MAPLE LEAF FOODS INC.

Report to Shareholders

For the Year Ended

December 31, 2018

Management's Discussion and Analysis

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All dollar amounts are presented in Canadian dollars unless otherwise noted.

February 27, 2019

THE BUSINESS

Maple Leaf Foods Inc. ("Maple Leaf Foods") is a leading consumer protein company making high quality, innovative products under national brands including Maple Leaf®, Maple Leaf Prime®, Maple Leaf Natural Selections®, Schneiders®, Schneiders® Country Naturals®, Mina®, Greenfield Natural Meat Co.®, Lightlife™, Field Roast Grain Meat Co.™ and Swift®. The Company's portfolio includes prepared meats, ready-to-cook and ready-to-serve meals, valued-added fresh pork and poultry and plant protein products. The Company employs approximately 12,000 people and does business in Canada, the U.S. and Asia. The Company is headquartered in Mississauga, Ontario and its shares trade on the Toronto Stock Exchange (MFI).

FINANCIAL OVERVIEW

In 2018, sales[(i)] were $3,495.5 million compared to $3,522.2 million in the prior year, a decrease of 0.8%, or a decrease of 0.5% after adjusting for IFRS 15 and acquisitions. Sales growth in prepared meats, plant protein and sustainable meats was more than offset by declines in fresh market prices.

Net Earnings for the year were $101.3 million ($0.81 per basic share) compared to $164.1 million ($1.28 per basic share) in the prior year. Improved commercial performance in prepared meats, driven by favourable sales mix, pricing actions and lower input costs, and in the fresh value-added portfolio were more than offset by adverse fresh market conditions and strategic investments to complete the launch of food renovation for the Company's flagship brands. Results also benefited from a lower level of variable compensation costs compared to the prior year. In addition, Net Earnings were impacted by restructuring costs of $46.2 million, primarily related to the Company's previously announced strategic investment in poultry, the change in the fair value of biological assets, unrealized gains on derivative contracts and acquisition costs, which are excluded in calculating Adjusted Operating Earnings.

Adjusted Operating Earnings[(ii)] for the year were $215.6 million compared to $263.8 million in the prior year. Adjusted Earnings per Share[(iii)] were $1.22 compared to $1.54 in the prior year.

Adjusted earnings before interest, income taxes, depreciation, amortization, restructuring and other related costs ("EBITDA") margin[(iv)] for the year was 9.9% compared to 10.8% in the prior year.

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 of this Management Discussion and Analysis on page 27 for a description and reconciliation of all non-IFRS financial measures.

Notes:

(i) *2018 sales include the impact of the adoption of new accounting standard International Financial Reporting Standards ("IFRS") 15 - Revenue from Contracts with Customers ("IFRS 15"). Refer to note 3(v) of the 2018 annual audited consolidated financial statements for further details on the impact of the adoption of new accounting standards.*

(ii) *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 ongoing 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 27 of this document.*

(iii) *Adjusted Earnings per Share, a non-IFRS measure, is used by Management to evaluate financial operating results. It is defined as basic earnings per share and is adjusted on the same basis as Adjusted Operating Earnings. Please refer to the section entitled Non-IFRS Financial Measures starting on page 27 of this document.*

(iv) *Adjusted EBITDA is calculated as earnings before interest and income taxes plus depreciation and intangible asset amortization, adjusted for items that are not considered representative of ongoing 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. Adjusted EBITDA margin is calculated as Adjusted EBITDA divided by sales. Please refer to the section entitled Non-IFRS Financial Measures starting on page 27 of this document.*

SELECTED FINANCIAL INFORMATION

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

($ millions except earnings per share)	**2018**	2017	2016
Sales[i]	**$ 3,495.5**	$ 3,522.2	$ 3,331.8
Adjusted Operating Earnings	**$ 215.6**	$ 263.8	$ 239.3
Adjusted EBITDA[ii]	**$ 344.3**	$ 381.1	$ 343.4
Adjusted EBITDA margin	**9.9%**	10.8%	10.3%
Net earnings	**$ 101.3**	$ 164.1	$ 181.7
Adjusted Earnings per Share[ii]	**$ 1.22**	$ 1.54	$ 1.23
Basic earnings per share	**$ 0.81**	$ 1.28	$ 1.35
Diluted earnings per share	**$ 0.79**	$ 1.24	$ 1.32
Total assets	**$ 3,127.8**	$ 2,632.6	$ 2,632.6
Net (Debt) Cash[ii]	**$ (310.8)**	$ 194.2	$ 393.7
Total long-term liabilities	**$ 626.0**	$ 230.7	$ 169.4
Return on Net Assets ("RONA")[ii]	**7.3%**	10.5%	9.8%
Cash provided by operating activities	**$ 299.7**	$ 386.7	$ 357.2
Cash dividends per share	**$ 0.52**	$ 0.44	$ 0.36

(i) *2018 sales include the impact of the adoption of new accounting standard IFRS 15. Refer to note 3(v) of the 2018 annual audited consolidated financial statements for further details on the impact of the adoption of new accounting standards.*

(ii) *Please refer to the section entitled Non-IFRS Financial Measures starting on page 27 of this document.*

COMPANY VISION AND STRATEGIC PLAN

Maple Leaf Foods’ vision is to be the most sustainable protein company on earth by pursuing the purpose to Raise the Good in Food. The Company’s vision is based on a strong conviction that furthering its leadership in sustainability is a point of differentiation that will not only contribute to social good but also provide the benefit of competitive advantages to unlock significant sales and growth in profitability.

Maple Leaf Foods is committed to making better food for consumers, reducing its environmental impact, caring for animals responsibly and strengthening communities while achieving business targets, delivering operational and financial performance and long-term value creation.

In pursuit of its vision, the Company has established a blueprint that encompasses goals and actions to create shared value. Six core strategies underpin this plan:

- *Leverage leadership in sustainability*
- *Relentlessly eliminate waste and improve efficiency*
- *Broaden reach into new geographies, channels and protein alternatives*
- *Embrace a digital future across the business*
- *Invest in brands to build demand and consumer loyalty*
- *Invest in people so talent thrives*

In 2016, Maple Leaf Foods achieved a step-change in profitability with its structural Adjusted EBITDA margin reaching the 10% range. Having reached this milestone, the Company turned towards its next phase of profitability and value creation. In 2017, through a deep understanding of market dynamics, expertise in the food industry, strong relationships with customers and extensive consumer insights, the Company established an Adjusted EBITDA margin target ranging between 14% and 16% within five years. The Company maintains a steadfast focus on meeting this target through five strategic growth initiatives:

- *Sustainable Meat* - Sustainable meat is the most advanced of the growth initiatives and includes the Company’s portfolio of products that combine raised without antibiotics ("RWA"), leadership in animal care and environmental sustainability. Maple Leaf Foods' sustainable meat program aligns with, and addresses consumers' increasing desire to know how their food is raised, what's in it and how it's made. This provides the Company a means to address important social and environmental issues, differentiate its offering and monetize its investments in sustainable meat. And, as a leading provider of RWA pork and poultry products, Maple Leaf Foods has operational and competitive advantages to meet the growing demand for RWA products. Market growth of the Company's sustainable meat portfolio is a key driver of Adjusted EBITDA margin accretion.

- *Poultry Network* - Chicken is the fastest growing segment in the meat protein market. Maple Leaf Foods is investing in its fresh poultry network to secure its leadership position, expand its capacity to offer value-added poultry and drive efficiencies through leading-edge processing technologies and production consolidation. The Company is investing $605.5 million to build a state-of-the art poultry facility to replace its aging legacy plants in Ontario. With detailed plans in place and production start-up anticipated in the second quarter of 2021, this facility is expected to be a significant contributor to achieving the Company's Adjusted EBITDA margin target in 2022.
- *Food Renovation* - Maple Leaf Foods' brands are at the core of the Company's market leadership. In 2018, the Company completed an extensive food renovation program providing its flagship brands with defined brand attributes that meet the most salient consumer needs. The Company's brand portfolio addresses the spectrum of consumer demands, including: natural and simple foods with nothing artificial; artisanal and indulgent with exceptional flavours; and quick-fix and convenient that focus on value. With clear differentiation and delineation, Maple Leaf Foods' brands are well-positioned to accelerate growth in prepared meats and drive Adjusted EBITDA margin expansion.
- *Plant protein* - Plant protein is an attractive and rapidly-growing market that is a natural extension to Maple Leaf Foods' portfolio and aligns well with its vision to lead in sustainable protein. The acquisition of the two leading brands in the fast-growing refrigerated plant protein segment, Lightlife™ and Field Roast Grain Meat Co.™, has provided the Company an established foothold in this innovative and expanding market. With a leadership position, a pipeline of new product innovation and a North American supply chain network, plant protein is an important growth and margin expansion platform for the Company.
- *Cost culture* - A core competitive advantage is Maple Leaf Foods' cost culture which continually seeks out opportunities to improve efficiencies and eliminate waste to reduce cost and fuel future growth. The Company targets elimination of waste and improved efficiencies through rigorous business processes of continuous improvement including, operations excellence systems, digital technologies for real-time solutions and efficiencies, zero-based budgeting and strategic sourcing.

OPERATING REVIEW

The following table summarizes sales, Adjusted Operating Earnings and Adjusted EBITDA margin for the two years ended December 31:

($ millions)	**2018**	2017	Change
Sales	**$ 3,495.5**	$ 3,522.2	(0.8)%
Adjusted Operating Earnings	**$ 215.6**	$ 263.8	(18.3)%
Adjusted EBITDA Margin	**9.9%**	10.8%	(90) bps

Sales for 2018 were $3,495.5 million compared to $3,522.2 million, a decrease of 0.8%, or a decrease of 0.5% after adjusting for the impact of IFRS 15 and acquisitions. For the year, the core business experienced sales growth in prepared meats, sustainable meats and plant protein, which was more than offset by declines in fresh market prices. Improvements in sales were primarily driven by pricing actions taken to mitigate inflationary pressures, favourable sales mix supported by food renovation and growth in the U.S. for both sustainable meat and plant protein.

Adjusted Operating Earnings for 2018 were $215.6 million compared to $263.8 million in 2017. Improved commercial performance in prepared meats, driven by favourable sales mix and lower input costs, and expansion in value-added fresh pork and poultry were more than offset by adverse fresh market conditions and strategic investments to complete food renovation.

Adjusted EBITDA margin for the year decreased to 9.9% from 10.8% in the prior year, consistent with factors noted above.

GROSS MARGIN

Gross margin in 2018 was $551.8 million (15.8% of sales) compared to $587.5 million (16.7% of sales) in the prior year. The decrease in gross margin as a percentage of sales is largely attributable to adverse fresh market conditions.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

During the year, selling, general and administrative expenses were $341.5 million (9.8% of sales), compared to $348.6 million (9.9% of sales) in the prior year. The decrease is primarily related to variable compensation dependent on business performance and a shift in spend from selling, general and administrative costs to strategic areas of the business, which were partially offset by increased headcount due to acquisitions.

OTHER INCOME (EXPENSE)

Other expense was $13.0 million compared to income of $3.6 million in the prior year. The change is primarily related to income realized in 2017 that was not repeated in 2018, including a gain on the sale of investment properties, and changes in environmental provisions, as well as higher transactional costs related to acquisitions incurred in 2018.

Certain items in other income (expense) are excluded from the calculation of Adjusted EBITDA and Adjusted Earnings per Share as they are not considered representative of ongoing operational activities of the business. Other income (expense) used in the calculation of Adjusted EBITDA and Adjusted Earnings per Share for 2018 is income of $2.7 million (2017: income of $0.0 million).

RESTRUCTURING AND OTHER RELATED COSTS

For the year ended December 31, 2018, the Company recorded restructuring and other related costs of $46.2 million. Of this amount, $40.7 million related to accelerated depreciation and severance and other employee costs as a result of the announced closure of the poultry plants in St. Marys, Brampton, and Toronto, $2.4 million related to costs as a result of the St. Anselme plant closure, and $2.4 million related to costs as a result of the Thamesford turkey processing plant closure. The remaining $0.7 million related to other previously announced organizational restructuring initiatives.

For the year ended December 31, 2017, the Company recorded restructuring and other related costs of $23.0 million. These costs were related primarily to the announced closure of the Thamesford turkey facility and the St. Anselme pastry facility.

INTEREST EXPENSE AND OTHER FINANCING COSTS

Interest expense and other financing costs for 2018 were $10.0 million compared to $5.2 million in the prior year. The increase was mainly due to higher borrowing levels from the Company's revolving credit facilities related to acquisitions in the fourth quarter of 2018.

INCOME TAXES

The Company's income tax expense for 2018 resulted in an effective tax rate of 28.2% (2017: 23.4%). The lower effective tax rate in 2017 resulted from the deferred income tax recovery of $6.8 million recorded on the re-measurement of its U.S. deferred tax liabilities at the lower U.S. corporate tax rate that was enacted in December 2017. The effective tax rate in 2017 excluding this item was 26.6%. Additionally in 2018, non-deductible acquisition-related transaction costs increased the effective tax rate.

The effective tax rate in 2018 in determining Adjusted Earnings per Share is 26.5% (2017: 23.4%). The lower effective rate in 2017 was due to the deferred income tax recovery of $6.8 million recorded on the re-measurement of the Company's U.S. deferred tax liability described above. The effective tax rate in 2017 excluding this item was 26.0%. For 2018, the effective tax recovery rate on restructuring charges used in the computation of Adjusted Earnings per Share was 26.1% (2017: 26.1%). The effective tax recovery rate on items not considered representative of continuing operations in 2018 was 16.5% (2017: 20.1%). Additionally in 2018, non-deductible acquisition-related transaction costs increased the effective tax rate.

ACQUISITIONS AND DIVESTITURES

On November 13, 2018, the Company acquired 100% of the outstanding shares of VIAU Food Products Inc. ("VIAU"), a privately held Canadian market leader in premium Italian cooked, dry-cured and charcuterie meats, for a purchase price of $215.0 million. The Company financed the transaction using a combination of drawings on existing credit facilities and equity.

Recognized goodwill is attributable to VIAU's assembled workforce combined with its considerable expertise, product development knowledge and skills. The amount of goodwill expected to be deductible for tax purposes is $17.6 million.

The Company has not yet finalized the amounts recorded for the VIAU acquisition.

On October 22, 2018, the Company acquired two poultry plants and associated supply from Cericola Farms Inc. ("Cericola"), a privately held Canadian company. The purchase price of the assets was $80.0 million, with a put/call option to purchase a third processing facility for a purchase price of $40.0 million, exercisable within three years. The Company financed the transaction using existing credit facilities. The acquisition has been accounted for as a business combination.

The amount of goodwill expected to be deductible for tax purposes is $6.7 million.

The Company has not yet finalized the amounts recorded for the Cericola acquisition.

On January 29, 2018, the Company acquired 100% of the outstanding shares of The Field Roast Grain Meat Company, SPC ("Field Roast Grain Meat Co."), a privately held U.S. based corporation engaged in the production and distribution of premium grain-based protein and vegan cheese products, for a purchase price of $140.2 million. The Company financed the transaction using a combination of $89.5 million of cash-on-hand, $49.3 million of drawings on existing credit facilities, and $1.4 million of contingent consideration payable to the seller.

Recognized goodwill is attributable to Field Roast Grain Meat Co.'s leadership position in the fast-growing plant protein market combined with its considerable expertise, product development knowledge and skills. For tax purposes, no goodwill is deductible.

The Company finalized the amounts recorded in the Field Roast Grain Meat Co.'s business combination during the fourth quarter of 2018. Refer to Note 27 of the Company's 2018 audited consolidated financial statements for further details.

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

On March 10, 2017, the Company acquired 100% of the outstanding shares of Lightlife Foods Holdings, Inc. ("Lightlife"), a privately held U.S. based corporation engaged in the production and distribution of refrigerated plant protein products, for a purchase price of $190.7 million.

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

The Company has finalized the amounts recorded in the Lightlife business combination during 2017. Refer to Note 27 of the Company's 2018 audited consolidated financial statements for further details.

During the year ended December 31, 2018, the Company recorded transaction costs of $13.6 million (2017: $7.6 million) related to acquisition activities, that have been excluded from the consideration paid and have been recognized as an expense in other income (expense).

CAPITAL RESOURCES

The consumer foods industry in which the Company operates is generally characterized by high sales volume and high 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 price of raw materials, seasonal and other market-related fluctuations. The Company has consistently generated a strong base level of operating cash flow, even in periods of higher commodity prices and during restructuring of its operations. These operating cash flows provide a base of underlying liquidity that the Company supplements with credit facilities and cash on hand to provide longer-term funding and to finance fluctuations in working capital levels and acquisitions.

On November 7, 2018, the Company entered into a new one year $250.0 million unsecured committed revolving credit facility with a Canadian institution. This unsecured facility can be drawn in Canadian or U.S. dollars and bears interest payable monthly, based on Banker's Acceptance and Prime rates for Canadian dollar loans and LIBOR for U.S. dollar loans. The facility, together with the $400.0 million facility below, is intended to meet the Company's funding requirements for general purposes, corporate development activities, and to provide appropriate levels of liquidity. As at December 31, 2018, the Company had drawn $80.0 million on this new facility.

On October 19, 2017, the Company amended its existing $400.0 million unsecured committed revolving credit facility by extending the maturity of the facility to October 19, 2021, under similar terms and conditions using the same syndicate of Canadian, U.S., and international institutions. This unsecured facility can be drawn in Canadian or U.S. dollars and bears interest payable monthly, based on Banker's Acceptance and Prime rates for Canadian dollar loans and LIBOR for U.S. dollar loans. The facility, together with the $250.0 million facility above, is intended to meet the Company's funding requirements for general purposes, corporate development activities, and to provide appropriate levels of liquidity. As at December 31, 2018, the Company had drawn $216.0 million in U.S. dollars (CDN$294.8 million) and letters of credit of $6.3 million (2017: $6.4 million) on this existing facility.

The revolving credit facilities require the maintenance of certain covenants. As at December 31, 2018, the Company was in compliance with all of these covenants.

The Company has additional uncommitted credit facilities for issuing up to a maximum of $125.0 million (2017: $120.0 million) letters of credit. As at December 31, 2018, $72.2 million of letters of credit had been issued thereon (2017: $67.8 million). These letters of credit have not been collateralized with cash.

The Company's cash balance as at December 31, 2018 is $72.6 million (2017: $203.4 million). The cash is held in deposit accounts at financial institutions with long-term debt ratings of A or higher.

The Company operates an accounts receivable securitization facility. The maximum cash advance available to the Company under this program is $110.0 million. The facility provides cash funding with a proportion of the Company's receivables being sold and provides the Company with competitively priced financing and further diversifies its funding sources. Under the facility, the Company has sold certain accounts receivable, with very limited recourse, to an unconsolidated third-party trust that is funded 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.

As at December 31, 2018, trade accounts receivable being serviced under this program amounted to $127.4 million (2017: $124.9 million). In return for the sale of its trade receivables, the Company will receive cash of $96.9 million (2017: $96.0 million) and notes receivable of $30.5 million (2017: $28.9 million). The notes receivable are non-interest bearing and are settled on the settlement dates of the securitized accounts receivable. Due to the timing of receipts and disbursements, the Company may, from time to time, also record a receivable or payable related to the securitization facility. As at December 31, 2018, the Company recorded a net payable amount of $32.5 million (2017: $14.0 million net payable) in accounts payable and accruals. The facility is accounted for as an off-balance sheet transaction in accordance with IFRS and will expire in August 2019.

The Company was in compliance with all of the requirements of this facility during 2018. If the securitization facility were to be terminated, the Company would recognize the related amounts on the consolidated balance sheet and consider alternative financing if required.

CAPITAL EXPENDITURES

Capital expenditures for 2018 were $179.9 million compared to $142.2 million in 2017. The increase in spending from 2017 relates to enhancement projects in plant protein and sustainability projects which support the Company’s animal welfare and environmental strategies.

The Company currently estimates its capital expenditures for the full year of 2019 to be approximately $400 million, based on its existing approved projects. Included in the 2019 estimate is approximately $250 million, inclusive of expected government assistance for the Company’s investment in the construction of a value-added poultry processing facility in London, Ontario and the balance for continued profit enhancement, sustainability and maintenance projects.

