.

The Company is exposed to credit risk on its cash and cash equivalents (comprising primarily deposits and short-term placements with Canadian chartered banks) and non-exchange-traded derivatives contracts. The Company mitigates this credit risk by only dealing with counterparties that are major international financial institutions with long-term debt ratings of A- or better.

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 principal cash flows payable in respect of financial liabilities as at the balance sheet date were as follows:

	December 31, 2012				
	Due within 1 year	Due between 1 and 2 years	Due between 2 and 3 years	Due after 3 years	Total
Financial liabilities					
Bank indebtedness	$ 48,243	$ –	$ –	$ –	**$ 48,243**
Accounts payable and accrued charges	446,911	–	–	–	**446,911**
Long-term debt[(i)]	6,573	208,851	103,575	894,519	**1,213,518**
Cross-currency interest rate swaps[(i), (ii)]	–	40,096	–	6,032	**46,128**
Total	**$ 501,727**	**$ 248,947**	**$ 103,575**	**$ 900,551**	**$ 1,754,800**

(i) *Does not include contractual interest payments*

(ii) *Total fair value of cross-currency interest rate swaps*

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, 2012, the Company had available undrawn committed credit of $389.2 million (2011: $379.5 million) under the terms of its principal banking arrangements. These banking arrangements, which mature in 2016, 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.

At December 31, 2012, the Company had variable rate debt of $510.1 million with a weighted average interest rate of 3.1% (2011: $243.2 million with a weighted average of 3.5%). In addition, the Company is exposed to floating interest rates on its accounts receivable securitization programs. As at December 31, 2012, the amount serviced pursuant to these programs was $161.8 million at a weighted average interest rate of 2.0% (2011: $155.8 million with weighted average rate of 2.1%). The maximum amount available to the Company under these programs is $170.0 million (2011: $170.0 million).

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.

During the fourth quarter of 2012, the Company extended the term of interest rate swaps totalling $260.0 million which were entered into in the second quarter of 2010 with a start date of December 8, 2011. These swaps were originally executed as an economic hedge against future interest, but the structure of the Company's outstanding debt did not allow for these swaps to be accounted for using hedge accounting. The expiry date of these swaps was extended from December 8, 2015 to December 8, 2017. Effective December 13, 2012, the Company has designated these swaps as hedging instruments in a hedging relationship which will partially reduce the impact of changes in interest costs attributable to variability in market interest rates. These swaps effectively fix the interest rate until 2017 at an average rate of 3.37% on the first $260.0 million of the Company's outstanding variable rate debt and are accounted for as cash flow hedges.

As at December 31, 2012, 70.1% (2011: 87.4%) of the Company's outstanding debt and revolving accounts receivable securitization program were not exposed to interest rate movements.

Foreign Exchange Risk

Foreign exchange risk refers to the risk that the value of financial instruments or cash flows associated with the instruments 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 cross-currency interest rate swaps to mitigate its exposure to changes in exchange rates related to U.S. dollar-denominated debt. These swaps are used primarily to effectively convert fixed-rate U.S. dollar-denominated notes payable to fixed-rate notes denominated in Canadian dollars and are accounted for as cash flow hedges.

The following table summarizes the notional amounts and interest rates of the Company's cross-currency interest rate swaps, all of which are designated as a hedging instrument in a hedging relationship:

(thousands of currency units) Maturity	Notional amount	Receive rate(i)	Notional amount	Pay rate(i)
	US$		*CAD$*	
2014	100,000	5.6%	138,000	6.0%
2021	213,000	5.2%	215,366	6.1%

(i) *The Receive rate is the annualized rate that is applied to the notional amount of the derivative and paid by the counterparty to the Company. The Pay rate is the annualized rate that is applied to the notional amount of the derivative and paid by the Company to the counterparty.*

A portion of the Company's U.S. dollar-denominated notes payable is not swapped into Canadian dollars and is designated as a net investment hedge of its U.S. operations. At December 31, 2012, the amount of notes payable designated as a hedge of the Company's net investment in U.S. operations was US$5.0 million (December 31, 2011: US$5.0 million). Foreign exchange gains and losses on the designated notes payable are recorded in shareholders' equity in the foreign currency translation adjustment component of accumulated other comprehensive income and offset translation adjustments on the underlying net assets of the U.S. operations, which are also recorded in accumulated other comprehensive income (loss). The gain on the net investment hedge recorded in other comprehensive income (loss) for the year ended December 31, 2012 was $0.1 million before taxes (2011: loss of $0.8 million).

