Message to Shareholders

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

MICHAEL H. McCAIN
President and Chief Executive Officer

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

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

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

2012 BUSINESS REVIEW

Meat Products Group

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

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

8.6%

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

$750 million

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

13.1%

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

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

Bakery Products Group

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

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

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

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

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

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

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

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

Agribusiness Group

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

PROGRESS ON OUR STRATEGIC PLAN

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

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

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

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

Expanding Prepared Meats Margins

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

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

26.3%

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

Double productivity

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

Scale

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

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

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

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

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

Simplification

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

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

Consolidating Our Bakery Volume

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

Implementing SAP

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

WHAT'S AHEAD IN 2013

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

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

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

1,400

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

80%

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

Values

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

12.5%

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

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

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

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

DELIVERING A STRONGER RETURN TO SHAREHOLDERS

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

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

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

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

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

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

LOOKING FORWARD

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

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

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

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

Sincerely,

MICHAEL H. McCAIN
President and Chief Executive Officer

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

RICHARD A. LAN
Chief Operating Officer, Food Group

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

Message from the Chairman

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

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

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

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

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

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

Sincerely,

DAVID L. EMERSON
Chairman

Renewal

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

Board Connect

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