NORMAL COURSE ISSUER BID

On May 22, 2018, the Toronto Stock Exchange ("TSX") accepted the Company's notice of intention to commence a Normal Course Issuer Bid ("NCIB"), which allows the Company to repurchase, at its discretion, up to 7.8 million common shares in the open market or as otherwise permitted by the TSX, subject to the normal terms and limitations of such bids. Common shares purchased by the Company are cancelled. The program commenced on May 24, 2018 and will terminate on May 23, 2019, or on such earlier date as the Company completes its purchases pursuant to the notice of intention. Under this bid, during the year ended December 31, 2018, 4.0 million shares were purchased for cancellation for $126.6 million at a volume weighted average price paid of $31.82 per common share.

On May 17, 2017, the TSX accepted the Company's notice of intention to commence a NCIB, which allowed the Company to repurchase, at its discretion, up to 8.2 million common shares in the open market or as otherwise permitted by the TSX, subject to the normal terms and limitations of such bids. Common shares purchased by the Company were cancelled. The program commenced on May 23, 2017 and was terminated on May 22, 2018 as the Company completed its purchase and cancellation of 3.6 million common shares for $117.3 million at a volume weighted average price of $32.51 per common share. Under this bid, during the year ended December 31, 2018, 1.3 million shares (2017: 2.3 million) were purchased for cancellation for $39.9 million (2017: $77.4 million) at a volume weighted average price paid of $31.17 (2017: $33.25) per common share.

On May 16, 2016, the TSX accepted the Company's notice of intention to commence a NCIB, which allowed the Company to repurchase, at its discretion, up to 8.7 million common shares in the open market or as otherwise permitted by the TSX, subject to the normal terms and limitations of such bids. Common shares purchased by the Company were cancelled. The program commenced on May 19, 2016 and was terminated on May 18, 2017 as the Company completed its purchase and cancellation of 5.5 million common shares for $163.1 million at a volume weighted average price of $29.57 per common share. Under this bid, during the year ended December 31, 2017, 3.4 million shares were purchased for cancellation for $102.6 million at a volume weighted average price paid of $30.09 per common share.

CASH FLOW AND FINANCING

Cash was $72.6 million at the end of 2018, compared to $203.4 million in 2017. The decrease in cash for the year ended December 31, 2018 is primarily due to cash flow generated from operations was more than offset by investments in acquisitions, capital expenditures, and share repurchases under the NCIB.

Cash Flow from Operating Activities

Cash provided by operations for 2018 was $299.7 million compared to $386.7 million in 2017. The decrease in cash flow from operations was primarily due to lower earnings, and larger investment in inventory and other working capital items. This was partially offset by higher margin received by the Company against its derivatives for its commodity hedging programs.

Cash Flow from Financing Activities

Cash from financing activities for 2018 was an inflow of $128.5 million compared to an outflow of $261.2 million in 2017. The improvement was primarily due to cash drawings against the revolving credit facilities, fewer share repurchases under the NCIB programs, and fewer treasury share purchases.

Cash Flow from Investing Activities

Cash used in investing activities was $559.0 million for 2018 compared to $325.7 million in 2017. The increase was due to acquisitions and higher investment in property and equipment.

CONTRACTUAL OBLIGATIONS

The following table provides information about certain of the Company's significant contractual obligations as at December 31, 2018. This table presents the undiscounted cash flows payable in respect of financial liabilities.

Payments due by fiscal year:

($ thousands)	Due within 1 year	Due between 1 and 3 years	Due between 4 and 5 years	Due after 5 years	Total
Financial liabilities					
Accounts payable and accruals	$ 343,872	$ —	$ —	$ —	$ 343,872
Long-term debt	81,130	296,941	5,647	370	384,088
Foreign exchange contracts	4,591	—	—	—	4,591
Commodity futures contracts	3,070	—	—	—	3,070
Other liabilities	15,000	5,409	1,676	1,200	23,285
	$ 447,663	**$ 302,350**	**$ 7,323**	**$ 1,570**	**$ 758,906**
Commitments					
Contractual obligations including operating leases	38,996	57,317	39,715	23,893	159,921
Total	**$ 486,659**	**$ 359,667**	**$ 47,038**	**$ 25,463**	**$ 918,827**

Management believes its cash flow, cash on hand, and available sources of financing provide the Company with 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 Note 13 and Note 17 of the Company's 2018 audited 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.

Financial Instruments

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

Cash and cash equivalents	Fair value through profit or loss
Accounts receivable	Amortized cost
Notes receivable	Amortized cost
Accounts payable and accruals	Amortized cost
Long-term debt	Amortized cost
Derivative instruments[(i)]	Fair value through profit or loss

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

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

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

	2018			2017		
	Notional	**Fair value**		Notional	Fair value	
($ thousands)	**amount[(i)]**	**Asset[(ii)]**	**Liability[(ii)]**	amount[(i)]	Asset[(ii)]	Liability[(ii)]
Cash flow hedges						
Foreign exchange contracts[(iii)]	**$ 63,204**	**$ 130**	**$ 2,271**	$ 340,505	$ 4,281	$ 1,813
Fair value hedges[(iv)]						
Foreign exchange contracts[(iii)]	**$ 58,156**	**$ —**	**$ 1,837**	$ —	$ —	$ —
Commodity contracts[(iii)]	**$ 59,570**	**2,148**	**—**	$ 44,822	—	1,589
Derivatives not designated in a formal hedging relationship						
Foreign exchange contracts[(iii)]	**$ 126,719**	**$ 3,472**	**$ 483**	$ 136,546	$ 654	$ 989
Commodity contracts[(iii)]	**$ 135,941**	**2,805**	**3,070**	$ 371,157	—	1,648
Total fair value		**$ 8,555**	**$ 7,661**		$ 4,935	$ 6,039
Current[(ii), (v)]		**$ 8,555**	**$ 7,661**		$ 4,935	$ 6,039
Non-current[(ii)]		**—**	**—**		—	—
Total fair value		**$ 8,555**	**$ 7,661**		$ 4,935	$ 6,039

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

[(ii)] *The current portion of derivative assets and liabilities are recorded in other current assets and other current liabilities, respectively, in the consolidated balance sheets. The long-term portion of derivative assets and liabilities are recorded in other long-term assets and other long-term liabilities, respectively, in the consolidated balance sheets.*

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

[(iv)] *The carrying amount of the hedged items in the consolidated balance sheets are recorded at the inverse of the associated hedging instruments and are equal to the accumulated fair value hedge adjustments less hedge ineffectiveness.*

[(v)] *As at December 31, 2018, the above fair value of current assets has been decreased on the consolidated balance sheet by an amount of $1.1 million (2017: increased by $9.8 million), which represents the excess or deficit of the fair market value of exchange traded commodities contracts over the initial margin requirements. The excess or deficit in maintenance margin requirements with the futures exchange is net settled in cash each day and is therefore presented as cash and cash equivalents.*

The Company's financial assets and liabilities include accounts receivable, notes receivable, and accounts payable and accruals for which fair value approximates the carrying value due to their short-term nature.

The carrying value of long-term debt as at December 31, 2018 and 2017 approximates its fair value. The fair value of the Company's long-term debt has been classified as Level 2 in the fair value hierarchy and was estimated based on discounted future cash flows using current rates for similar financial instruments subject to similar risks and maturities.

The Company's cash and cash equivalents and derivative instruments are recorded at fair value. The fair value of cash and cash equivalents approximates carrying value due to the short-term nature of the assets and has been classified as Level 1 in the fair value hierarchy. The fair values of the Company's interest rate and foreign exchange derivative instruments were estimated using current market measures for interest rates and foreign exchange rates. Commodity futures and commodity options contracts are exchange-traded and over-the-counter. Fair value is determined based on exchange prices and other observable market data.

Net gains and losses on financial instruments recognized at fair value through profit or loss consist of realized and unrealized gains and losses on derivatives that were de-designated or were otherwise not in a formal hedging relationship.

For the year ended December 31, 2018, the Company recorded a gain of $10.6 million (2017: gain of $18.6 million) on financial instruments recognized at fair value through profit or loss. The gain was mainly attributed to a gain in commodity exchange traded contracts which economically hedge and offset price risk volatility inherent in the hog operational business.

The table below sets out fair value measurements of certain financial instruments using the fair value hierarchy as at December 31, 2018:

($ thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:				
Foreign exchange contracts	$ —	$ 3,602	$ —	$ 3,602
Commodity contracts	4,953	—	—	4,953
	$ 4,953	**$ 3,602**	**$ —**	**$ 8,555**
Liabilities:				
Foreign exchange contracts	$ —	$ 4,591	$ —	$ 4,591
Commodity contracts	—	3,070	—	3,070
	$ —	**$ 7,661**	**$ —**	**$ 7,661**

There were no transfers between levels for the year ended December 31, 2018. Determination of fair value and the resulting hierarchy requires the use of observable market data whenever available. The classification of a financial instrument in the hierarchy is based upon the lowest level of input that is significant to the measurement of fair value. For financial instruments that are recognized at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization at the end of each reporting period.

Capital

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

The Company uses leverage in its capital structure to reduce the cost of capital. The Company's goal is to maintain its primary credit ratios 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 Cash (Debt) to EBITDA. Refer to the section entitled Non-IFRS Financial Measures starting on page 27 of this document for more information on the non-IFRS measures.

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

The Company has maintained a stable dividend distribution that is based on a long-term sustainable net earnings base. From time to time, the Company has purchased shares for cancellation pursuant to normal course issuer bids and to satisfy awards under its Restricted Share Unit Plan described in Note 22 of the Company's 2018 audited consolidated financial statements.

Credit Risk

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

In the normal course of business, the Company is exposed to credit risk from its customers, substantially all of which are in the retail, food service, industrial, and convenience channels. The Company performs ongoing credit evaluations of new and existing customers' financial condition and reviews the collectability of its trade accounts receivable and other receivables in order to mitigate any possible credit losses. The Company records a loss allowance of expected credit losses for financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance at an amount equal to the lifetime expected credit losses if the credit risk on its financial assets has increased significantly since initial recognition. If credit risk has not significantly increased since initial recognition, the Company measures the loss allowance at an amount equal to the 12-month expected credit losses. Average accounts receivable days sales outstanding for the year is consistent with historic trends.

Management believes concentrations of credit risk with respect to accounts receivable is limited due to the generally high credit quality of the Company's major customers, the large number and geographic dispersion of smaller customers, and the operation of the accounts receivable securitization facility as described in Note 23 of the Company's 2018 audited consolidated financial statements. The Company does, however, conduct a significant amount of business with a small number of large grocery retailers.

For the year ended December 31, 2018, the Company reported sales to two customers representing 11.9% and 10.9% (2017: 12.0% and 10.3%) of total sales. No other sales were made to any one customer that represented in excess of 10% of total sales.

The Company is also exposed to credit risk on its notes receivable from an unconsolidated structured entity in respect of the accounts receivable securitization program as described in Note 23 of the Company's 2018 audited consolidated financial statements. Management believes that this credit risk is limited by the long-term AA- debt rating held by the financial institution financing the third-party trust. The Company is exposed to credit risk on its cash and cash equivalents (comprising primarily of deposits with Canadian chartered banks) and non-exchange-traded derivative contracts. The Company mitigates this credit risk by transacting primarily with counterparties that are major international financial institutions with long-term debt ratings of A or higher. The Company's maximum exposure to credit risk at the balance sheet date consisted primarily of the carrying value of non-derivative financial assets and non-exchange-traded derivatives with positive fair values.

Liquidity Risk

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

The 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, 2018, the Company had available undrawn committed credit of $268.9 million (2017: $393.6 million) under the terms of its principal banking arrangements (refer to Note 13 of the Company's 2018 audited consolidated financial statements). These banking arrangements are subject to certain covenants and other restrictions.

Market Risk

Interest Rate Risk

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

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

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

As at December 31, 2018 and 2017 the Company was exposed to floating interest rates on its accounts receivable securitization program. As at December 31, 2018, the amount serviced pursuant to this program was $110.0 million at a weighted average interest rate of 2.0% (2017: $110.0 million at a weighted average interest rate of 1.4%). The maximum amount available to the Company under these programs is $110.0 million (2017: $110.0 million).

As at December 31, 2018, 1.8% (2017: 7.8%) of the Company's outstanding debt and revolving accounts receivable securitization program were not exposed to interest rate movements.

As at December 31, 2018, the Company had fixed-rate debt of $8.6 million (2017: $9.2 million) with a weighted average effective interest rate of 4.7% (2017: 4.4%). Changes in market interest rates cause the fair value of long-term debt with fixed interest rates to fluctuate but do not affect net earnings, as the Company's debt is carried at amortized cost and the carrying value does not change as interest rates change.

Foreign Exchange Risk

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

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

The Company uses foreign exchange forward contracts to manage foreign exchange transaction exposures. The primary currencies to which the Company is exposed to are the U.S. dollar and the Japanese yen.

Commodity Price Risk

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

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

The Company applies the "own use exception" classification to certain contracts that are entered into for the purpose of procuring commodities to be used in production and are not recognized on the balance sheet until delivery.

For a comprehensive discussion on the Company's risk management practices and derivative exposures, please refer to Note 17 of the Company's 2018 audited consolidated financial statements.

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 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 each year and re-evaluated if changes in estimates and market conditions indicate that there may be a significant effect on the Company's consolidated financial statements.

During 2018, the Company recorded a pre-tax gain of $15.6 million through other comprehensive income (loss) related to the re-measurement of plan assets and liabilities. This included a pre-tax gain of $51.3 million related to differences between plan experience compared to actuarial assumptions and a pre-tax loss of $36.7 million related to differences between plan assets compared to the discount rate.

During 2017, the Company recorded a pre-tax loss of $4.2 million through other comprehensive income (loss) related to the re-measurement of plan assets and liabilities. This includes a pre-tax loss of $61.3 million related to differences between plan experience compared to actuarial assumptions, offset by $56.1 million of pre-tax returns on plan assets in excess of the discount rate.

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. The investment return before expenses on the Company's defined benefit pension plan assets was a loss of 0.1% in 2018 compared to a gain of 9.0% in 2017.

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 cash contributions. Contributions to defined benefit plans during 2018 were $11.1 million (2017: $10.3 million).

The Company expects to contribute $33.2 million to the pension plans in 2019, inclusive of defined contribution and multi-employer plans.

TRANSACTIONS WITH RELATED PARTIES

Transactions between the Company and its consolidated entities have been eliminated in the Company's 2018 audited consolidated financial statements.

The Company sponsors a number of defined benefit and defined contribution plans. During the year ended December 31, 2018, the Company's contributions to these plans were $28.8 million (2017: $26.4 million).

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

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

($ thousands)	**2018**	2017
Short-term employee benefits		
Salaries, bonuses, and fees	**$ 9,304**	$ 13,448
Company car allowances	**291**	316
Other benefits	**111**	139
Total short-term employee benefits	**$ 9,706**	$ 13,903
Post-employment benefits	**732**	902
Share-based compensation	**10,636**	12,753
Total remuneration	**$ 21,074**	$ 27,558

During the year ended December 31, 2018, key Management personnel of the Company exercised 1.3 million share options (2017: 0.4 million share options) granted under the Maple Leaf Foods share option plans for an amount of $15.4 million (2017: $5.9 million).

The Company's largest shareholder is McCain Capital Inc. ("MCI") which is beneficially owned or controlled by Mr. Michael H. McCain, Chief Executive Officer and President of the Company. For the year ended December 31, 2018, the Company received services from MCI in the amount of $0.6 million (2017: $0.5 million), which represented the market value of the transactions with MCI. As at December 31, 2018, $0.4 million (2017: $0.1 million) was owing to MCI relating to these transactions.

McCain Financial Advisory Services ("MFAS"), is an entity jointly controlled by individuals including Mr. Michael H. McCain. For the year ended December 31, 2018, the Company provided services to, and received from, MFAS for a nominal amount which represented the market value of the transactions.

SHARE CAPITAL

As at December 31, 2018, there were 124,371,726 voting common shares issued and outstanding (2017:127,321,089). As at February 21, 2019, there were 124,371,726 common shares issued and outstanding.

In each of the quarters of 2018, the Company declared and paid cash dividends of $0.13 per voting common share, representing a total annual dividend of $0.52 per voting common share and aggregate dividend payments of $65.1 million. In each of the quarters of 2017, the Company declared and paid cash dividends of $0.11 per voting common share, representing a total annual dividend of $0.44 per voting common share and aggregate dividend payments of $56.6 million.

OTHER MATTERS

On February 27, 2019, the Board of Directors approved a quarterly dividend of $0.145 per share (up from $0.13 per share in each quarter of 2018), $0.58 per share on an annual basis, payable March 29, 2019 to shareholders of record at the close of business March 15, 2019. Unless indicated otherwise by the Company at 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".

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

SUMMARY OF QUARTERLY RESULTS

The following is a summary of unaudited quarterly financial information for each quarter in the last three fiscal years:

($ millions except earnings per share)		**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**	**Total(iv)**
Sales(i)	**2018**	**$ 817.5**	**$ 909.2**	**$ 874.8**	**$ 893.9**	**$ 3,495.5**
	2017	$ 811.2	$ 925.9	$ 908.4	$ 876.8	$ 3,522.2
	2016	$ 796.9	$ 854.6	$ 852.1	$ 828.2	$ 3,331.8
Net earnings	**2018**	**$ 27.9**	**$ 34.9**	**$ 26.6**	**$ 11.9**	**$ 101.3**
	2017	$ 30.1	$ 37.3	$ 37.6	$ 59.1	$ 164.1
	2016	$ 42.3	$ 31.4	$ 31.8	$ 76.2	$ 181.7
Earnings per share ("EPS") (ii)						
Basic(ii)	**2018**	**$ 0.22**	**$ 0.28**	**$ 0.21**	**$ 0.10**	**$ 0.81**
	2017	$ 0.23	$ 0.29	$ 0.29	$ 0.47	$ 1.28
	2016	$ 0.31	$ 0.23	$ 0.24	$ 0.57	$ 1.35
Diluted(ii)	**2018**	**$ 0.22**	**$ 0.27**	**$ 0.21**	**$ 0.10**	**$ 0.79**
	2017	$ 0.22	$ 0.28	$ 0.29	$ 0.45	$ 1.24
	2016	$ 0.31	$ 0.23	$ 0.23	$ 0.56	$ 1.32
Adjusted EPS(ii)(iii)	**2018**	**$ 0.29**	**$ 0.34**	**$ 0.29**	**$ 0.29**	**$ 1.22**
	2017	$ 0.33	$ 0.41	$ 0.39	$ 0.41	$ 1.54
	2016	$ 0.28	$ 0.32	$ 0.32	$ 0.31	$ 1.23

(i) *2018 sales include the impact of the adoption of new accounting standard IFRS 15. Refer to note 3(v) of the 2018 annual audited consolidated financial statements for further details on the impact of the adoption of new accounting standards.*

(ii) *Basic and diluted earnings per share and Adjusted Earnings per Share are based on amounts attributable to common shareholders.*

(iii) *Refer to Non-IFRS Financial Measures starting on page 27 of this document.*

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

Fluctuations in quarterly sales can be attributed to changes in pricing, volume, sales mix, acquisitions, foreign exchange and adoption of new accounting standards.

Fluctuations in quarterly net earnings can be attributed to similar factors as noted above, pork and poultry industry processing margins, restructuring and other related costs, operating efficiencies, changes in the fair value of derivative and non-derivative financial instruments and biological assets, acquisitions, transitional costs incurred, provision estimate adjustments, gains/losses on disposal of assets and changes in tax regulations.

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

SUMMARY OF 2018 FOURTH QUARTER RESULTS

The following table summarizes sales, Adjusted Operating Earnings and Adjusted EBITDA margin for the fourth quarter:

	Fourth Quarter		
($ millions)	2018	2017	Change
Sales	**$ 893.9**	$ 876.8	2.0 %
Adjusted Operating Earnings(i)	**$ 54.0**	$ 64.7	(16.5)%
Adjusted EBITDA Margin(i)	**10.0%**	10.7%	(70) bps

(i) *Please refer to the section entitled Non-IFRS Financial Measures starting on page 27 of this document.*

Sales for the fourth quarter increased 2.0% to $893.9 million, or decreased 1.9% after adjusting for the impact of IFRS 15 and acquisitions. Sales growth in prepared meats, driven by favourable sales mix supported by food renovation and pricing actions taken early in the quarter to mitigate inflationary pressures, plant protein and sustainable meats was more than offset by declines in fresh market prices.

Adjusted Operating Earnings for the fourth quarter of 2018 were $54.0 million compared to $64.7 million in the fourth quarter of 2017. Strong commercial performance in prepared meats, driven by favourable sales mix, pricing actions and lower input costs, and continued growth in sustainable meats was more than offset by the impact of adverse fresh market conditions . Results also benefited from a lower level of variable compensation costs compared to the prior year.