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, 2012, $77.5 million of anticipated foreign currency-denominated sales and purchases have been hedged with underlying foreign exchange forward contracts settling at various dates beginning January 2013. The aggregate fair value of these forward contracts was a gain of $0.2 million before taxes at December 31, 2012 (2011: $2.6 million) that was recorded in accumulated other comprehensive income with an offsetting amount recorded in other current assets.

At December 31, 2012, the Company had fixed-rate debt of $703.4 million (2011: $707.5 million) with a weighted average notional interest rate of 5.7%. 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.

Similar to fixed-rate debt, the fair value of the Company's fixed-pay cross-currency interest rate swaps fluctuates with changes in market interest rates but the associated cash flows do not change and earnings are not affected. The fair value of the Company's cross-currency interest rate swaps designated as cash flow hedges are primarily driven by changes in foreign exchange rates rather than changes in interest rates.

For cross-currency interest rate swaps designated as cash flow hedges of foreign exchange risk, changes in the fair values of the hedging instruments attributable to foreign exchange rate movements are deferred in other comprehensive income and subsequently released into net earnings as appropriate to offset completely the foreign currency gain or loss on the hedged item, also recognized in net earnings in the same period. As a consequence, these financial instruments are not exposed to foreign exchange risks and do not affect net earnings.

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 change in the fair value of the Company's foreign exchange forward contracts of $8.6 million, with an offsetting change in net earnings of $3.5 million and in other comprehensive income (loss) of $5.1 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 and wheat. The Company may use fixed price contracts with suppliers as well as exchange-traded 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.

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

Changes in the fair value of the cash flow hedging derivatives are recorded in other comprehensive income 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 aggregate fair value of these futures contracts was nil at December 31, 2012 (2011: $0.4 million) that was recorded in accumulated other comprehensive income with an offsetting amount recorded in other current liabilities.

It is estimated that, all else constant, an adverse hypothetical 10% change in market prices of the underlying commodities would result in a change in the fair value of underlying outstanding derivative contracts of $4.2 million, with an offsetting change in net earnings was a loss of $6.7 million and in other current assets a gain of $2.5 million. These amounts exclude the offsetting impact of the commodity price risk inherent in the transactions being hedged.

Non-designated Interest Rate Swaps

During the second quarter of 2010, the Company entered into $590.0 million of interest rate swaps. Swaps totalling $330.0 million started on April 28, 2010 and have an expiry date of April 28, 2015 with an average interest rate of 3.34%. The remaining swaps totalling $260.0 million which started on December 8, 2011 with an average interest rate of 4.18% were extended and designated in a formal hedging relationship during the current year as previously described.

During the first quarter of 2011, the Company entered into swaps to offset $330.0 million of existing interest rate swaps with an expiry date of April 28, 2015. The offsetting interest rate swaps were executed as new fixed-rate private placement debt, finalized in the fourth quarter of 2010, reduced the Company's expected floating rate debt requirements by $355.0 million. Under the offsetting interest rate swaps, the Company receives an average fixed rate of 2.52% and pays a floating rate of interest on a notional amount of $330.0 million. These offsetting interest rate swaps effectively neutralize the mark-to-market income volatility on the notional amount of $330.0 million created by the existing interest rate swaps with an expiry date of April 28, 2015.

18. OTHER INCOME (EXPENSE)

	2012	2011
Gain on disposal of assets held for sale	**$ 459**	$ 571
Gain on sale of long-lived assets	**624**	6,987
Gain on business combinations *(Note 27)*	**5,330**	–
Legal settlements	**1,400**	–
Legal fees on acquisitions and disposals	**(1,976)**	–
Recovery from insurance claims	**3,491**	1,735
Rental income	**474**	606
Ineffective Hedges	**52**	–
Other	**(623)**	433
Net other income (expense)	**$ 9,231**	$ 10,332

19. INTEREST EXPENSE

	2012	2011
Interest expense on long-term debt	**$ 39,672**	$ 49,833
Interest on bankers acceptance and prime loans	**14,228**	3,963
Interest expense on interest rate swaps	**21,319**	32,794
Interest income on interest rate swaps	**(16,778)**	(25,022)
Net interest expense on non-designated interest rate swaps	**10,114**	3,453
Interest expense on securitized receivables	**3,151**	3,215
Deferred finance charges	**3,286**	4,966
Other interest charges	**3,594**	3,145
Interest capitalizated *(Note 8, 12)*	**(6,901)**	(5,600)
Net interest expense	**$ 71,685**	$ 70,747

20. INCOME TAXES

The components of income tax expense were as follows:

	2012	2011
Current tax expense		
Current year	**$ 28,904**	$ 19,060
Adjustment for prior periods	**18**	(487)
	28,922	18,573
Deferred tax expense		
Origination and reversal of temporary differences	**18,906**	3,471
Change in tax rates	**61**	2,425
	$ 18,967	$ 5,896
Total income tax expense	**$ 47,889**	$ 24,469