Selling, general and administrative expenses for the fourth quarter of 2018 were $88.7 million (9.9% of sales), compared to $92.1 million (10.5% of sales) in the fourth quarter of 2017. The decrease is primarily related to decreased variable compensation, tied to business performance.

Net Earnings for the quarter were $11.9 million ($0.10 per basic share) compared to $59.1 million ($0.47 per basic share) in the same period last year. The decrease is attributable to the same factors as noted above and higher restructuring and acquisition costs, which are excluded in calculating Adjusted Operating Earnings.

Basic Earnings per Share was $0.10 for the fourth quarter of 2018 compared to $0.47 in the fourth quarter of 2017 due to the factors described above.

Adjusted Earnings per Share in the fourth quarter of 2018 was $0.29 compared to $0.41 in the fourth quarter of 2017.

Adjusted EBITDA margin for the fourth quarter decreased to 10.0% from 10.7% in the fourth quarter of 2017 consistent with the factors noted above.

DISCUSSION OF FACTORS IMPACTING THE COMPANY'S OPERATIONS AND RESULTS

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			
(Unaudited)	**2018**	**2018**	2017	Change	2016
U.S. dollar / Canadian dollar[(i)]	**$ 1.36**	**$ 1.30**	$ 1.30	(0.1)%	$ 1.32
Canadian dollar / Japanese yen[(i)]	**¥ 80.41**	**¥ 85.23**	¥ 86.48	(1.4)%	¥ 82.10

[(i)] *Source: Bloomberg*

The Canadian dollar, on average strengthened relative to the U.S. dollar by 0.1% in 2018. In the short term, a stronger Canadian dollar compresses export margins in the Company's primary pork processing and hog production operations. Conversely, a stronger Canadian dollar decreases the cost of raw materials and ingredients in the domestic prepared meats business. The prepared meats business is 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 reduces the relative competitiveness of the domestic Canadian packaged goods operation, as imports of competing products from the U.S. become more competitive. Similarly, the Company also has a greater ability to export and expand into the U.S. market.

During 2018, the Japanese yen, on average increased in value relative to the Canadian dollar by 1.4%. In general, a stronger Japanese yen expands export margins to Japan in the Company's fresh pork business. The Company ultimately seeks to manage pricing to offset the impact of currency fluctuations.

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

Market Influences for Pork Value Chain

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

(Unaudited)	**As at December 31, 2018**	Annual Averages **2018**	2017	Change	2016
Pork cutout (US$ per cwt)[(i)(ii)]	**$ 70.19**	**$ 75.18**	$ 84.13	(10.6%)	$ 78.66
Hog market price per cwt (US$ per cwt)[(i)(ii)]	**$ 52.81**	**$ 65.12**	$ 71.42	(8.8%)	$ 65.09
Hog market price per cwt (CAD per cwt)[(i)(ii)]	**$ 72.02**	**$ 84.42**	$ 92.72	(9.0%)	$ 86.23
Corn (US$ per bushel)[(iii)]	**$ 3.75**	**$ 3.68**	$ 3.59	2.5%	$ 3.58

(i) *As at December 31, 2018, rate based on spot prices for the week ended December 31, 2018 based on CME (Source: USDA).*

(ii) *Annual averages based on five-day average on CME (Source: USDA).*

(iii) *Daily close prices (Sources: Bloomberg and CME).*

In aggregate for 2018, the market influences for the entire pork value chain were lower than the five year average. However, market volatility within the year was very high due to the emergence of trade disputes between major pork importing and exporting countries. Pork industry processor margins were quite positive compared to the five year average, though below the past two years. Producer margins were negative in 2018 and well below the five year average.

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

Seasonality

The Company is sufficiently large and diversified, with a balanced portfolio, that seasonal factors within various parts of its operations tend to offset each other; therefore, in isolation, they do not have a material impact on the Company's consolidated earnings. For example, in general, margins on fresh pork products tend to be higher in the last half of the year when hog prices historically decline which in turn depresses earnings from raising hogs, maintaining balance within the Company's pork complex. Strong demand for grilled meat products positively affects categories such as wieners and fresh sausages in the summer, while back-to-school promotions support increased sales of 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. It operates within the framework of an environmental policy entitled “Our Environmental Sustainability Commitment” that is approved by the Board of Directors' Safety and Sustainability Committee (the "Committee").

The Company's environmental program is monitored on a regular basis by the Committee, including compliance with regulatory requirements and the use of internal environmental specialists and independent, external environmental experts. 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. In the fourth quarter of 2018, the Company announced the closure of its St. Marys, Brampton and Toronto poultry plants. All environmental assessments required to ensure that potential matters are appropriately addressed during decommissioning will be completed.

Expenditures related to current environmental requirements are not expected to have a material effect on the financial position or earnings of the Company. However, it is possible that events could occur causing environmental expenditure 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. The Company currently has a provision of $4.8 million related to expected environmental remediation costs. Please refer to Note 12 of the Company's 2018 audited consolidated financial statements for additional information.

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. Increasingly, moving beyond compliance to materially reducing the Company's environmental footprint is critical to addressing mounting environmental issues and realizing increased operating efficiencies and cost reductions. The Company is committed to reducing its environmental footprint by 50% by 2025, encompassing the three areas where Maple Leaf Foods has the largest environmental impact: climate change (energy usage and emissions), water usage and waste.

The Company has developed environmental sustainability action plans at every operation to deliver on its environmental goals. In 2018, the Company has made significant progress towards the implementation of these plans and reducing the Company's environmental footprint. Details on this environmental performance can be found in the annual sustainability report available on the Company's website (www.mapleleaffoods.com).

RISK FACTORS

The Company operates in the food processing and agricultural businesses 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, along with 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

Focus on Protein Business

Maple Leaf Foods is a food protein company. As a result, the Company may be susceptible to earnings volatility. This factor may have a material adverse effect on the Company's financial condition and results of operations.

Leverage and Availability of Capital

The ability of the Company to secure short-term and long-term financing on terms acceptable to the Company is critical to fund business growth and manage its liquidity. As a result of acquisitions and return of capital to shareholders through dividend increases and share buybacks, the Company is in a net debt position. Furthermore, the Company is embarking on a period of elevated capital expenditures as it invests in large scale and efficient processing capacity. The failure or inability of the Company to secure short-term 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 opportunity for growth. 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 or being required to pledge assets.

Livestock

The Company's operations and the demand for the Company's products can be significantly affected by outbreaks of disease among hogs and poultry (collectively "livestock") or attributed to livestock whether it occurs within the Company's production operations or in the operations of third parties. The meat industry across the world is integrated by a significant level of government regulated international trade regulations. Governments combat the spread of disease during outbreaks with measures that include among other things restrictions on the movement of meat and livestock between jurisdictions which results in supply excesses and shortages and price volatility which in some cases reaches extreme levels. In 2018 there was an outbreak of African Swine Fever in China which has since spread to other countries. While restrictions have been put in place by the foreign jurisdictions to contain the spread of the disease in hog populations there can be no assurance the outbreak will be contained, or that the outbreak will not spread to areas that supply the Company with live hogs or that additional restrictions will be put in place that will impede the Company's access to other markets or create volatile market conditions. These could have a material adverse impact on the Company's operations and financial condition. In the longer term, the availability of livestock in the relative proximity of the Company's processing facilities may be impacted by climate change if the availability of feed grains in the relative proximity of its processing facilities is altered.

The Company monitors herd and flock health status and has strict bio-security procedures and employee training programs throughout its hog production system and ensures the animals receive veterinary medications as required. 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 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.

Supply Chain Consolidation

In 2015, the Company completed its consolidation and upgrade of its prepared meats manufacturing network. The Company also reconfigured its distribution systems for prepared meats into two large distribution centers. In 2018, the Company also announced the construction of a new large-scale poultry processing plant to replace three older smaller scale plants which will be closed. As a result of these initiatives, the Company's operations are more concentrated in fewer 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.

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 organisms that can cause illness, or pathogens, such as certain strains of *Escherichia coli* (E. coli), *Salmonella* and *Listeria*. There is a risk that these pathogens could be present in certain products produced by the Company. 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 or as a precautionary measure, 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 be enacted 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. Many of these costs and losses are not covered by insurance. Any of these events could have a material adverse impact on the Company's financial condition and results of operations.

Cyber Security

The Company relies on information technology systems in all areas of operations. These systems are subject to an increasing number of sophisticated cyber threats. The methods used to obtain unauthorized access, disable or degrade service or sabotage systems are constantly evolving. Should a cyber-attack be successful and a breach of sensitive information occur or its systems and services be disrupted, Maple Leaf Foods' financial position, brand, and/or ability to achieve its strategic objectives may be negatively affected.

The Company maintains policies, processes, and procedures to address capabilities, performance, security, and system availability including resiliency and disaster recovery for systems, infrastructure, and data. Security protocols, along with information technology security policies, address compliance with information technology security standards, including those relating to information belonging to the Company's customers, employees and suppliers. The Company actively monitors, manages, and continues to enhance its ability to mitigate cyber risk through its enterprise wide programs. However, there is no assurance that any of these measures will be successful.

Risk of Returning or not Returning Capital to Shareholders

In each of 2015 through 2018 the Company entered into normal course issuer bids and purchased during those periods a total of 21.8 million common shares at a cost of $601.5 million. These purchases included 5.3 million common shares in 2018 at a cost of $166.5 million. The Company also raised its dividend rate in each of those years. There can be no assurance that the Company will continue with share repurchases. The payment of dividends is at the discretion of the Board of Directors and there can be no assurance that the Company will maintain or increase its dividends. Failure to continue with share repurchases and/or failure to pay dividends or increase the rate at which dividends are paid may have a material adverse effect on the Company's share price.

Business Acquisitions, Divestitures, and Capital Expansion Projects

The Company has made acquisitions over the last two years and continues to review opportunities for strategic growth through acquisitions. Any 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, 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 could 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 aspects 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. Such a 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.

Climate Change

Maple Leaf Foods' commitment to its purpose to Raise the Good in Food drives the Company to achieve its aspirational vision: To Become the Most Sustainable Protein Company on Earth. Reducing its environmental impact to sustainable levels is a core strategy supporting the Company's vision. The potential effects of climate change could have a material impact on the Company and its operations. The Company has set environmental footprint reduction targets and has executed certain energy efficiency and greenhouse gas emission reduction projects which were at the time of implementation commercially economic. There can be no assurance the ongoing operating costs of those initiatives will continue to be financially beneficial. Over the long term, the Company's products, processes and facilities may require significant restructuring to comply with laws and regulations enacted to combat climate change or to meet competitive industry standards for costs and efficiency. These costs may be material. In the short term, new laws or taxes may be imposed by governments, the cost of which may not be able to be passed on in the price of the Company's products. To maintain its reputation with consumers and to support its sustainability strategy, the Company may consider it necessary to voluntarily adopt more aggressive greenhouse gas and carbon emission reduction initiatives, the cost of which may not be recovered in the selling price of its products.

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, and the market value of plan assets can affect the level of plan funding required, increase the Company's future funding requirements, and cause volatility in the net periodic pension cost as well as the Company's financial results. 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 as well as 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; livestock diseases; and changes to foreign jurisdiction restrictions on drugs, vitamin and feed additives used in hogs raised in Canada. 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 or that meat restricted from certain foreign markets can be sold at acceptable prices. 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 to meet its requirements for hogs. Any of these could have a material adverse effect on the Company's financial condition and results of operations.

Over the long term, a reduction in the availability of livestock at the Company's processing plant may result in higher transportation costs if livestock is sourced from more distant growing areas or result in higher capital costs if the Company is required to relocate processing facilities. There can be no assurance that those extra operating costs or capital costs can be passed on to customers which may have a material adverse effect on the Company's financial condition and results of operations.

The Company is increasing its sales of raised without antibiotic meat products and in turn expanding the portion of its hog supply raised without antibiotics. Animals raised without antibiotics have a higher cost of production and command higher prices. If the Company fails to find markets or buyers willing to pay the premium price for all the raised without antibiotic meat produced, a portion of the higher cost meat will be sold through lower price conventional channels.

The Company has developed a comprehensive internal contingency plan for dealing with animal disease occurrences and/or a more broad-based pandemic. It 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. Furthermore, the Company's supply of raised without antibiotic meats may be at a greater risk supply disruption in the event of an animal disease outbreak.

Commodities

The Company is a purchaser of, and its business is dependent on, certain commodities in the course of normal operations, such as feed grains, livestock, and energy, such as oil-based fuel, natural gas, and electricity. Commodity prices are subject to fluctuation and such fluctuations are sometimes severe. Furthermore, changes in climate and other long-term trends may have a material effect on the availability and prices of the commodities the Company uses.

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 or switching to alternatives; however, no assurance can be given that customers will continue to purchase the Company's products if prices rise or that alternatives may be available or less costly. 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.

Supply Management

Under Canada's system of supply management, the Company's poultry operations are required to source substantially all live poultry for processing from Canadian farms which are collectively subject to restrictions on production under a quota system. Furthermore, the price at which the live poultry is available is also controlled. The supply management system may limit the availability of live poultry for processing impeding the Company's growth in the market or could create a circumstance where excesses impact the price of poultry meat without a corresponding adjustment to the controlled live poultry price. Furthermore, any dismantling of the supply management system could have negative effect on individual producers and disrupt the availability of live poultry in Canada. In that event, the Company may not be able to find alternative source of live supply which 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 including class actions, either as plaintiff or defendant, relating to its commercial activities and relationships, employment matters, product liabilities, in addition to other things. This includes a class action that was launched in respect of pricing practices at packaged bread manufacturers and retailers that are the subject of an ongoing investigation by the Competition Bureau. Maple Leaf Foods is not the subject of the investigation, but it believes that it was added as a defendant to the class action as a result of the share ownership position it previously held in Canada Bread. The Company generally believes that the resolution of these various types of 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.

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. There cannot be any guarantee that any such changes 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.

Reliance on Other Manufacturers

The Company relies on contract manufacturers for production of some of it products for reasons such as, seasonal peak demand, unavailability of specialized equipment, or efficiency in the case of low volume product lines. Acceptable contract manufacturers may not always be available which could result in higher production costs, additional capital requirements or lost sales. While the Company maintains a strict quality and food safety protocol and monitoring regime, any deficiencies could result in product liability, recalls or other consequence that could negatively impact the Company's reputation and 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 of 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, trade agreements between Canada and foreign jurisdictions could change and foreign jurisdictions could impose tariffs, quotas, trade barriers, and other similar restrictions on the Company's international sales, as well as 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 labeling 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 all 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.

Foreign Currencies

A portion of the Company's revenues and costs are either denominated in or directly linked to other currencies (primarily U.S. dollars 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.

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 can be deemed to be 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 and Risks

The Company's operations are subject to extensive environmental laws and regulations pertaining to the discharge of materials into the environment (including greenhouse gases) 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 or levies or taxes assessed against the Company will not be altered in ways that will require the Company to incur significant additional costs. In addition, certain facilities of the Company 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. Failure to do so could result in losing sales volumes and market share. The Company's 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. 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 12,000 full-time 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, each such jurisdiction having differing employment laws. 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.

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 those products. Products that are priced too high will not sell and products priced too low will not generate an adequate return. 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. Among other things, these risks include changes in technology, the food industry, customers, consumers, and competitors. Failure to properly adapt to changes in strategic risks could have a material adverse effect on the Company's financial condition and results of operations.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

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

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

Long-Lived Assets Valuation

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

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

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

Measurement of Fair Values

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

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

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed in Notes 7, 9, 10, 11, 17, 22, and 27 of the Company's 2018 audited consolidated financial statements.

Nature of Interests in Other Entities

Management applies significant judgement in assessing the nature of its interest in unconsolidated structured entities relating to its accounts receivable securitization facilities. The Company does not hold any equity interest in the structured entities and based on the terms of the agreements under which the entities are established, the Company does not receive the returns related to their operations and is exposed to limited recourse with respect to losses (refer to Note 23 of the Company's 2018 audited consolidated financial statements).

Valuation of Inventory

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

Biological Assets

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

Trade Merchandise Allowances and Other Trade Discounts

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

Employee Benefit Plans

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

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

	2018	2017
Weighted average discount rate	**3.80%**	3.40%
Rate of salary increase	**2.75%**	3.00%
Medical cost trend rates	**5.00%**	5.00%

Information about the sensitivity of the plan obligations to changes in assumptions is presented below:

				Increase (decrease) in defined benefit obligation		
($ thousands) **Actuarial Assumption**			**Sensitivity**	**Total pensions**	**Other post-retirement benefits**	**Total**
Period end discount rate	3.80%	0.25%	decrease	$ 33,572	$ 1,255	$ 34,827
		0.25%	increase	$ (32,523)	$ (1,224)	$ (33,747)
Rate of salary increase	2.75%	0.50%	increase	$ 2,052	N/A	$ 2,052
Mortality	110% of 2014 Private Sector Canadian Pensioners' Mortality Table, projected generationally using scale MI-2017		Increase of 1 year in expected lifetime of plan participants	$ 33,556	$ 1,712	$ 35,268

Income Taxes

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

Provisions

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

Share-Based Compensation

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

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

Depreciation and Amortization

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

SIGNIFICANT ACCOUNTING POLICIES

Accounting Standards Adopted During the Period

During the year ended December 31, 2018, the Company adopted certain standards and amendments. As required by IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, the nature and the effect of these changes are disclosed below:

Revenue Recognition

Beginning on January 1, 2018, the Company adopted IFRS 15 using the modified retrospective approach where prior periods are not restated. IFRS 15 specifies the accounting treatment for all revenue arising from contracts with customers, unless the contracts are within the scope of other IFRS standards.

The impact of adopting IFRS 15 on the opening consolidated balance sheet is as follows:

		As at January 1, 2018
Inventories	$	**8,015**
Deferred tax asset	$	**780**
Other current liabilities	$	**11,070**
Retained earnings	$	**(2,275)**

IFRS 15 supersedes previous revenue recognition guidance including IAS 18 Revenue and related interpretations. This standard establishes a single comprehensive framework for revenue recognition based on a five-step model where the Company identifies the contract with a customer, identifies the performance obligation in the contract, determines the transaction price, allocates the transaction price to the performance obligation in the contract, and recognizes revenue when the Company satisfies the performance obligation. IFRS 15 also provides specific guidance around revenue-related items such as consideration payable to a customer and repurchase agreements.

The impact of IFRS 15 affected the classifications of certain amounts paid to customers in the statement of earnings, where payments to the customer for distinct goods or services have been classified as selling, general and administrative expenses and payments not for distinct goods or services have been classified as a component of sales.

The impact of adopting IFRS 15 on the consolidated statement of earnings for the twelve months ended December 31, 2018 is as follows:

	Twelve months ended December 31, 2018					
		Amounts without adoption of IFRS 15		**Impact of adopting IFRS 15**		**As reported on the consolidated financial statements**
Sales	$	3,631,826	$	(136,307)	$	3,495,519
Cost of goods sold	$	3,077,289	$	(133,567)	$	2,943,722
Gross margin	$	554,537	$	(2,740)	$	551,797
Selling, general and administrative expenses	$	344,256	$	(2,764)	$	341,492
Net earnings	$	101,324	$	24	$	101,348

The impact of adopting IFRS 15 on the consolidated balance sheets as at December 31, 2018 is as follows:

	December 31, 2018		
	Amounts without adoption of IFRS 15	**Impact of adopting IFRS 15**	**As reported on the consolidated financial statements**
Inventories	$ 341,105	$ 7,796	$ 348,901
Deferred tax liability	$ 127,145	$ (780)	$ 126,365
Other current liabilities	$ 13,204	$ 10,827	$ 24,031
Retained earnings	$ 1,172,440	$ (2,251)	$ 1,170,189

IFRS 15 did not have a material impact on the consolidated statements of other comprehensive income (loss), the consolidated statements of changes in total equity, and the consolidated statements of cash flows.

Revenue recognized during the twelve months ended December 31, 2018 that was included in other current liabilities as at January 1, 2018 was $11.1 million.

Financial Instruments – Recognition and Measurement

Beginning on January 1, 2018, the Company adopted IFRS 9 Financial Instruments which replaces IAS 39 Financial Instruments: Recognition and Measurement and provides detailed guidance on classification and measurement of financial assets and liabilities, impairment of financial assets, and hedge accounting.

There was no material impact to the Company's consolidated financial statements with regards to the changes in IFRS 9 on the classification and measurement of financial assets and liabilities and hedge accounting.