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:

	2012	2011
Income tax expense according to combined statutory rate of 26.4% (2011: 28.0%)	**$ 45,115**	$ 31,304
Increase (decrease) in income tax resulting from:		
Deferred tax expense relating to changes in tax rates	**61**	2,425
Tax adjustments related to prior acquisitions	**–**	(12,177)
Tax rate differences in other jurisdictions	**(164)**	(1,237)
Manufacturing and processing credit	**(1,197)**	(943)
Share-based compensation adjustments	**2,400**	–
Non-taxable gains	**(57)**	(748)
Non-deductible expenses	**302**	444
Unrecognized income tax benefit of losses	**1,824**	3,679
Other	**(395)**	1,722
	$ 47,889	$ 24,469

Income tax recognized in other comprehensive income

	2012	2011
Derivative instruments	**$ 1,612**	$ 198
Foreign exchange	**–**	(120)
Pension adjustments	**(30,311)**	(39,072)
	$ (28,699)	$ (38,994)

Deferred tax assets and liabilities

Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

As at December 31,	**2012**	2011
Deferred tax assets:		
Tax losses carried forward	**$ 88,698**	$ 91,964
Accrued liabilities	**31,442**	34,449
Employee benefits	**63,123**	42,517
Other	**8,769**	13,634
	$ 192,032	$ 182,564
Deferred tax liabilities:		
Property and equipment	**$ 35,934**	$ 47,289
Cash basis farming	**12,600**	–
Goodwill and other intangible assets	**14,925**	14,684
Other	**4,927**	4,838
	$ 68,386	$ 66,811
Classified in the consolidated financial statements as:		
Deferred tax asset – non-current	**$ 132,558**	$ 127,456
Deferred tax liability – non-current	**(8,912)**	(11,703)
	$ 123,646	$ 115,753

Recognized deferred tax assets

The Company has recognized deferred tax assets in the amount of approximately $88.7 million (December 31, 2011: $92.0 million), relating primarily to tax losses carried forward by subsidiaries in the U.K. and Canada. These deferred tax assets are based on the Company's estimate that the relevant subsidiaries will earn sufficient taxable profits to fully utilize these tax losses in the appropriate carry over periods.

Unrecognized deferred tax assets

The Company has unrecognized deferred tax assets in the amount of approximately $37.1 million (December 31, 2011: $34.8 million), relating primarily to tax losses carried forward in the U.S. and Canada. These tax losses carried forward consist primarily of net operating losses ("NOLs") relating to a U.S subsidiary and a capital loss of a subsidiary of the Company. The amount of NOLs is approximately $102.1 million (December 31, 2011: $98.6 million). These NOLs expire in the years from 2021 to 2032. The capital loss of the subsidiary of the Company is approximately $50.0 million (December 31, 2011: $49.9 million). This capital loss does not expire.

Unrecognized deferred tax liabilities

Deferred 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, 2012 for the Company's subsidiaries was $48.7 million (December 2011: $54.9 million).

21. EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing the net earnings attributable to common shareholders of the Company by the weighted average number of shares issued during the year.

Diluted earnings per share amounts are calculated by dividing the net earnings attributable to common shareholders of the Company by the weighted average number of shares issued during the year adjusted for the effects of potentially dilutive stock options.

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

	Year ended December 31, 2012			Year ended December 31, 2011		
	Net earnings attributable to common shareholders	**Weighted average number of shares**[(ii)]	**EPS**	Net earnings attributable to common shareholders	Weighted average number of shares[(ii)]	EPS
Basic	$ 115,296	139.4	$ 0.83	$ 82,134	138.7	$ 0.59
Stock options[(i)]	–	3.3	(0.02)	–	3.1	–
Diluted	115,296	142.7	0.81	82,134	141.8	0.58

(i) *Excludes the effect of approximately 2.9 million options, restricted share units and warrants (2011: 4.8 million) to purchase common shares that are anti-dilutive.*

(ii) *In millions.*

22. SHARE-BASED PAYMENT

Under the Maple Leaf Foods Share Incentive Plan in effect as at December 31, 2012 the Company may grant options to its employees and employees of its subsidiaries to purchase shares of common stock and may grant Restricted Share Units ("RSUs") and Performance Share Units ("PSUs") entitling employees to receive common shares. Options, RSUs, and PSUs are granted from time to time by the Board of Directors on the recommendation of the Human Resources and Compensation Committee. The vesting conditions 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 Plan ("DSU Plan"), 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

A summary of the status of the Company's outstanding stock options as at December 31, 2012 and 2011, and changes during these years are presented below:

	2012		2011	
	Options outstanding	**Weighted average exercise price**	Options outstanding	Weighted average exercise price
Outstanding, beginning of year	**2,925,600**	**$ 11.86**	983,100	$ 14.13
Granted	**–**	**–**	2,632,000	11.36
Exercised	**–**	**–**	–	–
Forfeited	**(35,000)**	**11.36**	(82,900)	14.22
Expired	**(289,000)**	**16.36**	(606,600)	13.42
Outstanding, end of year	**2,601,600**	**$ 11.36**	2,925,600	$ 11.86
Options currently exercisable	**869,700**	**$ 11.37**	293,600	$ 16.32

All outstanding share options vest and become exercisable over a period not exceeding five years (time vesting) from the date of grant and/or upon the achievement of specified performance targets (based on return on net assets, earnings, share price or total stock return relative to an index). The options have a term of seven years.

The number of options outstanding at December 31, 2012 including details on time and performance vesting conditions of the options is as follows.

	Options outstanding			**Options currently exercisable**		**Options subject to time vesting**	
Range of exercise prices	**Number outstanding**	**Weighted average exercise price**	**Weighted average remaining term (in years)**	**Number exercisable**	**Weighted average exercise price**	**Number outstanding**	**Weighted average exercise price**
$ 11.36 to $ 13.50	**2,601,000**	**$11.36**	**5.7**	**869,700**	**$11.37**	**1,731,300**	**$11.36**

The number of options outstanding at December 31, 2011 including details on time and performance vesting conditions of the options is as follows.

	Options outstanding			Options currently exercisable		Options subject to time vesting	
Range of exercise prices	Number outstanding	Weighted average exercise price	Weighted average remaining term (in years)	Number exercisable	Weighted average exercise price	Number outstanding	Weighted average exercise price
$ 11.36 to $ 14.90	2,640,100	$ 11.37	6.7	8,100	$ 14.18	2,632,000	$ 11.36
16.37 to 16.88	285,500	16.38	0.7	285,500	16.38	–	–
$ 11.36 to $ 16.88	2,925,600	$ 11.86	6.1	293,600	$ 16.32	2,632,000	11.36

At grant date, each option series is measured for 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 in 2011 (none in 2012) are as follows:

	2011
Fair value at grant date	$ 11.37
Share price at grant date	$ 11.37
Exercise price	$ 11.36
Expected volatility*(i)*	31.88%
Option life*(ii)*	4.5 years
Expected dividends	1.41%
Risk-free interest rate*(iii)*	1.46%

(i) Weighted average volatility

(ii) Expected weighted average life

(iii) Based on Government of Canada bonds

There were no options granted in 2012. The fair value of options granted in 2011 was $5.8 million and is amortized to income on a graded basis over the vesting periods of the related options. Amortization charges in 2012 relating to current and prior year options were $3.3 million (2011: $0.9 million).

Restricted Stock Units

The Company has two plans under which RSUs may be granted to employees. The awards under the Share Incentive Plan (adopted in 2004) are satisfied by the issuance of treasury shares on maturity, while awards granted under the Restricted Share Unit Plan (adopted in 2006) are satisfied by shares to be purchased on the open market by a trust established for that purpose.

In both plans, RSUs are subject to time vesting and performance vesting. The performance vesting is based on the achievement of specified stock performance targets relative to a North American index of food stocks or on Company performance relative to predetermined targets. Under the 2004 Plan, one common share in the capital of the Company will be issued to the holder on vesting. All outstanding RSUs under the 2004 Plan vest over a period between three and five years from the date of grant. Under the 2006 Plan for units granted prior to 2011, between 0.5 and 1.5 common shares in the capital of the Company can be distributed to each RSU as a result of the performance of the Company against the target levels required for vesting. For units granted in 2011 one common share of the Company may be distributed to each RSU, these units vest strictly over time. The 2011 grant also included a grant of PSUs. These PSUs provide the holder with up to two RSUs based on Company performance targets. All outstanding RSUs under the 2006 Plan vest over a period of one and a half 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, 2012 and 2011 and changes during these years is presented below:

	2012		2011	
	RSUs outstanding	**Weighted average fair value at grant**	RSUs outstanding	Weighted average fair value at grant
Outstanding, beginning of year	**6,062,622**	**$10.30**	6,385,435	$ 9.58
Granted	**28,550**	**11.30**	1,518,850	11.00
Exercised	**(1,163,610)**	**8.91**	(1,649,640)	8.15
Forfeited	**(99,600)**	**10.38**	(105,043)	9.43
Expired	**(1,240,790)**	**8.92**	(86,980)	10.82
Outstanding, end of year	**3,587,172**	**$ 11.23**	6,062,622	$ 10.30

The fair value of RSUs (including PSUs) granted in 2012 was $0.3 million (2011: $14.5 million) and is amortized to income on a graded basis over the vesting periods of the related RSUs. Amortization charges in 2012, relating to current and prior year RSUs, were $21.4 million (2011: $18.5 million). The key assumptions used in the valuation of fair value of RSUs granted during the year include the following:

	2012	2011
Expected RSU life (in years)	**2.9**	2.4
Forfeiture rate	**14.6%**	11.9%
Risk-free discount rate	**1.0%**	1.1%

Share Purchase and Deferred Share Unit Plan

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.

If an eligible Director elects to receive his or her fees and retainer in the form of DSUs, each DSU has 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.

A summary of the status of the Company's outstanding DSUs as at December 31, 2012 and 2011, and changes during these years is presented below:

Units outstanding	**2012**	2011
Outstanding, beginning of year	**364,234**	280,748
Additions: granted	**108,810**	78,790
Additions: dividend reinvestment	**5,848**	4,696
Exercised	**(37,361)**	–
Outstanding, end of year	**441,531**	364,234
Value at December 31	**$ 5,286**	$ 3,945

23. COMMITMENTS AND CONTINGENCIES

(a) The Company has been named as 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.

(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. With respect to certain of its contracts, the Company has the right to acquire at fair value, and the suppliers have the right to sell back to the Company, certain assets that have an estimated fair value of $4.9 million (2011: $8.2 million). 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 as a part of its Value Creation Plan related to the construction of new and expansion of existing facilities. Contract commitments at the end of 2012 were $428.4 million (2011: $109.9 million).

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

2013	$ 67,159
2014	55,510
2015	46,318
2016	38,158
2017	26,216
Thereafter	83,735
	$ 317,096

During the year ended December 31, 2012 an amount of $54.2 million was recognized as an expense in earnings in respect of operating leases (2011: $55.6 million).

24. RELATED PARTY TRANSACTIONS

The Company has a 90.0% controlling interest in Canada Bread Company, Limited ("Canada Bread"), a publicly traded subsidiary that is consolidated into the Company's results. Transactions between the Company and its consolidated entities have been eliminated on consolidation.

McCain Capital Corporation ("MCC") which was a 31.3% shareholder of the Company, until December 2, 2011, owned shares in another Canadian business, McCain Foods Limited. On December 2, 2011, MCC reorganized its shareholdings such that it is no longer a related party of the Company. As a result of this, the Company is no longer a related party with McCain Foods Limited. For the period of 2011 that McCain Foods Limited was a related party, the Company recorded sales to McCain Foods Limited of $2.9 million in the normal course of business at market prices.

Day & Ross Transportation Group, a subsidiary of McCain Foods Limited, was a related party to the Company until December 2, 2011. For the period of 2011 during which Day & Ross Transportation Group was a related party, the Company incurred costs of $6.2 million in respect of transportation services from Day & Ross Transportation Group in the normal course of business at market prices.

The Company sponsors a number of defined benefit and defined contribution plans as described in Note 10. During 2012, the Company received $1.1 million (2011: $1.5 million) from the defined benefit pension plans for the reimbursement of expenses incurred by the Company to provide services to these plans. In 2012, the Company's contributions to these plans were $42.2 million (2011: $33.3 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 of the Company comprises of the following expenses:

	2012	2011
Short-term employee benefits		
Salaries, bonuses and fees	**$ 13,388**	$ 18,589
Company car allowance	**474**	417
Other benefits	**1,135**	193
Total short-term employee benefits	**$ 14,997**	$ 19,199
Post-employment benefits	**1,555**	1,480
Share-based benefits	**18,553**	13,941
Total remuneration	**$ 35,105**	$ 34,620

During 2011 and 2012, key management did not exercise share options granted under the Maple Leaf Foods Share Incentive Plan.

25. GOVERNMENT INCENTIVES

During 2012, the Company recorded government incentives in earnings totalling $10.1 million (2011: $9.8 million). Of this amount, $7.8 million (2011: $8.2 million) related to incentives from the Canadian government to support the development of renewable energies. A further $1.5 million (2011: $1.5 million) related to AgriStability benefits from the Province of Ontario and $0.8 million (2011: $0.1 million) related to other incentives.

During 2012, the Company also received a $4.4 million interest-free loan from the Canadian government related to investments in primary pork processing. The loan is repayable over a period of ten years beginning in 2013. The benefit of the below-market rate of interest is treated as a government incentive and has been capitalized to the assets associated with the project and is recognised in earnings over their useful life as a reduction of depreciation.

During 2011, the Company recorded incentives of $2.6 million from the Province of Ontario to purchase equipment as required by the Canadian Food Inspection Agency. This amount has been recorded as a reduction to the carrying value of the assets associated with the project and is recognised in earnings over their useful life as a reduction of depreciation.