For impairment, IFRS 9 applies an expected credit loss model where forward-looking information should be taken into account when estimating credit losses. Compared to IAS 39 where a credit loss is only recorded upon the occurrence of a loss event, such as customer bankruptcy or restructuring, IFRS 9 will generate a provision for credit losses upon the recording of the receivables. The Company recognized an allowance for credit losses of $1.9 million as a reduction to accounts receivable as at January 1, 2018. Retained earnings and deferred tax liabilities as at January 1, 2018 also decreased by $1.4 million and $0.5 million, respectively. Comparative periods were not restated.

Share-Based Payments

Beginning on January 1, 2018, the Company adopted amendments to IFRS 2 Share-Based Payments which provides clarification on how to account for certain types of share-based payment transactions. The adoption of the amendments to IFRS 2 did not have a material impact on the consolidated financial statements.

Foreign Currency Transactions and Advance Considerations

Beginning on January 1, 2018, the Company adopted IFRIC 22 Foreign Currency Transactions and Advance Consideration which requires that when a foreign currency transaction occurs, where consideration is received or paid in advance of the recognition of the related asset, expense, or income, the exchange rate used should be based on the exchange rate as at the date when the pre-payment asset or deferred liability is recognized. The adoption of IFRIC 22 did not have a material impact on the consolidated financial statements.

Accounting Pronouncements Issued But Not Yet Effective

Leases

In January 2016, the IASB issued IFRS 16 Leases with a mandatory effective date of January 1, 2019. The new standard will replace IAS 17 Leases and will substantially carry forward the accounting requirements for lessors. IFRS 16 provides a new framework for lessee accounting that requires substantially all right of use assets obtained through operating leases to be capitalized and a related liability to be recorded. The new standard seeks to provide a more accurate picture of a company's leased assets and related liabilities and create greater comparability between companies who lease assets and those who purchase assets. The Company will adopt IFRS 16 in its consolidated financial statements for the annual period beginning January 1, 2019 and intends to transition using the modified retrospective approach.

The adoption of IFRS 16 will result in changes to property, equipment and vehicle lease contracts which were previously classified as operating leases under IAS 17. Upon adoption, lease obligations equal to the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate will be recognized. A right of use asset, representing the Company's right to use the underlying leased asset, will generally be equal to the lease obligation at adoption and subsequently depreciated. Operating lease expenses recognized in the consolidated statement of net earnings under IAS 17 will be replaced by depreciation of the right of use asset and interest expense on the lease obligation.

The Company has performed a review of its current leases, business processes and information systems and has implemented a lease management system to perform its day to day management and lease calculations. For the period beginning January 1, 2019, the implementation of IFRS 16 is expected to increase total assets by approximately $201.0 million, increase total liabilities by approximately $197.0 million, and increase opening retained earnings by approximately $4.0 million.

Uncertainty over Income Tax Treatments

In June 2017, the IASB issued IFRIC 23 Uncertainty over Income Tax Treatments with a mandatory effective date of January 1, 2019. The interpretations provide guidance on how to value uncertain income tax positions based on the probability of whether the relevant tax authorities will accept a company's tax treatments. A company is to assume that a taxation authority, with the right to examine any amounts reported to it, will examine those amounts and will have full knowledge of all relevant information when doing so. IFRIC 23 is to be applied by recognizing the cumulative effect of initially applying these guidelines in opening retained earnings without adjusting comparative information. For the period beginning January 1, 2019, the implementation of IFRIC 23 is expected to decrease opening retained earnings by approximately $1.0 million and increase total liabilities by approximately $1.0 million.

Long-term Interests in Associates and Joint Ventures

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

Annual Improvements to IFRS (2015-2017) Cycle

In December 2017, the IASB issued narrow-scope amendments to a total of four standards as part of its annual improvement process. Amendments were made to clarify that a company must remeasure its previously held interest in a joint operation when it obtains control of the business in accordance with IFRS 3 Business Combinations but does not remeasure when it obtains joint control of the business under IFRS 11 Joint Arrangements. The amendments also include clarification that, all income tax consequences of dividend payments should be recognized consistently with the transactions that generated the distributable profits, under IAS 12 Income Taxes and that under IAS 23 Borrowing Costs, any specific borrowing that remains outstanding after the related asset is ready for its intended use or sale becomes part of general borrowings. The Company intends to adopt these amendments prospectively in its consolidated financial statements for the annual period beginning January 1, 2019. The impact of the Annual Improvements to IFRS (2015-2017) Cycle is not expected to have a material impact on the consolidated financial statements.

Employee benefits (amendment)

In February 2018, the IASB issued amendments to IAS 19 Employee Benefits with a mandatory effective date of January 1, 2019. The amendment clarifies the effect of a plan amendment, curtailment and settlement on the requirements regarding the asset ceiling. In addition, if a plan amendment, curtailment or settlement occurs, it is mandatory under the amended standard that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement. This amendment is to be applied prospectively. The Company intends to adopt the amendments to IAS 19 in its consolidated financial statements for the annual period beginning January 1, 2019. The adoption of the amendments to IAS 19 are not expected to have a material impact on the consolidated financial statements.

Conceptual Framework

On March 29, 2018, the IASB issued its revised Conceptual Framework for Financial Reporting. The revised Conceptual Framework does not constitute a substantial revision from the previously effective guidance but does provide additional guidance on topics not previously covered such as presentation and disclosure. This amendment is effective on January 1, 2020. The Company intends to adopt this amendment in its consolidated financial statements for the annual period beginning January 1, 2020. The extent of the adoption of the revised Conceptual Framework for Financial Reporting has not yet been determined.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management, under the direction and supervision of the Company’s Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining disclosure controls and procedures. These 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. 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 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

As required by National Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings, 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, 2018 and have concluded that such controls and procedures are effective.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

There have been no changes in the Company's internal control over financial reporting that occurred during the period beginning on January 1, 2018, and ended on December 31, 2018, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

OUTLOOK

Maple Leaf Foods is committed to creating shared value with a focus on driving commercial and financial results and creating competitive advantage through addressing some of society's most pressing issues. The Company is a leading consumer protein company, with the competitive advantages of a portfolio of leading brands, a robust pipeline of opportunities in attractive expanding markets and a proven-track record of execution. Combined with its solid balance sheet and capital structure that provide the financial flexibility to invest in future growth, Maple Leaf Foods is well-positioned to drive sustainable growth and create shareholder value.

Ongoing uncertainty in fresh pork markets are expected with continued global trade negotiations, potential for increased supply and the confirmation of African Swine Fever in China. Within this environment, management remains focused on existing opportunities to grow its core business and profitability through improved commercial performance, operational efficiencies and progress against strategic initiatives for longer-term value creation.

In 2017, Maple Leaf Foods set a profitability target to achieve Adjusted EBITDA margin between 14% - 16% within five years. The Company maintains a steadfast focus on meeting this target as planned with ongoing progress and advancement of five key growth initiatives: (i) sustainable meat; (ii) poultry network; (iii) food renovation; (iv) plant protein; and (v) cost culture delivering operational savings and efficiencies to fuel growth.

For 2019 the Company expects to:

- Invest approximately $400 million in capital expenditures, including approximately $250 million related to the construction of the new value-added poultry facility in London, Ontario;
- Continue to build its leadership in sustainable meat with further advancement in animal care including progress towards transitioning all sows under management to open housing systems by 2021, and ongoing retail and food service growth of the RWA category in Canada and the U.S.;
- Initiate construction of its London Poultry facility;
- Gain further momentum in prepared meats sales volume as the Company benefits from the food renovation and brand repositioning of its Maple Leaf®, Schneiders® and Swift® brands;
- Continue to accelerate its leadership in the North American refrigerated plant-based protein market under its flagship Lightlife and Field Roast brands, targeting consistent double digit-growth in sales supported by new product innovations and investment in capacity to meet demand; and
- Continue to pay shareholder dividends commensurate with the growth of the business.

NON-IFRS FINANCIAL MEASURES

The Company uses the following non-IFRS measures: Adjusted Operating Earnings, Adjusted Earnings per Share, Adjusted EBITDA, Net (Debt) Cash, Free Cash Flow and Return on Net Assets. Management believes that these non-IFRS measures provide useful information to investors in measuring the financial performance of the Company 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 ongoing 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 statement of earnings to Adjusted Operating Earnings for the years ended, as indicated below. Management believes that this basis is the most appropriate on which to evaluate operating results, as they are representative of the ongoing operations of the Company.

	December 31,	
($ thousands)	**2018**	**2017**
Net earnings	**$ 101,348**	$ 164,089
Income taxes	**39,755**	50,192
Earnings before income taxes	**$ 141,103**	$ 214,281
Interest expense and other financing costs	**10,040**	5,168
Other expense (income)	**12,974**	(3,609)
Restructuring and other related costs	**46,188**	23,024
Earnings from operations	**$ 210,305**	$ 238,864
Decrease (Increase) in fair value of biological assets(i)	**10,905**	(1,267)
Unrealized (gain) loss on derivative contracts(ii)	**(5,584)**	26,243
Adjusted Operating Earnings	**$ 215,626**	$ 263,840

(i) *Refer to Note 7 of the Company's 2018 audited consolidated financial statements for further details regarding biological assets.*

(ii) *Unrealized losses (gains) on derivative contracts are reported within cost of goods sold in the Company's 2018 audited consolidated financial statements.*

Adjusted Earnings per Share

Adjusted Earnings per Share, a non-IFRS measure, is used by Management to evaluate financial operating results. It is defined as basic earnings per share and is adjusted on the same basis as Adjusted Operating Earnings. The table below provides a reconciliation of basic earnings per share as reported under IFRS in the audited consolidated statements of earnings to Adjusted Earnings per Share for the years ended, as indicated below. Management believes this basis is the most appropriate on which to evaluate financial results as they are representative of the ongoing operations of the Company.

	December 31,	
($ per share)	**2018**	2017
Basic earnings per share	**$ 0.81**	$ 1.28
Restructuring and other related costs(i)	**0.27**	0.13
Items included in other expense (income) not considered representative of ongoing operations(ii)	**0.11**	(0.01)
Change in fair value of biological assets(iii)	**0.06**	(0.01)
Unrealized (gain) loss on derivative contracts(iii)	**(0.03)**	0.15
Adjusted Earnings per Share(iv)	**$ 1.22**	$ 1.54

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

(ii) *Primarily includes (gains) and losses on disposal of investment properties, acquisition related costs and interest income, net of tax.*

(iii) *Includes per share impact of the change in unrealized loss (gain) on derivative contracts and the change in fair value of biological assets, net of tax.*

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

Adjusted Earnings Before Interest, Income Taxes, Depreciation, and Amortization

Adjusted EBITDA is calculated as earnings before interest and income taxes plus depreciation and intangible asset amortization, adjusted for items that are not considered representative of ongoing 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 to Adjusted EBITDA for the years ended, as indicated below. Management believes Adjusted EBITDA is useful in assessing the performance of the Company's ongoing operations and its ability to generate cash flows to fund its cash requirements, including the Company's capital investment program.

	December 31,	
($ thousands)	**2018**	2017
Net earnings	**$ 101,348**	$ 164,089
Income taxes	**39,755**	50,192
Earnings before income taxes	**$ 141,103**	$ 214,281
Interest expense and other financing costs	**10,040**	5,168
Items included in other expense (income) not considered representative of on-going operations[(i)]	**15,630**	(3,582)
Restructuring and other related costs	**46,188**	23,024
Increase in fair value of biological assets and unrealized loss (gain) on derivative contracts	**5,321**	24,976
Depreciation and amortization[(ii)]	**126,035**	117,190
Adjusted EBITDA	**$ 344,317**	$ 381,057

(i) *Primarily includes (gains) and losses on disposal of investment properties, acquisition related costs and interest income, net of tax.*

(ii) *Depreciation and amortization excludes depreciation related to investment properties*

Net (Debt) Cash

The Company calculates Net (Debt) Cash as cash and cash equivalents, less long-term debt and bank indebtedness. Management believes this measure is useful in assessing the amount of financial leverage employed. The following table reconciles Net (Debt) Cash to amounts reported under IFRS in the Company's audited consolidated balance sheets for the years ended, as indicated below:

	December 31,	
($ thousands)	**2018**	2017
Current portion of long-term debt	**$ (80,897)**	$ (805)
Long-term debt	**(302,524)**	(8,443)
Total debt	**$ (383,421)**	$ (9,248)
Cash and cash equivalents	**72,578**	203,425
Net (Debt) Cash	**$ (310,843)**	$ 194,177

Free Cash Flow

Free Cash Flow, a non-IFRS measure, is used by Management to evaluate cash flow after investing in the maintenance or expansion of the Company's asset base. It is defined as cash provided by operations, less additions to long-term assets. The following table calculates Free Cash Flow for the periods indicated below:

($ thousands)	December 31,	
(Unaudited)	**2018**	2017
Cash provided by operating activities	**$ 299,685**	$ 386,695
Additions to long-term assets	**(179,865)**	(142,245)
Free Cash Flow	**$ 119,820**	$ 244,450

Return on Net Assets

RONA 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 (excluding cash and deferred tax assets) less non-interest bearing liabilities (excluding deferred tax 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, as well as beliefs and assumptions made by Management of the Company. Such statements include, but are not limited to, statements with respect to objectives and goals, in addition to 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: expectations regarding the use of derivatives, futures and options; the expected use of cash balances; the payment of dividends; source of funds for ongoing business requirements; capital investments and expectations regarding capital expenditures; expectations regarding acquisitions; expectations regarding the implementation of environmental sustainability initiatives; expectations regarding the adoption of new accounting standards and the impact of such adoption on financial position; expectations regarding pension plan performance and future pension plan liabilities and contributions; expectations regarding levels of credit risk; and expectations regarding outcomes of legal actions. Words such as "expect", "anticipate", "intend", "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, 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., and Japanese economies; the rate of exchange of the Canadian dollar to the U.S. dollar, 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; 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 include, among other things:

- risks associated with the Company focusing solely on the protein business;
- risks associated with the availability of capital;
- risks related to the health status of livestock;
- risks associated with concentration of production in fewer facilities;
- risks posed by food contamination, consumer liability, and product recalls;
- risks associated with cyber threats;
- risks related to the Company's decisions regarding any potential return of capital to shareholders;
- risks associated with acquisitions, divestitures, capital expansion projects and integration of new businesses;
- risk associated with climate change;
- impact on pension expense and funding requirements of fluctuations in the market prices of fixed income and equity securities and changes in interest rates;
- cyclical nature of the cost and supply of hogs and the competitive nature of the pork market generally;
- ability of the Company to hedge against the effect of commodity price changes through the use of commodity futures and options;
- impact of changes in the market value of commodities and hedging instruments;
- risks associated with the supply management system for poultry in Canada;
- risks posed by litigation;

- risks associated with changes in the Company's information systems and processes;
- risks associated with the use of contract manufacturers;
- impact of international events on commodity prices and the free flow of goods;
- risks posed by compliance with extensive government regulation;
- the Company's exposure to currency exchange risks;
- impact of changes in consumer tastes and buying patterns;
- impact of extensive environmental regulation and potential environmental liabilities;
- risks associated with a consolidating retail environment;
- risks posed by competition;
- risks associated with complying with differing employment laws and practices, the potential for work stoppages due to non-renewal of collective agreements, and recruiting and retaining qualified personnel;
- risks associated with pricing the Company's products;
- risks associated with managing the Company's supply chain;
- risks associated with failing to identify and manage the strategic risks facing the Company; and
- impact of changes in IFRS in respect of or as they may affect the availability of capital

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 capital expenditures. These financial outlooks are presented to evaluate anticipated future uses of cash flows and 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.

About Maple Leaf Foods Inc.

Maple Leaf Foods Inc. ("Maple Leaf Foods") is a producer of food products under leading brands including Maple Leaf®, Maple Leaf Prime®, Maple Leaf Natural Selections®, Schneiders®, Schneiders® Country Naturals®, Mina®, Greenfield Natural Meat Co.®, Lightlife™, Field Roast Grain Meat Co.™ and Swift®. Maple Leaf Foods employs approximately 12,000 people and does business in Canada, the U.S. and Asia. The Company is headquartered in Mississauga, Ontario and its shares trade on the Toronto Stock Exchange (MFI).

Consolidated Financial Statements

Independent Auditors' Report

To the Shareholders of Maple Leaf Foods Inc.

Opinion

We have audited the consolidated financial statements of Maple Leaf Foods Inc. (the Entity), which comprise:

- the consolidated balance sheets as at December 31, 2018 and December 31, 2017
- the consolidated statement of net earnings for the years then ended
- the consolidated statement of other comprehensive income (loss) for the years then ended
- the consolidated statement of changes in total equity for the years then ended
- the consolidated statement of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated balance sheet of the Entity as at December 31, 2018 and December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the **"*Auditors' Responsibilities for the Audit of the Financial Statements*"** section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other responsibilities in accordance with these requirements.

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

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis and Annual Report filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

Independent Auditors' Report

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

The engagement partner on the audit resulting in this auditors' report is Kristen Carscallen.

Toronto, Canada

February 27, 2019

Consolidated Balance Sheets

(In thousands of Canadian dollars)	***Notes***	**As at December 31, 2018**	As at December 31, 2017
ASSETS			
Current assets			
Cash and cash equivalents	***4***	**$ 72,578**	$ 203,425
Accounts receivable	***5***	**146,735**	123,968
Notes receivable	***23***	**30,504**	28,918
Inventories	***6***	**348,901**	273,365
Biological assets	***7***	**111,493**	111,735
Prepaid expenses and other assets		**38,222**	24,393
		$ 748,433	$ 765,804
Property and equipment	***8***	**1,283,669**	1,116,309
Investment property		**5,109**	1,892
Employee benefits	***9***	**5,389**	9,856
Other long-term assets		**8,074**	6,125
Goodwill	***10***	**647,721**	517,387
Intangible assets	***11***	**429,416**	215,197
Total assets		**$ 3,127,811**	$ 2,632,570
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accruals		**$ 343,872**	$ 300,659
Current portion of provisions	***12***	**3,457**	9,335
Current portion of long-term debt	***13***	**80,897**	805
Income taxes payable	***20***	**42,685**	7,855
Other current liabilities	***14***	**24,031**	31,597
		$ 494,942	$ 350,251
Long-term debt	***13***	**302,524**	8,443
Employee benefits	***9***	**103,982**	117,808
Provisions	***12***	**49,895**	11,273
Other long-term liabilities	***15***	**53,564**	12,689
Deferred tax liability	***20***	**116,065**	80,498
Total liabilities		**$ 1,120,972**	$ 580,962
Shareholders' equity			
Share capital	***16***	**$ 849,655**	$ 835,154
Retained earnings		**1,178,389**	1,253,035
Contributed surplus		**4,649**	—
Accumulated other comprehensive income (loss)		**3,532**	(9,620)
Treasury stock	***16***	**(29,386)**	(26,961)
Total shareholders' equity		**$ 2,006,839**	$ 2,051,608
Total liabilities and equity		**$ 3,127,811**	$ 2,632,570

Commitments and contingencies (Note 24)

See accompanying Notes to the Consolidated Financial Statements.

On behalf of the Board:

MICHAEL H. MCCAIN
Director

WILLIAM E. AZIZ
Director

Consolidated Statements of Net Earnings

Years ended December 31, *(In thousands of Canadian dollars, except share amounts)*	***Notes***	**2018**	2017
Sales		**$ 3,495,519**	$ 3,522,226
Cost of goods sold		**2,943,722**	2,934,747
Gross margin		**$ 551,797**	$ 587,479
Selling, general and administrative expenses		**341,492**	348,615
Earnings before the following:		**$ 210,305**	$ 238,864
Restructuring and other related costs	***12***	**(46,188)**	(23,024)
Other income (expense)	***18***	**(12,974)**	3,609
Earnings before interest and income taxes		**$ 151,143**	$ 219,449
Interest expense and other financing costs	***19***	**10,040**	5,168
Earnings before income taxes		**$ 141,103**	$ 214,281
Income tax expense	***20***	**39,755**	50,192
Net earnings		**$ 101,348**	$ 164,089
Earnings per share attributable to common shareholders:	***21***		
Basic earnings per share		**$ 0.81**	$ 1.28
Diluted earnings per share		**$ 0.79**	$ 1.24
Weighted average number of shares (millions)	***21***		
Basic		**125.0**	128.6
Diluted		**127.5**	132.4

See accompanying Notes to the Consolidated Financial Statements.