26. SEGMENTED FINANCIAL INFORMATION

Reportable Segmented Information

The Company has three reportable segments, as described below, which are groupings of the Company's CGUs. These segments offer different products, have separate management structures, and have their own marketing strategies and brands. The Company's Management regularly reviews internal reports for these segments. The following describes the operations of each segment:

(a) The Meat Products Group comprises value-added processed packaged meats; chilled meal entrees and lunch kits; primary pork and poultry processing.

(b) The Agribusiness Group comprises the Company's hog production and animal by-products recycling operations.

(c) The Bakery Products Group comprises the Company's 90.0% (2011: 90.0%) ownership in Canada Bread Company, Limited, a producer of fresh and frozen par-baked bakery products including breads, rolls, bagels, artisan and sweet goods, and fresh pasta and sauces.

(d) Non-allocated costs comprise expenses not separately identifiable to business segment groups. These costs include general expenses related to, systems implementation, consulting fees related to the Company's Board renewal program, research involving the Company's Value Creation Plan, changes in fair value of biological assets, and unrealized gains or losses on commodity contracts.

Non-allocated assets comprise corporate assets not separately identifiable to business segment groups. These include, but are not limited to, corporate property and equipment, software, investment properties, and tax balances.

	2012	2011
Sales		
Meat Products Group	$ 3,003,444	$ 3,039,460
Agribusiness Group	294,713	259,644
Bakery Products Group	1,566,622	1,594,520
	$ 4,864,779	$ 4,893,624
Earnings before restructuring and other related costs and other income		
Meat Products Group	$ 121,272	$ 95,987
Agribusiness Group	68,436	81,895
Bakery Products Group	97,634	86,294
Non-allocated costs	(14,071)	(1,206)
	$ 273,271	$ 262,970
Capital expenditures		
Meat Products Group	$ 234,663	$ 84,437
Agribusiness Group	16,361	17,108
Bakery Products Group	55,310	127,626
	$ 306,334	$ 229,171
Depreciation and amortization		
Meat Products Group	$ 61,260	$ 57,702
Agribusiness Group	15,980	16,126
Bakery Products Group	55,499	52,162
	$ 132,739	$ 125,990

As at December 31,	2012	2011
Total assets		
Meat Products Group	$ 1,617,413	$ 1,465,576
Agribusiness Group	275,167	223,013
Bakery Products Group	1,005,432	937,292
Non-allocated assets	345,684	314,578
	$ 3,243,696	$ 2,940,459
Goodwill		
Meat Products Group	$ 442,925	$ 442,336
Agribusiness Group	13,845	13,845
Bakery Products Group	296,386	297,558
	$ 753,156	$ 753,739

Information about Geographic Areas

Property and equipment and investment property located outside of Canada was $98.6 million (2011: $105.9 million). Of this amount, $59.1 million (2011: $65.0 million) was located in the United States and $39.2 million (2011: $40.7 million) was located in the U.K.

Goodwill attributed to operations located outside of Canada was $58.5 million (2011: $59.5 million) which is all attributed to operations in the United States.

Revenues earned outside of Canada were $1,112.8 million (2011: $1,230.1 million). Of this amount $524.8 million (2011: $536.7 million) was earned in the United States, $266.0 million (2011: $309.8 million) was earned in Japan, and $128.8 million (2011: $153.0 million) was earned in the U.K. Revenue by geographic area is determined based on the shipping location.

Information about Major Customers

During the year, the Company reported sales to one customer representing 11.4% (2011: 11.5%) of total sales and another representing 10.1% (2011: 8.4%) of total sales. These revenues are reported in both the Meat Products Group and Bakery Products Group. No other sales were made to any one customer that represented in excess of 10% of total sales.

27. BUSINESS COMBINATIONS

On February 1, 2012, the Company acquired the assets including chicken production quota units held by Bon Accord Poultry Ranch Ltd., Brooks Poultry Ranch Ltd., Fraser Ridge Poultry Farm Ltd., and other private individuals (collectively the “Poultry Farm”). The purchase price was $31.1 million, and the Company settled the transaction in cash. The transaction was accounted for as a business combination, and resulted in goodwill of $0.5 million. Since the date of acquisition, the Poultry Farm has generated gross revenues of $4.6 million relating to intercompany sales which were eliminated on consolidation, and pre-tax earnings of $1.2 million. Revenue and net earnings information for the period of 2012 prior to acquisition is not readily attainable as the Poultry Farm was previously privately held. Management expects to sell the farm and quotas within a 12-month period, and has recorded the assets as held for sale. The assets purchased comprise the following:

	Fair value February 1, 2012
Property and equipment	**$ 2,560**
Indefinite life intangible assets	**28,100**
	$ 30,660

On November 27, 2012, the Company acquired specific assets and liabilities held by Paradigm Farms Ltd. (“Paradigm”), a privately held entity engaged in hog production, related to the purchase of the business of Puratone Corporation. The purchase price was $2.2 million, and the Company settled the transaction in cash.