Consolidated Statements of Other Comprehensive Income (Loss)

Years ended December 31, *(In thousands of Canadian dollars)*	**2018**	2017
Net earnings	**$ 101,348**	$ 164,089
Other comprehensive income (loss)		
Actuarial gains and losses that will not be reclassified to profit or loss (Net of tax of $3.7 million; 2017: $1.0 million)	**$ 11,879**	$ (3,117)
Items that are or may be reclassified subsequently to profit or loss:		
Change in accumulated foreign currency translation adjustment (Net of tax of $0.0 million; 2017: $0.0 million)	**$ 33,273**	$ (13,536)
Change in foreign exchange on long-term debt designated as a net investment hedge (Net of tax of $2.5 million; 2017 $0.0 million)	**(13,335)**	—
Change in unrealized gains and losses on cash flow hedges (Net of tax of $1.7 million; 2017: $0.8 million)	**(6,786)**	2,297
Total items that are or may be reclassified subsequently to profit or loss	**$ 13,152**	$ (11,239)
Total other comprehensive income (loss)	**$ 25,031**	$ (14,356)
Comprehensive income	**$ 126,379**	$ 149,733

See accompanying Notes to the Consolidated Financial Statements.

Consolidated Statements of Changes in Total Equity

(In thousands of Canadian dollars)	***Notes***	**Share capital**	**Retained earnings**	**Contributed surplus**	**Accumulated other comprehensive income (loss)[i]: Foreign currency translation adjustment**	**Accumulated other comprehensive income (loss)[i]: Unrealized gains and losses on cash flow hedges**	**Treasury stock**	**Total equity**
Balance at December 31, 2017		**$ 835,154**	**$ 1,253,035**	**$ —**	**$ (11,420)**	**$ 1,800**	**$ (26,961)**	**$ 2,051,608**
Impact of new IFRS standards		**—**	**(3,695)**	**—**	**—**	**—**	**—**	**(3,695)**
Net earnings		**—**	**101,348**	**—**	**—**	**—**	**—**	**101,348**
Issuance of shares for acquisition	***27***	**28,801**	**—**	**—**	**—**	**—**	**—**	**28,801**
Other comprehensive income (loss)[ii]		**—**	**11,879**	**—**	**19,938**	**(6,786)**	**—**	**25,031**
Dividends declared ($0.52 per share)		**—**	**(65,119)**	**—**	**—**	**—**	**—**	**(65,119)**
Share-based compensation expense	***22***	**—**	**—**	**18,366**	**—**	**—**	**—**	**18,366**
Deferred taxes on share-based compensation		**—**	**—**	**(2,400)**	**—**	**—**	**—**	**(2,400)**
Repurchase of shares	***16***	**(30,140)**	**(101,495)**	**(10,360)**	**—**	**—**	**—**	**(141,995)**
Exercise of stock options		**15,840**	**—**	**—**	**—**	**—**	**—**	**15,840**
Settlement of share-based compensation		**—**	**(17,564)**	**(957)**	**—**	**—**	**10,575**	**(7,946)**
Shares purchased by RSU trust		**—**	**—**	**—**	**—**	**—**	**(13,000)**	**(13,000)**
Balance at December 31, 2018		**$ 849,655**	**$ 1,178,389**	**$ 4,649**	**$ 8,518**	**$ (4,986)**	**$ (29,386)**	**$ 2,006,839**

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

[i] *Items that are or may be subsequently reclassified to profit or loss.*

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

See accompanying Notes to the Consolidated Financial Statements.

Consolidated Statements of Cash Flows

Years ended December 31, *(In thousands of Canadian dollars)*	**2018**	2017
CASH PROVIDED BY (USED IN):		
Operating activities		
Net earnings	**$ 101,348**	$ 164,089
Add (deduct) items not affecting cash:		
Change in fair value of biological assets	**10,905**	(1,267)
Depreciation and amortization	**126,066**	117,227
Share-based compensation	**18,366**	21,087
Deferred income taxes	**10,055**	40,920
Income tax current	**29,700**	9,272
Interest expense and other financing costs	**10,040**	5,168
Loss (gain) on sale of long-term assets	**5,623**	(5,781)
Change in fair value of non-designated derivatives	**(4,657)**	21,877
Impairment of assets (net of reversals)	**—**	3,776
Change in net pension liability	**7,378**	5,379
Net income taxes paid	**(6,820)**	(10,604)
Interest paid	**(7,996)**	(2,299)
Change in provision for restructuring and other related costs	**33,760**	9,037
Change in derivatives margin	**10,998**	(13,210)
Other	**(5,529)**	(6,316)
Change in non-cash operating working capital	**(39,552)**	28,340
Cash provided by operating activities	**$ 299,685**	$ 386,695
Financing activities		
Dividends paid	**$ (65,119)**	$ (56,640)
Net increase (decrease) in long-term debt	**357,941**	(1,083)
Exercise of stock options	**15,840**	5,930
Repurchase of shares	**(166,526)**	(180,110)
Payment of deferred financing fees	**(650)**	(1,302)
Purchase of treasury stock	**(13,000)**	(28,000)
Cash provided by (used in) financing activities	**$ 128,486**	$ (261,205)
Investing activities		
Additions to long-term assets	**$ (179,865)**	$ (142,245)
Acquisition of business, net of cash acquired	**(379,556)**	(199,440)
Proceeds from sale of long-term assets	**403**	15,999
Cash used in investing activities	**$ (559,018)**	$ (325,686)
Decrease in cash and cash equivalents	**$ (130,847)**	$ (200,196)
Cash and cash equivalents, beginning of period	**203,425**	403,621
Cash and cash equivalents, end of period	**$ 72,578**	$ 203,425

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, 2018 and 2017

1. THE COMPANY

Maple Leaf Foods Inc. (“Maple Leaf Foods” or the “Company”) is a producer of food products under leading brands including Maple Leaf®, Maple Leaf Prime®, Maple Leaf Natural Selections®, Schneiders®, Schneiders® Country Naturals®, Mina®, Greenfield Natural Meat Co.®, Lightlife™, Field Roast Grain Meat Co.™ and Swift®. The Company's portfolio includes prepared meats, ready-to-cook and ready-to-serve meals, valued-added fresh pork and poultry and plant protein products. The address of the Company’s registered office is 6985 Financial Dr. Mississauga, Ontario, L5N 0A1, Canada. The consolidated financial statements of the Company as at and for the year ended December 31, 2018, include the accounts of the Company and its subsidiaries. The composition of the Company is further described in Note 23.

2. BASIS OF PREPARATION

(a) Statement of Compliance

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

The consolidated financial statements were authorized for issue by the Board of Directors on February 27, 2019.

(b) Basis of Measurement

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

(c) Functional and Presentation Currency

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

(d) Use of Estimates and Judgements

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

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

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

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

Long-Lived Assets Valuation

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

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

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

Measurement of Fair Values

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

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

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed in Notes 7, 9, 10, 11, 17, 22, and 27.

Nature of Interests in Other Entities

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

Valuation of Inventory

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

Biological Assets

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

Trade Merchandise Allowances and Other Trade Discounts

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

Employee Benefit Plans

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

Income Taxes

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

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

Provisions

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

Share-Based Compensation

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

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

Depreciation and Amortization

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Principles of Consolidation

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

All intercompany accounts and transactions have been eliminated on consolidation.

(b) Business Combinations and Goodwill

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

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

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

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

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

(c) Fair Value Measurements

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

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

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

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

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

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

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

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

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

(e) Translation of Foreign Currencies

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

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

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

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

(f) Financial Instruments

The Company's financial assets, upon initial recognition, are measured at fair value and are classified as Fair Value through Profit or Loss ("FVTPL"), Fair Value through Other Comprehensive Income ("FVOCI"), or amortized cost. The classification is determined at initial recognition and is dependent on the business model in which a financial asset is managed and the characteristics of the contractual cash flows. Subsequent reclassification may only occur on the first day of the reporting period following a change to the business model. The classification of the Company's financial assets is disclosed in Note 17.

The Company's financial liabilities, upon initial recognition, are measured at fair value and are classified as amortized cost or FVTPL. A financial liability is classified as amortized cost at initial recognition unless it is classified as held-for-trading, is a derivative instrument or is specifically designated as FVTPL. Financial liabilities classified as amortized cost are subsequently measured using the effective interest method while financial liabilities at FVTPL are subsequently measured at fair value with changes in fair value recognized in consolidated statements of net earnings in the period in which such changes arise.

The Company records a loss allowance of expected credit losses for financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance at an amount equal to the lifetime expected credit losses if the credit risk on its financial assets has increased significantly since initial recognition. If credit risk has not significantly increased since initial recognition, the Company measures the loss allowance at an amount equal to the 12-month expected credit losses.

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

(g) Hedge Accounting

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

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

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

When hedge accounting is permitted, the hedging relationship may be designated as a cash flow hedge, a fair value hedge, or a net investment in foreign operation hedge. For most cash flow hedges, 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. If the cash flow hedge is a forecast transaction that results in the recognition of a non-financial asset or liability, the Company removes that amount from the cash flow hedge reserve and includes it directly in the initial cost or other carrying amount of the asset or the liability. In a fair value hedge, the change in fair value of the hedging derivative is offset in the consolidated statements of net earnings by the change in fair value of the hedged item relating to the hedged risk.

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

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

(h) Cash and Cash Equivalents

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

(i) Inventories

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

(j) Biological Assets

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

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

(k) Impairment or Disposal of Long-Lived Assets

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

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

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

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

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

(l) Property and Equipment

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

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

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

(m) Investment Property

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

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

(n) Intangible Assets

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

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

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

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

(o) Employee Benefit Plans

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

Defined Benefit Plans

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

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

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

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

Defined Contribution Plans

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

Multi-Employer Plans

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

(p) Share-Based Compensation

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

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

(q) Provisions

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

(r) Revenue Recognition

The majority of the Company's revenue is derived from the sale of products to retail and foodservice customers, as well as the sale of by-products to industrial and agricultural customers. The Company recognizes revenue for all sales at the fair value of the consideration received or receivable. Sales are net of a provision for variable consideration of estimated allowances and sales incentives provided to customers, such that it is highly probable that a significant reversal will not occur once the uncertainty related to the variable consideration is subsequently resolved. For all transactions, revenue is recognized when control of the goods has transferred, being at the point the customer receives and accepts the product. The customer may receive product either through delivery or by pick-up. There are no significant financing components associated with the Company's payment terms.

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.

The value of sales incentives provided to customers are estimated using historical trends and are recognized at the time of sale as a reduction of revenue. Sales incentives include rebate and promotional programs provided to the Company's customers. These rebates are based on achievement of specified volume or growth in volume levels and other agreed promotional activities. In subsequent periods, the Company monitors the performance of customers against agreed upon obligations related to sales incentive programs and makes any adjustments to both revenue and sales incentive accruals as required.

The Company enters into repurchase agreements, which represent sales to third parties where the Company is required to buy-back the asset sold or a good containing that asset as a component. These sales and their associated costs of goods sold are not recognized in the consolidated statements of earnings until their eventual third party sale.

(s) Borrowing Costs

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

(t) Government Incentives

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

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

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

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

(u) Income Taxes

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

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

The Company uses the asset and liability method of accounting for income taxes. Accordingly, deferred tax assets and liabilities are recognized for the deferred tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years when those temporary differences are expected to be recovered or settled and in the manner in which those temporary differences are expected to be recovered or settled through sale or continued use. In addition, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in both net earnings and comprehensive income in the period in which the enactment or substantive enactment takes place.

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

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

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

(v) Accounting Standards Adopted During the Period

During the year ended December 31, 2018, the Company adopted certain standards and amendments. As required by IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, the nature and the effect of these changes are disclosed below:

Revenue Recognition

Beginning on January 1, 2018, the Company adopted IFRS 15 Revenue from Contracts with Customers using the modified retrospective approach where prior periods are not restated. IFRS 15 specifies the accounting treatment for all revenue arising from contracts with customers, unless the contracts are within the scope of other IFRS standards.

The impact of adopting IFRS 15 on the opening consolidated balance sheet is as follows:

		As at January 1, 2018
Inventories	**$**	**8,015**
Deferred tax asset	**$**	**780**
Other current liabilities	**$**	**11,070**
Retained earnings	**$**	**(2,275)**

IFRS 15 supersedes previous revenue recognition guidance including IAS 18 Revenue and related interpretations. This standard establishes a single comprehensive framework for revenue recognition based on a five-step model where the Company identifies the contract with a customer, identifies the performance obligation in the contract, determines the transaction price, allocates the transaction price to the performance obligation in the contract, and recognizes revenue when the Company satisfies the performance obligation. IFRS 15 also provides specific guidance around revenue-related items such as consideration payable to a customer and repurchase agreements.

The impact of IFRS 15 affected the classifications of certain amounts paid to customers in the statement of earnings, where payments to the customer for distinct goods or services have been classified as selling, general and administrative expenses and payments not for distinct goods or services have been classified as a component of sales.

The impact of adopting IFRS 15 on the consolidated statement of earnings for the twelve months ended December 31, 2018 is as follows:

	Twelve months ended December 31, 2018		
	Amounts without adoption of IFRS 15	**Impact of adopting IFRS 15**	**As reported on the consolidated financial statements**
Sales	$ 3,631,826	$ (136,307)	$ 3,495,519
Cost of goods sold	$ 3,077,289	$ (133,567)	$ 2,943,722
Gross margin	$ 554,537	$ (2,740)	$ 551,797
Selling, general and administrative expenses	$ 344,256	$ (2,764)	$ 341,492
Net earnings	$ 101,324	$ 24	$ 101,348

The impact of adopting IFRS 15 on the consolidated balance sheets as at December 31, 2018 is as follows:

	December 31, 2018		
	Amounts without adoption of IFRS 15	**Impact of adopting IFRS 15**	**As reported on the consolidated financial statements**
Inventories	$ 341,105	$ 7,796	$ 348,901
Deferred tax liability	$ 127,145	$ (780)	$ 126,365
Other current liabilities	$ 13,204	$ 10,827	$ 24,031
Retained earnings	$ 1,172,440	$ (2,251)	$ 1,170,189

IFRS 15 did not have a material impact on the consolidated statements of other comprehensive income (loss), the consolidated statements of changes in total equity, and the consolidated statements of cash flows.

Revenue recognized during the twelve months ended December 31, 2018 that was included in other current liabilities as at January 1, 2018 was $11.1 million.

Financial Instruments – Recognition and Measurement

Beginning on January 1, 2018, the Company adopted IFRS 9 Financial Instruments which replaces IAS 39 Financial Instruments: Recognition and Measurement and provides detailed guidance on classification and measurement of financial assets and liabilities, impairment of financial assets, and hedge accounting.

There was no material impact to the Company's consolidated financial statements with regards to the changes in IFRS 9 on the classification and measurement of financial assets and liabilities and hedge accounting.

For impairment, IFRS 9 applies an expected credit loss model where forward-looking information should be taken into account when estimating credit losses. Compared to IAS 39 where a credit loss is only recorded upon the occurrence of a loss event, such as customer bankruptcy or restructuring, IFRS 9 will generate a provision for credit losses upon the recording of the receivables. The Company recognized an allowance for credit losses of $1.9 million as a reduction to accounts receivable as at January 1, 2018. Retained earnings and deferred tax liabilities as at January 1, 2018 also decreased by $1.4 million and $0.5 million, respectively. Comparative periods were not restated.

Share-Based Payments

Beginning on January 1, 2018, the Company adopted amendments to IFRS 2 Share-Based Payments which provides clarification on how to account for certain types of share-based payment transactions. The adoption of the amendments to IFRS 2 did not have a material impact on the consolidated financial statements.

Foreign Currency Transactions and Advance Considerations

Beginning on January 1, 2018, the Company adopted IFRIC 22 Foreign Currency Transactions and Advance Consideration which requires that when a foreign currency transaction occurs, where consideration is received or paid in advance of the recognition of the related asset, expense, or income, the exchange rate used should be based on the exchange rate as at the date when the pre-payment asset or deferred liability is recognized. The adoption of IFRIC 22 did not have a material impact on the consolidated financial statements.

(w) Accounting Pronouncements Issued But Not Yet Effective

Leases

In January 2016, the IASB issued IFRS 16 Leases with a mandatory effective date of January 1, 2019. The new standard will replace IAS 17 Leases and will substantially carry forward the accounting requirements for lessors. IFRS 16 provides a new framework for lessee accounting that requires substantially all right of use assets obtained through operating leases to be capitalized and a related liability to be recorded. The new standard seeks to provide a more accurate picture of a company's leased assets and related liabilities and create greater comparability between companies who lease assets and those who purchase assets. The Company will adopt IFRS 16 in its consolidated financial statements for the annual period beginning January 1, 2019 and intends to transition using the modified retrospective approach.

The adoption of IFRS 16 will result in changes to property, equipment and vehicle lease contracts which were previously classified as operating leases under IAS 17. Upon adoption, lease obligations equal to the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate will be recognized. A right of use asset, representing the Company's right to use the underlying leased asset, will generally be equal to the lease obligation at adoption and subsequently depreciated. Operating lease expenses recognized in the consolidated statement of net earnings under IAS 17 will be replaced by depreciation of the right of use asset and interest expense on the lease obligation.

The Company has performed a review of its current leases, business processes and information systems and has implemented a lease management system to perform its day to day management and lease calculations. For the period beginning January 1, 2019, the implementation of IFRS 16 is expected to increase total assets by approximately $201.0 million, increase total liabilities by approximately $197.0 million, and increase opening retained earnings by approximately $4.0 million.

Uncertainty over Income Tax Treatments

In June 2017, the IASB issued IFRIC 23 Uncertainty over Income Tax Treatments with a mandatory effective date of January 1, 2019. The interpretations provide guidance on how to value uncertain income tax positions based on the probability of whether the relevant tax authorities will accept a company's tax treatments. A company is to assume that a taxation authority, with the right to examine any amounts reported to it, will examine those amounts and will have full knowledge of all relevant information when doing so. IFRIC 23 is to be applied by recognizing the cumulative effect of initially applying these guidelines in opening retained earnings without adjusting comparative information. For the period beginning January 1, 2019, the implementation of IFRIC 23 is expected to decrease opening retained earnings by approximately $1.0 million and increase total liabilities by approximately $1.0 million.

Long-term Interests in Associates and Joint Ventures

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

Annual Improvements to IFRS (2015-2017) Cycle

In December 2017, the IASB issued narrow-scope amendments to a total of four standards as part of its annual improvement process. Amendments were made to clarify that a company must remeasure its previously held interest in a joint operation when it obtains control of the business in accordance with IFRS 3 Business Combinations but does not remeasure when it obtains joint control of the business under IFRS 11 Joint Arrangements. The amendments also include clarification that, all income tax consequences of dividend payments should be recognized consistently with the transactions that generated the distributable profits, under IAS 12 Income Taxes and that under IAS 23 Borrowing Costs, any specific borrowing that remains outstanding after the related asset is ready for its intended use or sale becomes part of general borrowings. The Company intends to adopt these amendments prospectively in its consolidated financial statements for the annual period beginning January 1, 2019. The impact of the Annual Improvements to IFRS (2015-2017) Cycle is not expected to have a material impact on the consolidated financial statements.

Employee benefits (amendment)

In February 2018, the IASB issued amendments to IAS 19 Employee Benefits with a mandatory effective date of January 1, 2019. The amendment clarifies the effect of a plan amendment, curtailment and settlement on the requirements regarding the asset ceiling. In addition, if a plan amendment, curtailment or settlement occurs, it is mandatory under the amended standard that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement. This amendment is to be applied prospectively. The Company intends to adopt the amendments to IAS 19 in its consolidated financial statements for the annual period beginning January 1, 2019. The adoption of the amendments to IAS 19 are not expected to have a material impact on the consolidated financial statements.

Conceptual Framework

On March 29, 2018, the IASB issued its revised Conceptual Framework for Financial Reporting. The revised Conceptual Framework does not constitute a substantial revision from the previously effective guidance but does provide additional guidance on topics not previously covered such as presentation and disclosure. This amendment is effective on January 1, 2020. The Company intends to adopt this amendment in its consolidated financial statements for the annual period beginning January 1, 2020. The extent of the adoption of the revised Conceptual Framework for Financial Reporting has not yet been determined.

4. CASH AND CASH EQUIVALENTS

As at December 31, 2018 and 2017, the Company did not post any cash to collateralize its letters of credit.