On December 14, 2012, the Company acquired specific assets and liabilities held by The Puratone Corporation, Pembina Valley Pigs Ltd., and Niverville Swine Breeders Ltd., (collectively “Puratone”), privately held entities engaged in hog production. The purchase price was $44.5 million, and the Company settled the transaction in cash.

The acquisitions of Paradigm and Puratone resulted from Management’s requirement to secure supply for the Company’s hog processing operations. The acquisitions have been accounted for as business combinations and resulted in a combined gain of $5.3 million recorded in other income ($4.1 million net of tax). Of this amount, $0.7 million relates to the acquisition of Paradigm with the remaining $4.6 million related to the acquisition of Puratone. The gain on business combinations was the result of acquiring Paradigm and Puratone at a time when these businesses were experiencing significant financial difficulties.

Transaction costs of $1.1 million associated with the acquisitions have been excluded from the consideration paid and have been recognised as an expense in other income (expense) in the current year.

The Company is still working to finalize the amounts recorded in the business combination.

Since the date of acquisition, Paradigm has generated gross revenues of $0.4 million relating to intercompany sales which were eliminated on consolidation, a pre-tax earnings of $nil and Puratone has generated revenues of $1.2 million (net of intercompany sales of $1.8 million which were eliminated on consolidation), and pre-tax earnings of $0.3 million.

Had Paradigm been consolidated from January 1, 2012, the consolidated statement of earnings would have included revenue of $1.2 million (excluding intercompany sales of $8.7 million which would be eliminated on consolidation) and a pre-tax loss of $1.8 million. Had Puratone been consolidated from January 1, 2012, the consolidated statement of earnings would have included revenue of $39.3 million (excluding intercompany sales of $60.5 million which would be eliminated on consolidation) and a pre-tax loss of $12.7 million.

The assets acquired and liabilities recognised at the date of acquisition are as follows:

	Puratone Fair Value December 14, 2012	Paradigm Fair Value November 27, 2012
Current assets		
Accounts receivable	$ 366	$ –
Inventory	4,182	55
Biological assets	23,698	967
Prepaid expenses and other assets	467	–
Non-current assets		
Property and equipment	24,471	2,016
Other long-term assets	305	–
Current liabilities		
Bank indebtedness	(217)	–
Other payables	(1,570)	(55)
Current portion of long-term debt	(204)	–
Non-current liabilities		
Long-term debt	(634)	–
Other long-term liabilities	(1,764)	–
	$ 49,100	$ 2,983

28. SUBSEQUENT EVENTS

On January 4, 2013, the Company sold the assets related to its potato processing product facility in Lethbridge, Alberta to Cavendish Farms Corporation for proceeds of $57.8 million resulting in a pre-tax gain of approximately $44.5 million. The majority of these assets are classified as held for sale on the December 31, 2012 balance sheet.

On January 30, 2013, the Company announced plans to close a bakery in Grand Falls, New Brunswick on June 28, 2013 and a bakery in Edmonton, Alberta on March 30, 2013. The Company will incur approximately $6.3 million before taxes in restructuring costs, of which approximately $4.2 million are cash costs.

Corporate Information

CAPITAL STOCK

The Company's authorized capital consists of an unlimited number of voting common shares, an unlimited number of non-voting common shares and an unlimited number of preferred shares issuable in series. At December 31, 2012, 140,044,089 voting common shares were issued and outstanding, for a total of 140,044,089 outstanding shares. There were 733 shareholders of record of which 695 were registered in Canada, holding 98.89% of the issued voting shares.

OWNERSHIP

As at December 31, 2012, the Company's major shareholder is McCain Capital Inc. holding 45,773,783 voting shares representing 32.69% of the total issued and outstanding shares. Michael H. McCain beneficially owns and controls 100% of McCain Capital Inc. and has direct ownership and control of an additional 225,000 common shares of the Corporation. In aggregate, Mr. M.H. McCain has beneficial ownership or control of 45,998,783 common shares or 32.85% of the common shares. West Face Capital Inc. holds 15,894,413 voting shares representing 11.35% of the total issued and outstanding shares. The remainder of the issued and outstanding shares are publicly held.

CORPORATE OFFICE

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ANNUAL MEETING

The annual meeting of shareholders of Maple Leaf Foods Inc. will be held on Thursday, May 2, 2013 at 11:00 a.m. at the MaRS Discovery District, 101 College Street, Toronto Ontario.