5. ACCOUNTS RECEIVABLE

	As at December 31,	
	2018	2017
Trade receivables	**$ 109,945**	$ 90,862
Less: Allowance for doubtful accounts	**(1,305)**	(5)
Net trade receivables	**$ 108,640**	$ 90,857
Other receivables:		
Commodity taxes receivable	**11,394**	8,723
Government receivable	**15,753**	13,341
Other	**10,948**	11,047
	$ 146,735	$ 123,968

The aging of trade receivables is as follows:

	As at December 31,	
	2018	2017
Current	**$ 72,605**	$ 70,054
Past due 0-30 days	**29,830**	16,683
Past due 31-60 days	**2,677**	1,694
Past due > 60 days	**4,833**	2,431
	$ 109,945	$ 90,862

Trade receivables are impaired when there is objective evidence that the estimated future cash flows of the trade receivables are less than their contractual cash flows. The amount of impairment takes into account the financial condition of the customers, delinquencies in payments, collaterals and credit insurance coverage on the trade receivables.

The Company has sold certain of its trade accounts receivables under a securitization program as described in Note 23.

The Company's securitization program requires the sale of trade receivables to be treated as a sale from an accounting perspective and as a result, trade receivables sold under this program are derecognized from the consolidated balance sheets as at December 31, 2018 and 2017.

6. INVENTORIES

	As at December 31,	
	2018	2017
Raw materials	**$ 43,455**	$ 23,369
Work in process	**27,921**	18,517
Finished goods	**216,520**	180,843
Packaging	**15,017**	13,193
Spare parts	**45,988**	37,443
	$ 348,901	$ 273,365

For the year ended December 31, 2018, inventory in the amount of $2,656.5 million (2017: $2,723.1 million) was expensed through cost of goods sold.

7. BIOLOGICAL ASSETS

	Hog stock		**Poultry stock**		
	Commercial	**Parent**	**Commercial**	**Parent**	**Total**
Balance at December 31, 2017	**$ 84,587**	**$ 21,369**	**$ 4,400**	**$ 1,379**	**$ 111,735**
Additions and purchases	**307,876**	**4,734**	**56,890**	**3,526**	**373,026**
Depreciation	**—**	**(3,988)**	**—**	**(2,906)**	**(6,894)**
Change in fair value realized	**(5,863)**	**—**	**—**	**—**	**(5,863)**
Change in fair value unrealized	**(5,042)**	**—**	**—**	**—**	**(5,042)**
Further processing and sales	**(298,968)**	**—**	**(56,501)**	**—**	**(355,469)**
Balance at December 31, 2018	**$ 82,590**	**$ 22,115**	**$ 4,789**	**$ 1,999**	**$ 111,493**

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

Hog stock is comprised of approximately 0.8 million animals as at December 31, 2018 (2017: 0.8 million). During the years ended December 31, 2018 and 2017, substantially all hog stock was directly transferred to the Company's primary processing operations.

Poultry stock is comprised of approximately 8.9 million eggs and 0.2 million birds as at December 31, 2018 (2017: 8.8 million eggs and 0.2 million birds).

The change in fair value of commercial hog and poultry stock for the year was a loss of $10.9 million for the year ended December 31, 2018 (2017: gain of $1.3 million) recorded in cost of goods sold.

The fair value measures of commercial hog stock have been categorized as a Level 3 fair value based on inputs to the valuation techniques used. There were no transfers between levels for the year ended December 31, 2018.

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

The quality index adjustment is a value adjustment based on the relative quality of a processed hog based on the lean yield (being the ratio between muscle and fat content) and total weight. Quality adjustments range from 6.3% to 7.1%. A higher (lower) quality adjustment percentage will result in an increase (decrease) to the fair market value of the commercial hog stock.

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

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

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

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

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

8. PROPERTY AND EQUIPMENT

	Land	**Buildings**	**Machinery and equipment**	**Under construction**	**Total**
Cost	**$ 52,084**	**$ 946,792**	**$ 1,298,289**	**$ 130,055**	**$ 2,427,220**
Accumulated depreciation	**—**	**(306,799)**	**(836,752)**	**—**	**(1,143,551)**
Net balance, December 31, 2018	**$ 52,084**	**$ 639,993**	**$ 461,537**	**$ 130,055**	**$ 1,283,669**

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

The changes in net carrying amounts of property, plant and equipment during 2018 and 2017 were as follows:

	Land	Buildings	Machinery and equipment	Under construction	Total
Net balance, December 31, 2017	**$ 41,238**	**$ 560,557**	**$ 439,102**	**$ 75,412**	**$ 1,116,309**
Business combinations	**7,660**	**68,584**	**25,993**	**6,124**	**108,361**
Additions[(i)]	**—**	**—**	**—**	**173,546**	**173,546**
Transfers from under construction	**3,957**	**41,652**	**79,967**	**(125,576)**	**—**
Restructuring related write-downs	**—**	**(627)**	**(1,710)**	**—**	**(2,337)**
Depreciation	**—**	**(28,050)**	**(77,218)**	**—**	**(105,268)**
Foreign currency translation	**35**	**574**	**666**	**585**	**1,860**
Other[(ii)]	**(806)**	**(2,697)**	**(5,263)**	**(36)**	**(8,802)**
Net balance, December 31, 2018[(iii)]	**$ 52,084**	**$ 639,993**	**$ 461,537**	**$ 130,055**	**$ 1,283,669**

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

(i) *Includes finance lease additions of $7.7 million*

(ii) *Includes disposals, reclassifications and other adjustments*

(iii) *Includes finance leases of $3.2 million in buildings, $3.6 million in land and $13.2 million in machinery and equipment*

Borrowing Costs

For the years ended December 31, 2018 and 2017, there were no borrowing costs capitalized.

9. EMPLOYEE BENEFITS

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

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

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

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

	Other post-retirement benefits	**Pension**	**2018 Total**	Other post-retirement benefits	Pension	2017 Total
Accrued benefit obligation:						
Balance, beginning of year	**$ 54,286**	**$ 1,122,374**	**$ 1,176,660**	$ 54,504	$ 1,082,533	$ 1,137,037
Current service cost	**97**	**15,143**	**15,240**	83	12,049	12,132
Interest cost	**1,784**	**37,545**	**39,329**	1,949	39,205	41,154
Benefits paid from plan assets	**—**	**(69,495)**	**(69,495)**	—	(73,572)	(73,572)
Benefits paid directly from the Company	**(3,207)**	**(1,495)**	**(4,702)**	(3,418)	(1,531)	(4,949)
Actuarial (gains) losses - experience	**(598)**	**7,118**	**6,520**	(411)	16,795	16,384
Actuarial (gains) losses - financial assumptions	**(2,017)**	**(55,766)**	**(57,783)**	1,579	43,367	44,946
Employee contributions	**—**	**3,609**	**3,609**	—	3,528	3,528
Special termination benefits	**—**	**420**	**420**	—	—	—
Curtailments	**—**	**(1,550)**	**(1,550)**	—	—	—
Balance, end of year	**$ 50,345**	**$ 1,057,903**	**$ 1,108,248**	$ 54,286	$ 1,122,374	$ 1,176,660
Unfunded	**$ 50,345**	**$ 33,685**	**$ 84,030**	$ 54,286	$ 33,680	$ 87,966
Funded[(i)]	**—**	**1,024,218**	**1,024,218**	—	1,088,694	1,088,694
Total obligation	**$ 50,345**	**$ 1,057,903**	**$ 1,108,248**	$ 54,286	$ 1,122,374	$ 1,176,660
Plan Assets						
Fair value, beginning of year	**$ —**	**$ 1,070,480**	**$ 1,070,480**	$ —	$ 1,040,616	$ 1,040,616
Interest income	**—**	**35,428**	**35,428**	—	37,315	37,315
Actuarial gains (losses)[(ii)]	**—**	**(36,658)**	**(36,658)**	—	56,073	56,073
Employer contributions	**—**	**9,565**	**9,565**	—	8,809	8,809
Employee contributions	**—**	**3,609**	**3,609**	—	3,528	3,528
Benefits paid	**—**	**(69,495)**	**(69,495)**	—	(73,572)	(73,572)
Administrative costs	**—**	**(2,741)**	**(2,741)**	—	(2,289)	(2,289)
Fair value, end of year	**$ —**	**$ 1,010,188**	**$ 1,010,188**	$ —	$ 1,070,480	$ 1,070,480
Other	**$ —**	**$ (533)**	**$ (533)**	$ —	$ (1,772)	$ (1,772)
Accrued net benefit liability, end of year	**$ (50,345)**	**$ (48,248)**	**$ (98,593)**	$ (54,286)	$ (53,666)	$ (107,952)

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

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

Amounts recognized in the consolidated balance sheet consist of:

	As at December 31, 2018	2017
Employee benefit assets	**$ 5,389**	$ 9,856
Employee benefit liabilities	**103,982**	117,808
Accrued net benefit liability, end of year	**$ (98,593)**	$ (107,952)

Pension benefit expense recognized in net earnings:

	2018	2017
Current service cost - defined benefit	**$ 15,355**	$ 12,049
Current service cost - defined contribution and multi-employer plans	**15,459**	15,116
Net interest cost	**2,117**	1,890
Administrative costs	**2,741**	2,289
Special termination benefits[(i)]	**420**	—
Curtailments[(i)]	**(1,550)**	—
Net pension benefit expense	**$ 34,542**	$ 31,344

(i) *Included in restructuring and other related costs pertaining to announced closures of poultry plants - see note 12*

For the year ended December 31, 2018, the Company expensed salaries of $681.1 million (2017: $669.2 million), excluding pension and other post-retirement benefits.

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

	2018	2017
Actuarial gains (losses)	**$ 15,625**	$ (4,154)

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

	2018	2017
Weighted average discount rate	**3.80%**	3.40%
Rate of salary increase	**2.75%**	3.00%
Medical cost trend rates	**5.00%**	5.00%

Plan assets comprise of:

	As at December 31,	
	2018	2017
Equity securities	**45%**	50%
Debt securities	**50%**	48%
Other investments and cash	**5%**	2%
	100%	100%

As at December 31, 2018, all investments in the plan assets are at Level 2 on the fair value hierarchy.

Other post-retirement benefits expense:

	2018	2017
Current service cost	**$ 97**	$ 83
Interest cost	**1,784**	1,949
	$ 1,881	$ 2,032

Impact of changes in major assumptions:

				Increase (decrease) in defined benefit obligation		
Actuarial Assumption			**Sensitivity**	**Total pensions**	**Other post-retirement benefits**	**Total**
Period end discount rate	3.80%	0.25%	decrease	$ 33,572	$ 1,255	$ 34,827
		0.25%	increase	$ (32,523)	$ (1,224)	$ (33,747)
Rate of salary increase	2.75%	0.50%	increase	$ 2,052	N/A	$ 2,052
Mortality	110% of 2014 Private Sector Canadian Pensioners' Mortality Table, projected generationally using scale MI-2017		Increase of 1 year in expected lifetime of plan participants	$ 33,556	$ 1,712	$ 35,268

Measurement dates:	
2018 expense	December 31, 2017
Balance sheet	December 31, 2018

The average expected maturity of the pension obligations is 13.3 years (2017: 13.1 years).

The Company expects to contribute $33.2 million to pension plans in 2019, inclusive of defined contribution plans and multi-employer plans.

Governance and Risk Management

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

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

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

Multi-Employer Plan

The Company contributes to the Canadian Commercial Workers Industry Pension Plan which is a multi-employer defined benefit plan for employees who are members of the United Food and Commercial Workers Canada union. This is a large-scale plan for union workers of multiple companies across Canada. Adequate information to account for these contributions as a defined benefit plan in the Company's statements is not available due to the size and number of contributing employers in the plan. Included in pension benefit expense is $0.7 million (2017: $0.7 million) related to payments into this plan. The Company expects to contribute $0.7 million into this plan in 2019.

10. GOODWILL

The net carrying value for goodwill was $647.7 million as at December 31, 2018 (2017: $517.4 million). There were no impairment losses recorded for the years ended December 31, 2018 and 2017.

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

	As at December 31,	
CGU Group	**2018**	2017
Meat Products	**$ 452,525**	$ 428,236
Alternative Protein	**195,196**	89,151
	$ 647,721	$ 517,387

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

- Cash flows were projected based on the Company's long-term business plan. Cash flows for a further perpetual period were extrapolated using growth rates ranging from 1.8% to 3.0% (2017: 1.5% to 7.5%).
- The business plan contains forecasts based on past experience of actual operating results in conjunction with anticipated future growth opportunities. While the forecast does assume some base business expansion, largely related to innovation, the primary engine of growth is strategic in nature and is consistent with the projects and expectations as articulated in the Company's strategic plan.
- Discount rates applied in determining the recoverable amount of the CGU groups were ranging from 8.3% to 11.4% (2017: 7.9% to 11.6%). The discount rates were estimated based on past experience and the weighted average cost of capital of each CGU group and other competitors in the industry.

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

The change in the carrying amount of goodwill during 2018 and 2017 was as follows:

	2018	2017
Net balance, beginning of year	**$ 517,387**	$ 428,236
Business combinations	**111,121**	95,639
Foreign currency translation	**19,213**	(6,488)
Net balance, end of year	**$ 647,721**	$ 517,387

11. INTANGIBLE ASSETS

	As at December 31,	
	2018	2017
Definite life	**$ 228,021**	$ 123,261
Indefinite life	**201,395**	91,936
Total intangible assets	**$ 429,416**	$ 215,197

	Definite life				
	Software in use	**Software in process**	**Recipes**	**Customer relationships**	**Total**
Cost	**$ 120,611**	**$ 18,144**	**$ 34,838**	**$ 144,388**	**$ 317,981**
Accumulated amortization	**(78,996)**	**—**	**(4,027)**	**(6,937)**	**(89,960)**
Net balance, December 31, 2018	**$ 41,615**	**$ 18,144**	**$ 30,811**	**$ 137,451**	**$ 228,021**

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

The changes in net carrying amounts of definite life intangibles during 2018 and 2017 were as follows:

	Software in use	**Software in process**	**Recipes**	**Customer relationships**	**Total**
Net balance, December 31, 2017	**$ 47,676**	**$ 9,998**	**$ 7,787**	**$ 57,800**	**$ 123,261**
Business combinations	**1,512**	**—**	**23,805**	**79,404**	**104,721**
Additions	**—**	**13,999**	**—**	**—**	**13,999**
Transfers	**5,607**	**(5,607)**	**—**	**—**	**—**
Amortization	**(13,401)**	**—**	**(2,672)**	**(4,695)**	**(20,768)**
Foreign currency translation	**221**	**(246)**	**1,891**	**4,942**	**6,808**
Net balance, December 31, 2018	**$ 41,615**	**$ 18,144**	**$ 30,811**	**$ 137,451**	**$ 228,021**

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

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

Amortization

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

Borrowing Costs

For the years ended December 31, 2018 and 2017, there were no borrowing costs capitalized.

Indefinite Life Intangibles

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

The changes in net carrying amounts of indefinite life intangibles during 2018 and 2017 were as follows:

	Indefinite life		
	Trademarks	**Quota**	**Total**
Net balance, December 31, 2017	**$ 71,783**	**$ 20,153**	**$ 91,936**
Business Combinations	**43,469**	**31,910**	**75,379**
Additions[(i)]	**—**	**28,830**	**28,830**
Foreign Currency Translation	**5,250**	**—**	**5,250**
Net balance, December 31, 2018[(i)]	**$ 120,502**	**$ 80,893**	**$ 201,395**

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

(i) *The net balance, December 31, 2018 includes finance leases of $28.8 million of quota which were added through additions during the year.*

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

	As at December 31,	
CGU Group	**2018**	2017
Meat Products	**$ 96,013**	$ 66,853
Alternative Protein	**105,382**	25,083
	$ 201,395	$ 91,936

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

Trademarks

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

	2018	2017
Royalty rate range	**1.5 - 3.0%**	1.5 - 3.0%
Growth rate	**1.5 - 3.0%**	1.5 - 3.0%
Discount rate	**8.3 - 11.4%**	10.0 - 13.0%

Quotas

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

12. PROVISIONS

				Restructuring and related provisions		
	Legal	**Environ-mental**	**Lease make-good**	**Severance and other employee related costs**	**Site closing and other cash costs**	**Total**
Balance at December 31, 2017	**$ 289**	**$ 4,833**	**$ 2,228**	**$ 10,379**	**$ 2,879**	**$ 20,608**
Charges	**—**	**—**	**—**	**46,119**	**2,258**	**48,377**
Reversals	**—**	**—**	**(390)**	**(2,726)**	**(86)**	**(3,202)**
Cash payments	**—**	**(71)**	**(28)**	**(9,952)**	**(2,476)**	**(12,527)**
Non-cash items	**—**	**—**	**—**	**—**	**96**	**96**
Balance at December 31, 2018	**$ 289**	**$ 4,762**	**$ 1,810**	**$ 43,820**	**$ 2,671**	**$ 53,352**
Current						**$ 3,457**
Non-current						**49,895**
Total at December 31, 2018						**$ 53,352**

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

Restructuring and Other Related Costs

For the year ended December 31, 2018, the Company recorded restructuring and other related costs of $46.2 million. Of this amount, $40.7 million related to accelerated depreciation and severance and other employee costs as a result of the announced closure of the poultry plants in St. Marys, Brampton, and Toronto, $2.4 million related to costs as a result of the St. Anselme plant closure, and $2.4 million related to costs as a result of the Thamesford turkey processing plant closure. The remaining $0.7 million related to other previously announced organizational restructuring initiatives.

For the year ended December 31, 2017, the Company recorded restructuring and other related costs of $23.0 million. These costs were related primarily to the announced closure of the Thamesford turkey facility and the St. Anselme pastry facility.

13. LONG-TERM DEBT

	As at December 31,	
	2018	2017
Current portion of long-term debt	**$ 80,897**	$ 805
Long-term debt	**302,524**	8,443
Long-term debt	**$ 383,421**	$ 9,248

On November 7, 2018, the Company entered into a new one year $250.0 million unsecured committed revolving credit facility with a Canadian institution. This unsecured facility can be drawn in Canadian or U.S. dollars and bears interest payable monthly, based on Banker's Acceptance and Prime rates for Canadian dollar loans and LIBOR for U.S. dollar loans. The facility, together with the $400.0 million facility below, is intended to meet the Company's funding requirements for general purposes, corporate development activities, and to provide appropriate levels of liquidity. As at December 31, 2018, the Company had drawn $80.0 million on this new facility.

On October 19, 2017, the Company amended its existing $400.0 million unsecured committed revolving credit facility by extending the maturity of the facility to October 19, 2021, under similar terms and conditions using the same syndicate of Canadian, U.S., and international institutions. This unsecured facility can be drawn in Canadian or U.S. dollars and bears interest payable monthly, based on Banker's Acceptance and Prime rates for Canadian dollar loans and LIBOR for U.S. dollar loans. The facility, together with the $250.0 million facility above, is intended to meet the Company's funding requirements for general purposes, corporate development activities, and to provide appropriate levels of liquidity. As at December 31, 2018, the Company had drawn $216.0 million in U.S. dollars (CDN$294.8 million) and letters of credit of $6.3 million (2017: $6.4 million) on this existing facility.

The revolving credit facilities require the maintenance of certain covenants. As at December 31, 2018, the Company was in compliance with all of these covenants.

The Company has additional uncommitted credit facilities for issuing up to a maximum of $125.0 million (2017: $120.0 million) letters of credit. As at December 31, 2018, $72.2 million of letters of credit had been issued thereon (2017: $67.8 million).

The Company has various government loans on specific projects, with interest rates ranging from non-interest bearing to 2.9% per annum (2017: 2.9%). These facilities are repayable over various terms from 2022 to 2024. As at December 31, 2018, $8.6 million (2017: $9.2 million) was outstanding. All of these facilities are committed.

The Company’s estimated average effective cost of borrowing for 2018 was approximately 4.4%, which excludes any impact of interest rate hedges (2017: 4.6%). Required repayments of long-term debt are as follows:

2019	$ 81,130
2020	1,083
2021	295,858
2022	5,091
2023	556
Thereafter	370
Total long-term debt	**$ 384,088**

The following table reconciles the changes in cash flows from financing activities for long-term debt:

	2018	2017
Total long-term debt, beginning of period	**$ 9,248**	$ 9,913
Revolving credit facilities - net issuances	358,978	—
Government loans - repayments	(1,037)	(1,083)
Total cash flow from long-term debt financing activities	**$ 357,941**	$ (1,083)
Foreign exchange revaluation	15,797	—
Other non-cash changes	435	418
Total long-term debt, end of period	**$ 383,421**	$ 9,248

14. OTHER CURRENT LIABILITIES

		As at December 31,	
	Notes	**2018**	2017
Derivative instruments	***17***	**$ 7,661**	$ 6,039
Obligation for repurchase of shares	***16***	**—**	24,531
Contract liabilities		**10,827**	—
Other		**5,543**	1,027
		$ 24,031	$ 31,597

15. OTHER LONG-TERM LIABILITIES

	As at December 31,	
	2018	2017
Step rent and lease inducements	**$ 8,369**	$ 8,559
Finance leases	**43,791**	3,017
Other	**1,404**	1,113
	$ 53,564	$ 12,689

16. SHARE CAPITAL

	Common Shares		Treasury Stock	
(Thousands of shares)	**2018**	2017	**2018**	2017
Balance, beginning of year	**126,489**	132,085	**832**	540
Distributions under share-based compensation plans	**326**	551	**(326)**	(551)
Exercise of share options	**1,338**	436	**—**	—
Shares repurchased	**(5,258)**	(5,740)	**—**	—
Purchase of treasury stock	**(418)**	(843)	**418**	843
Issuance of shares for acquisition (Note 27)	**971**	—	**—**	—
Balance, end of year	**123,448**	126,489	**924**	832

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 they are entitled to one vote per share at meetings of the Company.

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

Treasury Stock

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

Share Repurchase

On May 22, 2018, the Toronto Stock Exchange ("TSX") accepted the Company's notice of intention to commence a Normal Course Issuer Bid ("NCIB"), which allows the Company to repurchase, at its discretion, up to 7.8 million common shares in the open market or as otherwise permitted by the TSX, subject to the normal terms and limitations of such bids. Common shares purchased by the Company are cancelled. The program commenced on May 24, 2018 and will terminate on May 23, 2019, or on such earlier date as the Company completes its purchases pursuant to the notice of intention. Under this bid, during the year ended December 31, 2018, 4.0 million shares were purchased for cancellation for $126.6 million at a volume weighted average price paid of $31.82 per common share.

On May 17, 2017, the TSX accepted the Company's notice of intention to commence a NCIB, which allowed the Company to repurchase, at its discretion, up to 8.2 million common shares in the open market or as otherwise permitted by the TSX, subject to the normal terms and limitations of such bids. Common shares purchased by the Company were cancelled. The program commenced on May 23, 2017 and was terminated on May 22, 2018 as the Company completed its purchase and cancellation of 3.6 million common shares for $117.3 million at a volume weighted average price of $32.51 per common share. Under this bid, during the year ended December 31, 2018, 1.3 million shares (2017: 2.3 million) were purchased for cancellation for $39.9 million (2017: $77.4 million) at a volume weighted average price paid of $31.17 (2017: $33.25) per common share.

On May 16, 2016, the TSX accepted the Company's notice of intention to commence a NCIB, which allowed the Company to repurchase, at its discretion, up to 8.7 million common shares in the open market or as otherwise permitted by the TSX, subject to the normal terms and limitations of such bids. Common shares purchased by the Company were cancelled. The program commenced on May 19, 2016 and was terminated on May 18, 2017 as the Company completed its purchase and cancellation of 5.5 million common shares for $163.1 million at a volume weighted average price of $29.57 per common share. Under this bid, during the year ended December 31, 2017, 3.4 million shares were purchased for cancellation for $102.6 million at a volume weighted average price paid of $30.09 per common share.

The Company entered into an Automatic Share Purchase Plan ("ASPP") with a broker that allows the purchase of common shares for cancellation under the NCIB at any time during predetermined trading blackout periods. The Company amended the ASPP agreement on December 3, 2018 whereby the maximum number of shares repurchased had been met under the ASPP. As at December 31, 2018, an obligation for the repurchase of shares of $0.0 million (2017: $24.5 million) was recognized under the ASPP.

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT ACTIVITIES

Capital

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

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

The Company’s revolving credit facilities are subject to certain financial covenants. As at December 31, 2018, the Company was in compliance with all of these covenants.

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

The Company has maintained a stable dividend distribution that is based on a long-term sustainable net earnings base. From time to time, the Company has purchased shares for cancellation pursuant to normal course issuer bids and to satisfy awards under its Restricted Share Unit Plan described in Note 22.

There have been no material changes to the Company’s risk management activities during the year ended December 31, 2018.

Financial Instruments

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

Cash and cash equivalents	FVTPL
Accounts receivable	Amortized cost
Notes receivable	Amortized cost
Accounts payable and accruals	Amortized cost
Long-term debt	Amortized cost
Derivative instruments(i)	FVTPL

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

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

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

	2018			2017		
	Notional amount(i)	**Fair value Asset(ii)**	**Fair value Liability(ii)**	Notional amount(i)	Fair value Asset(ii)	Fair value Liability(ii)
Cash flow hedges						
Foreign exchange contracts(iii)	**$ 63,204**	**$ 130**	**$ 2,271**	$ 340,505	$ 4,281	$ 1,813
Fair value hedges(iv)						
Foreign exchange contracts(iii)	**$ 58,156**	**$ —**	**$ 1,837**	$ —	$ —	$ —
Commodity contracts(iii)	**$ 59,570**	**2,148**	**—**	$ 44,822	—	1,589
Derivatives not designated in a formal hedging relationship						
Foreign exchange contracts(iii)	**$ 126,719**	**$ 3,472**	**$ 483**	$ 136,546	$ 654	$ 989
Commodity contracts(iii)	**$ 135,941**	**2,805**	**3,070**	$ 371,157	—	1,648
Total fair value		**$ 8,555**	**$ 7,661**		$ 4,935	$ 6,039
Current(ii), (v)		**$ 8,555**	**$ 7,661**		$ 4,935	$ 6,039
Non-current(ii)		**—**	**—**		—	—
Total fair value		**$ 8,555**	**$ 7,661**		$ 4,935	$ 6,039

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

(ii) *The current portion of derivative assets and liabilities are recorded in other current assets and other current liabilities, respectively, in the consolidated balance sheets. The long-term portion of derivative assets and liabilities are recorded in other long-term assets and other long-term liabilities, respectively, in the consolidated balance sheets.*

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

(iv) *The carrying amount of the hedged items in the consolidated balance sheets are recorded at the inverse of the associated hedging instruments and are equal to the accumulated fair value hedge adjustments less hedge ineffectiveness.*

(v) *As at December 31, 2018, the above fair value of current assets has been decreased on the consolidated balance sheet by an amount of $1.1 million (2017: increased by $9.8 million), which represents the excess or deficit of the fair market value of exchange traded commodities contracts over the initial margin requirements. The excess or deficit in maintenance margin requirements with the futures exchange is net settled in cash each day and is therefore presented as cash and cash equivalents.*

The Company's financial assets and liabilities include accounts receivable, notes receivable, and accounts payable and accruals for which fair value approximates the carrying value due to their short-term nature.

The carrying value of long-term debt as at December 31, 2018 and 2017 approximates its fair value. The fair value of the Company's long-term debt has been classified as Level 2 in the fair value hierarchy and was estimated based on discounted future cash flows using current rates for similar financial instruments subject to similar risks and maturities.

The Company's cash and cash equivalents and derivative instruments are recorded at fair value. The fair value of cash and cash equivalents approximates carrying value due to the short-term nature of the assets and has been classified as Level 1 in the fair value hierarchy. The fair values of the Company's interest rate and foreign exchange derivative instruments were estimated using current market measures for interest rates and foreign exchange rates. Commodity futures and commodity options contracts are exchange-traded and over-the-counter. Fair value is determined based on exchange prices and other observable market data.

Net gains and losses on financial instruments recognized at fair value through profit or loss consist of realized and unrealized gains and losses on derivatives that were de-designated or were otherwise not in a formal hedging relationship.

For the year ended December 31, 2018, the Company recorded a gain of $10.6 million (2017: gain of $18.6 million) on financial instruments recognized at fair value through profit or loss. The gain was mainly attributed to a gain in commodity exchange traded contracts which economically hedge and offset price risk volatility inherent in the hog operational business.

The table below sets out fair value measurements of financial instruments as at December 31, 2018 using the fair value hierarchy:

	Level 1	Level 2	Level 3	Total
Assets:				
Foreign exchange contracts	$ —	$ 3,602	$ —	$ 3,602
Commodity contracts	4,953	—	—	4,953
	$ 4,953	**$ 3,602**	**$ —**	**$ 8,555**
Liabilities:				
Foreign exchange contracts	$ —	$ 4,591	$ —	$ 4,591
Commodity contracts	—	3,070	—	3,070
	$ —	**$ 7,661**	**$ —**	**$ 7,661**

There were no transfers between levels for the year ended December 31, 2018. Determination of fair value and the resulting hierarchy requires the use of observable market data whenever available. The classification of a financial instrument in the hierarchy is based upon the lowest level of input that is significant to the measurement of fair value. For financial instruments that are recognized at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization at the end of each reporting period.

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

Credit Risk

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

In the normal course of business, the Company is exposed to credit risk from its customers, substantially all of which are in the retail, food service, industrial, and convenience channels. The Company performs ongoing credit evaluations of new and existing customers' financial condition and reviews the collectability of its trade accounts receivable and other receivables in order to mitigate any possible credit losses. The Company records a loss allowance of expected credit losses for financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance at an amount equal to the lifetime expected credit losses if the credit risk on its financial assets has increased significantly since initial recognition. If credit risk has not significantly increased since initial recognition, the Company measures the loss allowance at an amount equal to the 12-month expected credit losses. Average accounts receivable days sales outstanding for the year is consistent with historic trends.

Management believes concentrations of credit risk with respect to accounts receivable is limited due to the generally high credit quality of the Company's major customers, the large number and geographic dispersion of smaller customers, and the operation of the accounts receivable securitization facility as described in Note 23. The Company does, however, conduct a significant amount of business with a small number of large grocery retailers. The Company's two largest customers as at December 31, 2018 comprise approximately 22.8% (2017: two largest customers representing 22.3%) of total sales.

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

Liquidity risk

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

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

	December 31, 2018				
	Due within 1 year	**Due between 1 and 3 years**	**Due between 4 and 5 years**	**Due after 5 years**	**Total**
Financial liabilities					
Accounts payable and accruals	$ 343,872	$ —	$ —	$ —	$ 343,872
Debt	81,130	296,941	5,647	370	384,088
Foreign exchange contracts	4,591	—	—	—	4,591
Commodity futures contracts	3,070	—	—	—	3,070
Other liabilities	15,000	5,409	1,676	1,200	23,285
Total	**$ 447,663**	**$ 302,350**	**$ 7,323**	**$ 1,570**	**$ 758,906**

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, 2018, the Company had available undrawn committed credit of $268.9 million (2017: $393.6 million) under the terms of its principal banking arrangements (Note 13). These banking arrangements are subject to certain covenants and other restrictions.

Market Risk

Interest Rate Risk

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

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

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

As at December 31, 2018, the Company had variable-rate debt of $374.8 million with a weighted average interest rate of 3.8% (2017: the Company had no variable-rate debt) . In addition, the Company was exposed to floating interest rates on its accounts receivable securitization program. As at December 31, 2018, the amount serviced pursuant to this program was $110.0 million at a weighted average interest rate of 2.0% (2017: $110.0 million at a weighted average interest rate of 1.4%). The maximum amount available to the Company under these programs is $110.0 million (2017: $110.0 million).

As at December 31, 2018, 1.8% (2017: 7.8%) of the Company's outstanding debt and revolving accounts receivable securitization program were not exposed to interest rate movements.

As at December 31, 2018, the Company had fixed-rate debt of $8.6 million (2017: $9.2 million) with a weighted average effective interest rate of 4.7% (2017: 4.4%). Changes in market interest rates cause the fair value of long-term debt with fixed interest rates to fluctuate but do not affect net earnings, as the Company's debt is carried at amortized cost and the carrying value does not change as interest rates change.

Foreign Exchange Risk

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

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

The Company uses foreign exchange forward contracts to manage foreign exchange transaction exposures. The primary currencies to which the Company is exposed to are the U.S. dollar and the Japanese yen. The Company uses forward contracts which are accounted for as fair value hedges to minimize the price risk assumed under forward priced contracts with suppliers. The Company also uses forward contracts which are accounted for as cash flow hedges as well as non-designated derivative instruments to minimize the price risk of anticipated transactions.

The critical terms of foreign exchange forward contracts and the associated hedged items are similar. The Company performs a quantitative assessment of the effectiveness, and it is expected that the value of the forward contracts and the value of the corresponding hedged items will systematically change in opposite direction in response to movements in the underlying exchange rates. The main source of hedge ineffectiveness in these hedging relationships is the effect of the counterparty and the Company's own credit risk on the fair value of the foreign exchange contracts, which is not reflected in the fair value of the hedged item attributable to changes in foreign exchange rates. Other sources of ineffectiveness include differences in the underlying terms of the foreign exchange contracts and the hedged items.

The Company's designated foreign exchange forward contracts mature within one year. The average exchange rate of the Company's U.S. dollar denominated contracts is 1.32 (2017: 1.25). The average exchange rate of the Company's Japanese yen denominated contracts is 85.48 (2017: 88.66).

As at December 31, 2018, the Company had US$216.0 million (2017: US$0.0 million) drawn on its revolving credit facility (see Note 13) and designated as a net investment hedge of its U.S. operations. Foreign exchange gains and losses on the designated drawings are recorded in shareholder's equity in the foreign currency translation adjustment component of accumulated other comprehensive income (loss) 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 loss on the net investment hedge recorded in other comprehensive income (loss) for the year ended December 31, 2018 was $13.3 million, net of tax of $2.5 million (2017: $0.0 million, net of tax of $0.0 million).

The critical terms of the U.S. denominated drawings and the associated hedged items are the same. The Company performs a qualitative assessment of the effectiveness, and it is expected that the value of the U.S. denominated drawings and the value of the corresponding hedged items will systematically change in opposite direction in response to movements in the underlying exchange rates. There are no sources of hedge ineffectiveness.

The change in fair values of foreign exchange hedges used as the basis for recognizing ineffectiveness for the year ended December 31, 2018 and 2017 were as follows:

	2018		2017	
	Hedging instruments	**Hedged items**	Hedging instruments	Hedged items
Fair value hedges	**$ (1,837)**	**$ 1,822**	$ —	$ —
Cash flow hedges	**$ (2,141)**	**$ 2,122**	$ 2,468	$ (2,436)
Net investment in foreign operation	**$ (15,797)**	**$ 15,797**	$ —	$ —

Amounts recognized in the consolidated statements of other comprehensive income (loss) as at December 31 consist of:

	2018		2017	
Cash flow hedges	**Continuing hedges**	**Discontinued hedges**	Continuing hedges	Discontinued hedges
Balance, beginning of year	**$ 2,436**	**$ —**	$ (672)	**$ —**
Foreign exchange contracts	**(4,558)**	**(3,931)**	3,108	—
Balance, end of year	**$ (2,122)**	**$ (3,931)**	$ 2,436	$ —

	2018		2017	
Net investment in foreign operation	**Continuing hedges**	**Discontinued hedges**	Continuing hedges	Discontinued hedges
Balance, beginning of year	**$ —**	**$ —**	$ —	$ —
U.S. denominated drawings	**(15,797)**	**—**	—	—
Balance, end of year	**$ (15,797)**	**$ —**	$ —	$ —

Gains (losses) related to the Company's designated derivative financial instruments recorded in the consolidated statements of net earnings as at December 31 were as follows:

	2018		2017	
	Effective portion(i),(ii)	**Ineffective portion(i)**	Effective portion(i), (ii)	Ineffective portion (i)
Cash flow hedges				
Foreign exchange contracts	**$ —**	**$ (52)**	$ —	$ 110
Fair value hedges				
Foreign exchange contracts	**$ (1,822)**	**$ (15)**	$ —	$ —

(i) *Gains (losses) are recorded in cost of goods sold in the consolidated statements of net earnings*

(ii) *The effective portion in earnings for cash flow hedges represents the accumulated other comprehensive income (loss) released to the consolidated statements of net earnings*

It is estimated that, all else constant, an adverse hypothetical 10.0% change in the value of the Canadian dollar against all relevant currencies would result in a decrease in the fair value of the Company's foreign exchange forward contracts of $7.7 million, with a decrease in earnings before taxes of $1.8 million and a decrease in other comprehensive income (loss) of $5.9 million.

Commodity Price Risk

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

The Company uses futures which are accounted for as fair value hedges as well as non-designated derivative instruments to minimize the price risk assumed under forward priced contracts with suppliers. The Company also uses futures which are accounted for as cash flow hedges as well as non-designated derivative instruments to minimize the price risk of anticipated transactions. The Company does not use component hedging as part of its commodity price risk management.

The critical terms of the futures contracts and the associated hedged items are similar. The Company performs a quantitative assessment of the effectiveness, and it is expected that the value of the futures contracts and the value of the corresponding hedged items will systematically change in opposite direction in response to movements in the underlying commodity prices. Hedge ineffectiveness in these hedging relationships is due to timing differences in the term of the futures contracts and the hedged items.

The Company's designated commodity futures contracts mature within one year. The Company did not have any futures contracts designated as cash flow hedging derivatives as at December 31, 2018 and 2017. The outstanding designated commodity futures contracts as at December 31 were as follows:

	2018		2017	
	Average Price	**Volume (000's cwt)**	Average Price	Volume (000's cwt)
Fair value hedges				
Hog contracts	**$ 74.34**	**600**	$ 73.00	500

The change in fair values used as the basis for recognizing ineffectiveness as at December 31 were as follows:

	2018		2017	
	Hedging instruments	**Hedged items**	Hedging instruments	Hedged items
Fair value hedges	**$ 2,148**	**$ (2,148)**	$ (1,589)	$ 1,589

Gains (losses) related to the Company's designated derivative financial instruments as at December 31 were as follows:

	2018		2017	
	Effective portion(i),(ii)	**Ineffective portion(i)**	Effective portion(i),(ii)	Ineffective portion(i)
Fair value hedges				
Commodity contracts	**$ 3,737**	**$ —**	$ (742)	**$ —**

(i) *Gains (losses) are recorded in cost of goods sold in the consolidated statements of net earnings*

(ii) *The effective portion in earnings for cash flow hedges represents the accumulated other comprehensive income (loss) released to the consolidated statements of net earnings*

It is estimated that, all else constant, an adverse hypothetical 10.0% change in market prices of the underlying commodities would result in a decrease in the fair value of underlying outstanding derivative contracts of $9.5 million, with a decrease in earnings before taxes of $9.5 million and $0.0 million in other comprehensive income (loss). The earnings before taxes excludes the offsetting impact of the commodity price risk inherent in the transactions being hedged.

Accumulated other comprehensive income (loss)

The Company estimates that $1.6 million, net of tax of $0.6 million, of the unrealized loss included in accumulated other comprehensive income (loss) will be reclassified into net earnings within the next 12 months. The actual amount of this reclassification will be impacted by future changes in the fair value of financial instruments designated as cash flow hedges. The actual amount reclassified could differ from this estimated amount.

During the year ended December 31, 2018, a gain of $0.0 million, net of tax of $0.0 million, was released to earnings from accumulated other comprehensive income (loss) and included in the net change for the year (2017: gain of $9.4 million, net of tax of $3.3 million).