DIVIDENDS

The declaration and payment of quarterly dividends are made at the discretion of the Board of Directors. Anticipated payment dates in 2013: March 28, June 28, September 30 and December 31.

SHAREHOLDER INQUIRIES

Inquiries regarding dividends, change of address, transfer requirements or lost certificates should be directed to the Company's transfer agent:

Computershare Investor Services Inc.
100 University Avenue, 9th Floor
North Tower, Toronto, Ontario
M5J 2Y1 Canada
Tel: (514) 982-7555
or 1-800-564-6253
(toll-free North America)
or service@computershare.com

COMPANY INFORMATION

For Investor Relations please call (416) 926-2005.

For copies of annual and quarterly reports, annual information form and other disclosure documents, please contact our Senior Vice-President, Transactions & Administration and Corporate Secretary at (416) 926-2000.

TRANSFER AGENT AND REGISTRAR

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AUDITORS

KPMG LLP
Toronto, Ontario

STOCK EXCHANGE LISTINGS AND STOCK SYMBOL

The Company's voting common shares are listed on the Toronto Stock Exchange and trade under the symbol "MFI".

RAPPORT ANNUEL

Si vous désirez recevoir un exemplaire de la version française de ce rapport, veuillez écrire à l'adresse suivante : Secrétaire de la société, Les Aliments Maple Leaf Inc., 30 St. Clair Avenue West, Bureau 1500, Toronto, Ontario M4V 3A2.

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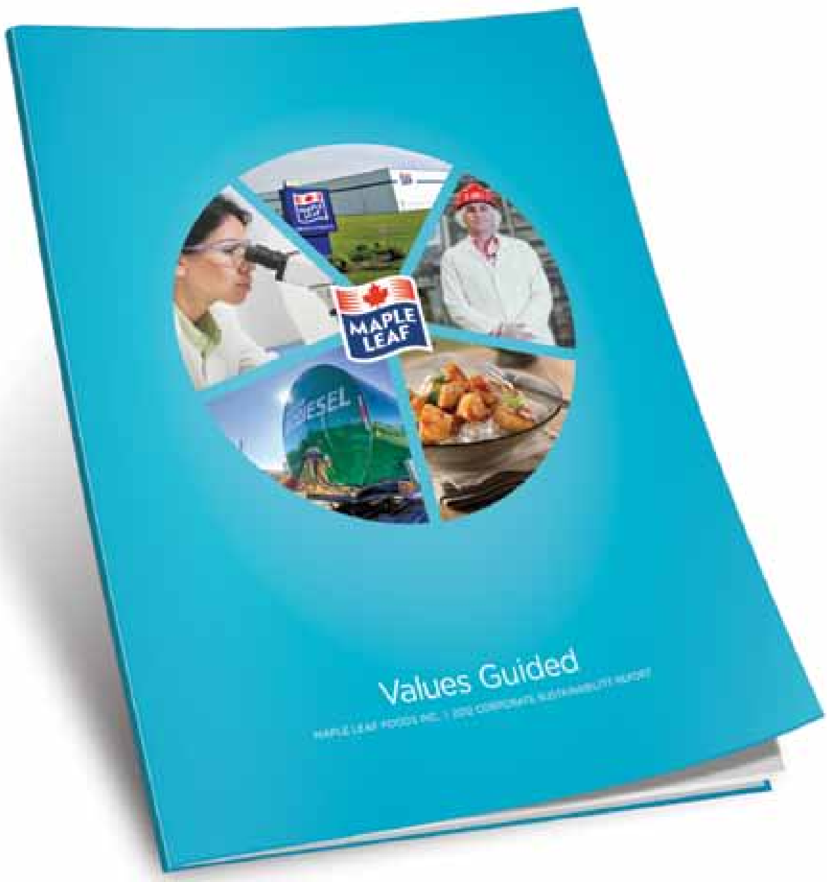
Building Value by Building Brands

Maple Leaf Foods produces a wide variety of innovative, nutritious meat and bakery products under our flagship consumer brands – Maple Leaf®, Schneiders® and Dempster's® – and a family of strong national and regional brands. Already a market leader across our businesses and categories, innovation fuels the value-added growth that will build shareholder value.

Concept and Design: THE WORKS DESIGN COMMUNICATIONS LTD. www.worksdesign.com



Maple Leaf Foods is guided by a strong set of values that define how we operate and make decisions that affect our business and the communities in which we live and work. Sustainability is a natural outcome of those values.
We have proven that we can do well *and* do good at the same time.

Please download our report at www.mapleleaffoods.com/sustainability.

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