18. OTHER INCOME (EXPENSE)

	2018	2017
Loss on disposal of property and equipment	**$ (5,623)**	$ (4,362)
Gain on sale of investment properties	**1,250**	9,780
Recovery from insurance claims	**7,292**	5,000
Net investment property expense	**(661)**	(1,097)
Interest income	**265**	1,300
Transaction costs on acquisitions	**(13,597)**	(7,619)
Other	**(1,900)**	607
	$ (12,974)	$ 3,609

19. INTEREST EXPENSE AND OTHER FINANCING COSTS

	2018	2017
Interest on Bankers' Acceptances, Prime and Libor loans	**$ 3,980**	$ —
Interest expense on securitized receivables	**2,467**	1,596
Interest expense on long-term debt	**435**	418
Deferred finance charges	**1,149**	1,197
Other interest charges	**2,009**	1,957
	$ 10,040	$ 5,168

20. INCOME TAXES

The components of income tax expense were as follows:

	2018	2017
Current tax expense		
Current year	**$ 29,700**	$ 9,272
	$ 29,700	$ 9,272
Deferred tax expense		
Origination and reversal of temporary differences	**$ 10,055**	$ 47,713
Change in tax rates	**—**	(6,793)
	$ 10,055	$ 40,920
Total income tax expense	**$ 39,755**	$ 50,192

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:

	2018	2017
Income tax expense according to combined statutory rate of 26.8% (2017: 26.8%)	**$ 37,813**	$ 57,430
Increase (decrease) in income tax resulting from:		
Deferred tax (recovery) expense relating to changes in U.S. tax rates	**—**	(6,793)
Tax rate differences in other jurisdictions	**(314)**	531
Manufacturing and processing credit	**(927)**	(1,459)
Share-based compensation	**998**	1,015
Non-deductible expenses and transaction costs	**2,926**	343
Unrecognized income tax benefit of losses	**113**	138
Adjustment for favorable tax audit resolution	**(1,177)**	(697)
Other	**323**	(316)
	$ 39,755	$ 50,192

Income Tax Recognized in Other Comprehensive Income (Loss)

	2018	2017
Derivative instruments	**$ (4,165)**	$ 811
Pension adjustments	**3,728**	(1,037)
	$ (437)	$ (226)

Deferred Tax Assets and Liabilities

Recognized Deferred Tax Asset and Liabilities

The Company has recognized deferred tax assets in the amount of approximately $67.9 million (2017: $61.5 million), relating primarily to future deductions for employee benefits, tax losses and deductions carried forward, and restructuring expenses. These deferred tax assets are recorded based on the Company's estimate that it will earn sufficient taxable profits to fully utilize its tax losses in the appropriate carry over periods.

The Company has recognized deferred tax liabilities in the amount of approximately $184.0 million (2017: $142.0 million), relating primarily to claims for tax depreciation in excess of accumulated book depreciation, cash basis farming adjustments, and the excess of book value over the tax cost of intangible assets.

	As at December 31,	
	2018	2017
Deferred tax assets:		
Tax losses and deductions carried forward	**$ 15,973**	$ 18,295
Accrued liabilities	**13,370**	4,916
Employee benefits	**31,121**	36,168
Other	**7,485**	2,122
	$ 67,949	$ 61,501
Deferred tax liabilities:		
Property and equipment	**$ 110,418**	$ 83,344
Cash basis farming	**23,732**	26,123
Goodwill and other intangible assets	**49,864**	32,532
	$ 184,014	$ 141,999
Classified in the consolidated financial statements as:		
Deferred tax asset	**$ —**	$ —
Deferred tax liability	**116,065**	80,498

Unrecognized Deferred Tax Assets

The Company has no unrecognized deferred tax assets as at December 31, 2018 and 2017.

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, 2018 for the Company's subsidiaries was $303.0 million (2017: $124.4 million).

21. EARNINGS PER SHARE

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

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

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

	2018			2017		
Years ended December 31,	**Net earnings**	**Weighted average number of shares**[(ii)]	**EPS**	Net earnings	Weighted average number of shares[(ii)]	EPS
Basic	**$ 101,348**	**125.0**	**$ 0.81**	$ 164,089	128.6	$ 1.28
Stock options[(i)]		**2.5**			3.8	
Diluted	**$ 101,348**	**127.5**	**$ 0.79**	$ 164,089	132.4	$ 1.24

(i) *Excludes the effect of approximately 1.4 million (2017: 0.0 million) options and performance shares that are anti-dilutive.*

(ii) *In millions.*

22. SHARE-BASED PAYMENT

Under the Maple Leaf Foods Share Option Plan in effect as at December 31, 2018, the Company may grant options to its employees and employees of its subsidiaries to purchase shares of common stock. Under the Maple Leaf Foods Restricted Share Unit Plan (adopted in 2006) ("the 2006 Plan") in effect as at December 31, 2018, the Company may grant RSUs and PSUs to its employees and employees of its subsidiaries entitling employees to receive common shares or cash at the Company’s option. Options, RSUs, and PSUs are granted from time to time by the Human Resources and Compensation

Committee or by the Board of Directors on the recommendation of the Human Resources and Compensation Committee. The vesting conditions for options, RSUs, and PSUs are specified by the Board of Directors and may include the continued service of the employee with the Company and/or other criteria based on measures of the Company's performance.

Under the Company's Share Purchase and Deferred Share Unit Plans ("DSU Plans"), eligible Directors may elect to receive their retainer and fees in the form of 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, 2018 and 2017, and changes during these years are presented below:

	2018		2017	
	Options outstanding	**Weighted average exercise price**	Options outstanding	Weighted average exercise price
Outstanding, beginning of year	**4,556,400**	**$ 20.23**	4,260,000	$ 17.73
Granted	**757,500**	**32.45**	782,200	30.98
Exercised	**(1,337,600)**	**11.84**	(435,800)	13.61
Forfeited	**—**	**—**	(50,000)	32.75
Outstanding, end of year	**3,976,300**	**$ 25.38**	4,556,400	$ 20.23
Options currently exercisable	**2,450,300**	**$ 22.44**	3,019,200	$ 17.05

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

The number of options outstanding as at December 31, 2018, is as follows:

	Options outstanding			**Options currently exercisable**		**Options subject to time vesting only**	
Range of exercise prices	**Number outstanding**	**Weighted average exercise price**	**Weighted average remaining term of options (in years)**	**Number exercisable**	**Weighted average exercise price**	**Number outstanding**	**Weighted average exercise price**
$20.28 to $22.53	2,486,600	$21.62	3.3	2,206,200	$21.50	280,400	$22.53
$30.86 to $30.86	732,200	30.86	5.2	244,100	30.86	488,100	30.86
$31.57 to $32.50	757,500	32.45	6.2	—	—	757,500	32.45
Total Options	**3,976,300**	**$25.38**	**4.2**	**2,450,300**	**$22.44**	**1,526,000**	**$30.12**

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

	Options outstanding			Options currently exercisable		Options subject to time vesting only	
Range of exercise prices	Number outstanding	Weighted average exercise price	Weighted average remaining term of options (in years)	Number exercisable	Weighted average exercise price	Number outstanding	Weighted average exercise price
$11.36 to $11.85	1,308,500	$11.61	0.4	1,308,500	$11.61	—	$ —
$20.28 to $22.53	2,515,700	21.63	4.3	1,710,700	21.20	805,000	22.53
$30.86 to $30.86	732,200	30.86	6.2	—	—	732,200	30.86
Total Options	4,556,400	$20.23	3.5	3,019,200	$17.05	1,537,200	$22.03

At grant date, each option series is measured at fair value based on the Black-Scholes formula. Expected volatility is estimated by considering historic average share price volatility. The inputs used in this model for the options granted during the years ended December 31, 2018 and 2017 are shown in the table below[(i)]:

	2018	2017
Share price at grant date	**$32.13**	$31.50
Exercise price	**$32.45**	$30.98
Expected volatility	**21.43%**	23.32%
Option life (in years)[(ii)]	**4.5**	4.5
Expected dividend yield	**1.62%**	1.40%
Risk-free interest rate[(iii)]	**1.97%**	1.16%

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

(ii) *Expected weighted average life.*

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

The fair value of options granted during the year ended December 31, 2018 was $4.1 million (2017: $4.5 million). Amortization charges relating to current and prior year options were $3.8 million (2017: $3.9 million).

Restricted Share Units and Performance Share Units

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

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

A summary of the status of the Company's RSU plans (including PSUs) as at December 31, 2018 and 2017 and changes during these periods is presented below:

	2018		2017	
	RSUs outstanding	**Weighted average fair value at grant**	RSUs outstanding	Weighted average fair value at grant
Outstanding, beginning of year	**1,561,695**	**$ 25.61**	1,570,669	$ 20.79
Granted	**394,600**	**30.67**	720,813	30.65
Exercised	**(455,789)**	**20.85**	(666,721)	19.80
Forfeited	**(28,844)**	**24.00**	(63,066)	24.03
Outstanding, end of year	**1,471,662**	**$ 28.48**	1,561,695	$ 25.61

On April 1, 2016, the Company communicated to its employees the intent to issue RSUs at which time the service period commenced. During the year ended December 31, 2017, the RSUs were formally granted. The service period for these units will vest by December 31, 2019.

All of the Company's outstanding RSUs are accounted for as equity-settled awards.

The fair value of RSUs and PSUs granted in 2018 was $10.2 million (2017: $18.9 million). Expenses for the year ended December 31, 2018 relating to current and prior year RSUs and PSUs, were $13.0 million (2017: $15.8 million). No RSUs or PSUs were cash settled in the year (2017: $0.0 million).

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

	2018	2017
Expected RSU life (in years)	**3.13**	2.58
Forfeiture rate	**16.1%**	14.4%
Risk-free discount rate	**1.9%**	0.9%

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

Director Share Units

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

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

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

The fair value of director share units expensed during the year ended December 31, 2018 was $1.6 million (2017: $1.4 million).

A summary of the status of the Company's outstanding DSUs as at December 31, 2018 and 2017, and changes during these years is presented below:

	2018		2017	
Units outstanding	**2013 DSU plan**	**2002 DSU plan**	2013 DSU plan	2002 DSU plan
Outstanding, beginning of year	**251,742**	**19,677**	334,444	19,418
Additions: granted	**43,127**	**—**	40,866	—
Additions: dividends reinvested	**4,419**	**327**	4,352	259
Exercised	**(53,954)**	**—**	(127,920)	—
Outstanding, end of year	**245,334**	**20,004**	251,742	19,677
Value of liability at December 31[(i)]	**$ —**	**$ 554**	$ —	$ 714

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

23. COMPOSITION OF THE COMPANY

Unconsolidated Structured Entity

The Company has a three-year accounts receivable securitization facility with a maturity date of August 26, 2019. The maximum cash advance available to the Company under this program is $110.0 million. Under this facility, the Company has sold certain of its trade accounts receivable, with very limited recourse, to an unconsolidated third-party trust financed by an international financial institution with a long-term AA- debt rating, for cash and short-term notes back to the Company. The receivables are sold at a discount to face value based on prevailing money market rates. The Company retains servicing responsibilities for these receivables.

As at December 31, 2018, trade accounts receivable being serviced under this program amounted to $127.4 million (2017: $124.9 million). In return for the sale of its trade receivables, the Company will receive cash of $96.9 million (2017: $96.0 million) and notes receivable in the amount of $30.5 million (2017: $28.9 million). The notes receivable are non-interest bearing and are settled on the settlement dates of the securitized accounts receivable. Due to the timing of receipts and disbursements, the Company may, from time to time, also record a receivable or payable related to the securitization facility. As at December 31, 2018, the Company recorded a net payable amount of $32.5 million (2017: $14.0 million net payable) in accounts payable and accruals.

The Company's maximum exposure to loss due to its involvement with a structured entity is equal to the current carrying value of the interest in the notes receivable due from the structured entity. The Company has not recognized any income or losses with its interest in unconsolidated structured entities for the year ended December 31, 2018 and 2017.

24. COMMITMENTS AND CONTINGENCIES

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

During the year ended December 31, 2017, the Company was added as a defendant in a class action lawsuit against a group of food retailers and bread manufacturers that are the subject of an investigation by the Competition Bureau relating to pricing practices. Maple Leaf Foods is not part of this investigation, however, the Company was added as a defendant to the class action as a result of the share ownership position it previously held in Canada Bread, and is of the view that the action does not present a material financial risk to the Company.

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

The Company previously entered into a number of construction contracts related to the construction of new and expansion of existing facilities. Contract commitments as at December 31, 2018 were $0.0 million (2017: $4.5 million).

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

2019	$ 38,996
2020	30,926
2021	26,391
2022	22,208
2023	17,507
Thereafter	23,893
	$ 159,921

For the year ended December 31, 2018, an amount of $34.3 million was recognized as an expense in earnings in respect of operating leases (2017: $28.9 million).

25. RELATED PARTY TRANSACTIONS

The Company sponsors a number of defined benefit and defined contribution plans. During the year ended December 31, 2018, the Company's contributions to these plans were $28.8 million (2017: $26.4 million).

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

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

	2018	2017
Short-term employee benefits		
Salaries, bonuses, and fees	**$ 9,304**	$ 13,448
Company car allowances	**291**	316
Other benefits	**111**	139
Total short-term employee benefits	**$ 9,706**	$ 13,903
Post-employment benefits	**732**	902
Share-based compensation	**10,636**	12,753
Total remuneration	**$ 21,074**	$ 27,558

During the year ended December 31, 2018, key Management personnel of the Company exercised 1.3 million share options (2017: 0.4 million share options) granted under the Maple Leaf Foods share option plans for an amount of $15.4 million (2017: $5.9 million).

The Company's largest shareholder is MCI which is beneficially owned or controlled by Mr. Michael H. McCain, Chief Executive Officer and President of the Company. For the year ended December 31, 2018, the Company received services from MCI in the amount of $0.6 million (2017: $0.5 million), which represented the market value of the transactions with MCI. As at December 31, 2018, $0.4 million (2017: $0.1 million) was owing to MCI relating to these transactions.

McCain Financial Advisory Services ("MFAS"), is an entity jointly controlled by individuals including Mr. Michael H. McCain. For the year ended December 31, 2018 and 2017, the Company provided services to, and received from, MFAS for a nominal amount which represented the market value of the transactions.

26. GEOGRAPHIC AND CUSTOMER PROFILE

Following the sale of the bakery and rendering businesses, the Company undertook significant reorganization of the internal leadership and reporting structure, as previously disclosed. The reorganization was completed in 2017 and the Company is arranged as a single, focused protein company. As such, the Company has transitioned to a single reporting segment.

Information About Geographic Areas

Property and equipment and investment property located outside of Canada was $29.6 million as at December 31, 2018 (2017: $9.4 million). Of this amount, $29.4 million (2017: $9.2 million) was located in the U.S and $0.2 million (2017: $0.2 million) was in Japan. Goodwill of $195.2 million (2017: $89.2 million) was attributed to operations outside of Canada.

Revenues earned outside of Canada for the year ended December 31, 2018, were $913.6 million (2017: $865.4 million). Of the total amount earned outside of Canada, $363.5 million (2017: $294.7 million) was earned in the U.S. and $343.4 million (2017: $344.7 million) was earned in Japan. Revenue by geographic area is determined based on the shipping location.

Information About Major Customers

For the year ended December 31, 2018, the Company reported sales to two customers representing 11.9% and 10.9% (2017: 12.0% and 10.3%) of total sales. No other sales were made to any one customer that represented in excess of 10% of total sales.

27. BUSINESS COMBINATIONS

a) 2018 Acquisitions

On November 13, 2018, the Company acquired 100% of the outstanding shares of VIAU Food Products Inc. ("VIAU"), a privately held Canadian market leader in premium Italian cooked, dry-cured and charcuterie meats, for a purchase price of $215.0 million. The Company financed the transaction using a combination of drawings on existing credit facilities and equity.

Recognized goodwill is attributable to VIAU's assembled workforce combined with its considerable expertise, product development knowledge and skills. The amount of goodwill expected to be deductible for tax purposes is $17.6 million.

The Company has not yet finalized the amounts recorded for the VIAU acquisition.

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

		Purchase price November 13, 2018
Agreed-upon purchase price	$	215,000
Working capital adjustments		(13,637)
Reduction for liabilities assumed		(4,456)
Total consideration	**$**	**196,907**
Consideration paid in cash	$	168,106
Consideration paid in common shares	$	28,801

The preliminary fair values of the assets acquired and liabilities recognized at the date of acquisition are as follows:

		Preliminary amounts
		November 13, 2018
Current Assets		
Cash	$	6,930
Accounts receivable[(i)]		12,383
Inventories		32,096
Prepaid expenses and other assets		1,566
Non-current assets		
Property and equipment		85,579
Goodwill		17,601
Intangible assets		81,632
Current liabilities		
Accounts payable and accruals		(19,877)
Current income tax liabilities		(11,186)
Other current liabilities		(1,294)
Non-current liabilities		
Other long-term liabilities		(3,123)
Deferred tax liability		(5,400)
Total net assets acquired	**$**	**196,907**

(i) *Pertain to trade receivables for which contractual cash flows not expected to be collected are not significant.*

On October 22, 2018, the Company acquired two poultry plants and associated supply from Cericola Farms Inc. ("Cericola"), a privately held Canadian company. The purchase price of the assets was $80.0 million, with a put/call option to purchase a third processing facility for a purchase price of $40.0 million, exercisable within three years. The Company financed the transaction using existing credit facilities. The acquisition has been accounted for as a business combination.

The amount of goodwill expected to be deductible for tax purposes is $6.7 million.

The Company has not yet finalized the amounts recorded for the Cericola acquisition.

The preliminary fair value of consideration transferred for the two poultry plants and associated supply acquired from Cericola Farms consists of the following:

		Purchase price
		October 22, 2018
Agreed-upon purchase price	$	80,000
Cash deposit on purchase of third processing facility		(20,185)
Total consideration paid in cash	**$**	**59,815**

The preliminary fair values of the assets acquired and liabilities recognized at the date of acquisition are as follows:

		Preliminary amounts
		October 22, 2018
Current Assets		
Accounts receivable[(i)]	$	5,748
Inventories		980
Prepaid expenses and other assets		56
Non-current assets		
Property and equipment		17,702
Goodwill		6,688
Intangible assets		31,910
Current liabilities		
Accounts payable and accruals		(3,269)
Total net assets acquired	**$**	**59,815**

(i) *Pertain to trade receivables for which contractual cash flows not expected to be collected are not significant.*

On January 29, 2018, the Company acquired 100% of the outstanding shares of The Field Roast Grain Meat Company, SPC ("Field Roast Grain Meat Co."), a privately held U.S. based corporation engaged in the production and distribution of premium grain-based protein and vegan cheese products. The Company financed the transaction using a combination of $89.5 million of cash-on-hand, $49.3 million of drawings on existing credit facilities, and $1.4 million of contingent consideration payable to the seller.

Recognized goodwill is attributable to Field Roast Grain Meat Co.'s leadership position in the fast-growing plant protein market combined with its considerable expertise, product development knowledge and skills. For tax purposes, no goodwill is deductible.

The fair value of consideration transferred for the acquisition of Field Roast Grain Meat Co. consists of the following:

		Purchase price
		January 29, 2018
Agreed-upon purchase price	$	147,906
Working capital adjustments		(1,787)
Reduction for liabilities assumed		(5,949)
Total consideration	**$**	**140,170**
Consideration paid in cash	$	138,755
Contingent consideration	$	1,415

During the fourth quarter of 2018, the Company finalized amounts recorded in the business combination which resulted in the following adjustments to the preliminary purchase price allocation:

	January 29, 2018		
	Preliminary amounts	**Adjustments**	**Final amounts**
Current Assets			
Cash	$ 375	$ —	$ 375
Accounts receivable[i]	3,302	—	3,302
Inventories	6,332	863	7,195
Income and other taxes recoverable	336	—	336
Prepaid expenses and other assets	354	—	354
Non-current assets			
Property and equipment	5,080	—	5,080
Goodwill	137,777	(50,944)	86,833
Intangible assets	—	66,558	66,558
Current liabilities			
Accounts payable and accruals	(9,634)	—	(9,634)
Other current liabilities	(638)	—	(638)
Non-current liabilities			
Other long-term liabilities	(2,212)	—	(2,212)
Deferred tax liability	(902)	(16,477)	(17,379)
Total net assets acquired	**$ 140,170**	**$ —**	**$ 140,170**

[i] *Pertain to trade receivables for which contractual cash flows not expected to be collected are not significant.*

(b) 2017 Acquisition

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

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

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

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

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

During the fourth quarter of 2017, the Company finalized the amounts recorded in the business combination which resulted in the following adjustments to the preliminary purchase price allocation:

	March 10, 2017		
	Preliminary Amounts	**Adjustments**	**Final Amounts**
Current assets			
Cash	$ 766	$ —	$ 766
Accounts receivable[(i)]	3,968	—	3,968
Inventories	4,539	1,065	5,604
Income and other taxes recoverable	50	—	50
Prepaid expenses and other assets	626	—	626
Non-current assets			
Property and equipment	14,536	(4,825)	9,711
Goodwill	133,854	(38,215)	95,639
Intangible assets	37,709	63,224	100,933
Current liabilities			
Accounts payable and accruals	(3,043)	—	(3,043)
Non-current liabilities			
Deferred tax liability	(2,322)	(21,249)	(23,571)
Total net assets acquired	**$ 190,683**	**$ —**	**$ 190,683**

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

(c) Transaction Costs

During the year ended December 31, 2018, the Company recorded transaction costs of $13.6 million (2017: $7.6 million) that have been excluded from the consideration paid and have been recognized as an expense in other income (expense).