FINANCIAL REVIEW 2010

February 24, 2011

Management's Discussion and Analysis ("MD&A") provides management's perspective on the results of operations and financial condition for Maple Leaf Foods Inc.

It should be read in conjunction with the audited annual financial statements and notes presented in this report.

management's discussion and analysis

February 24, 2011

THE BUSINESS

Maple Leaf Foods Inc. ("Maple Leaf Foods" or the "Company") is a leading Canadian-based value-added meat, meals and bakery company committed to delivering quality food products to consumers around the world. Headquartered in Toronto, Canada, the Company employs approximately 21,000 people at its operations across Canada and in the United States, Europe and Asia.

OPERATING SEGMENTS

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

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

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

The combination of the Company's Meat Products Group and Agribusiness Group comprises the Protein Group, which reflects the results of producing and marketing animal protein-based products.

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

FINANCIAL OVERVIEW

In 2010, Adjusted Operating Earnings increased to $222.0 million from $196.1 million in 2009, and Adjusted Earnings per Share increased to $0.76 compared to $0.57 in the prior year. Net earnings decreased to $25.8 million in 2010 from $52.1 million in 2009. Net earnings in 2010 included $81.1 million of costs related to restructuring activities (2009: $31.1 million) and a charge of $24.9 million (2009: $nil) related to changes in fair value of interest rate swaps not designated in a formal hedging relationship. Basic earnings per share decreased to $0.19 per share from $0.40 per share in the prior year. All amounts are reported in Canadian dollars except as otherwise specified.

Note: Adjusted Operating Earnings measures are defined as earnings from operations before restructuring and other related costs, other income and the impact of the change in fair value of non-designated interest rate swaps. Adjusted Earnings per Share ("Adjusted EPS") measures are defined as basic earnings per share adjusted for the impact of restructuring and other related costs and the impact of the change in fair value of non-designated interest rate swaps, net of tax and non-controlling interest. Please refer to the section entitled Non-GAAP Financial Measures starting on page 49 of this Management's Discussion and Analysis for description and reconciliation of all non-GAAP measures.

The Company's Adjusted Operating Earnings increased in 2010 compared to 2009 due to improved performance in the Meat Products Group, primarily resulting from stronger markets and lower operating costs in the Company's poultry operations. Meat Products Group earnings also benefited from robust North American pork markets towards the end of the year that generated strong results from the Company's scale pork processing facility in Brandon, Manitoba. Higher poultry and pork results were partly offset by rapidly rising input costs and lower sales volumes that impacted results from the Company's prepared meats business. In the Bakery Products Group, lower sales volumes in the U.K. and North American frozen businesses resulted in reduced earnings; however, lower commodity costs and a stronger Canadian dollar partly offset the impact of lower volume.

management's discussion and analysis

SELECTED FINANCIAL INFORMATION

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

(millions of dollars except Earnings per Share ("EPS") figures)	**2010**	2009	2008
Sales	**$ 4,968.1**	$ 5,221.6	$ 5,242.6
Adjusted Operating Earnings(i)	**$ 222.0**	$ 196.1	$ 128.4
EBITDA(i)	**$ 364.0**	$ 349.2	$ 302.5
EBITDA %(i)	**7.3%**	6.7%	5.8%
Net earnings (loss)	**$ 25.8**	$ 52.1	$ (36.9)
Adjusted Earnings per Share (EPS)(i)	**$ 0.76**	$ 0.57	$ 0.29
Basic EPS	**$ 0.19**	$ 0.40	$ (0.29)
Diluted EPS	**$ 0.19**	$ 0.39	$ (0.29)
Total Assets	**$ 2,996.8**	$ 3,057	$ 3,452
Net Debt(i)	**$ 902**	$ 1,016	$ 1,023
Return on Net Assets (RONA)(i)	**6.8%**	5.9%	3.4%
Cash provided by operating activities	**$ 283.7**	$ 89.2	$ 195.5
Cash Dividends per Share	**$ 0.16**	$ 0.16	$ 0.16

(i) Refer to the section entitled Non-GAAP Financial Measures starting on page 49 of this document.

DISCUSSION OF FACTORS IMPACTING THE COMPANY'S OPERATIONS AND RESULTS

Fluctuating Input Prices

Changes in input prices across the food business were a significant driver of business performance for both the Company and the food industry in 2010. Average prices of several key commodities used in the Company's products, including fresh pork, hogs and crude oil, increased substantially. In order to maintain margins in its consumer packaged goods businesses, Management increased the prices of the Company's products, focused on operational improvements and cost management and in certain instances purchased commodities on a forward fixed price basis.

Increases in the fresh pork complex were significant as the average prices of bellies, hams and trims rose more than 50% during 2010. These increases in fresh raw material costs placed pressure on margins in the prepared meats business, and increased pricing was effected to mitigate the impact.

During 2010, the Company's fresh pork processing operations benefited from higher commodity prices and demand for protein. As the price of live hogs did not increase at the same rate as fresh meat, primary pork processing margins were on average higher than last year.

Hog producers in North America benefited from significantly higher market prices in 2010. However, the benefit of higher market prices was partly offset by a stronger Canadian dollar compared to the average rate of 2009, which reduced the value of Canadian hogs.

Wheat, dairy and fuel constitute significant input costs to the Company's bakery operations. Wheat prices remained flat in the first six months of 2010 but increased by approximately 75% in the second half of the year. The impact of higher wheat costs was managed through forward contracts that provided some protection against the increases. The stronger Canadian dollar in 2010 compared to 2009 somewhat reduced prices paid for U.S. dollar-denominated flour. Dairy costs, butter in particular, increased significantly in 2010 and required higher prices in the U.K. and Canada to offset the effect of the higher costs.

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The following table outlines the change in key commodity indicators that have impacted the Company's business and financial results:

	At December 31[i]		*Annual Averages*			
	2010	**2010**	2009	Change		2008
Pork cutout (USD per cwt)[ii]	**$ 77.78**	**$ 81.10**	$ 58.04	39.7%	$	69.24
Composite primal values (USD per cwt)[ii]						
Belly	**$ 93.94**	**$ 106.38**	$ 76.61	50.7%	$	77.06
Ham	**$ 65.79**	**$ 73.00**	$ 46.28	57.7%	$	59.37
Trim	**$ 70.08**	**$ 77.94**	$ 42.61	82.9%	$	57.50
Market price per hog (CAD per hog)[ii]	**$ 130.76**	**$ 140.36**	$ 119.58	17.4%	$	123.51
Market price per hog (USD per hog)[ii]	**$ 130.44**	**$ 136.27**	$ 104.42	30.5%	$	116.17
Poultry market price (USD per kg)[iii]	**$ 3.30**	**$ 3.32**	$ 3.28	1.3%	$	3.01
Poultry live cost (USD per kg)[iii]	**$ 1.41**	**$ 1.39**	$ 1.45	(4.0)%	$	1.42
Wheat (USD per bushel)[iv]	**$ 8.82**	**$ 6.23**	$ 6.06	2.8%	$	10.37
Corn (USD per bushel)[iv]	**$ 6.29**	**$ 4.27**	$ 3.76	13.6%	$	5.31
Soybeans (USD per bushel)[iv]	**$ 13.94**	**$ 12.87**	$ 10.20	26.2%	$	12.35
Oil (USD per barrel)[iv]	**$ 91.38**	**$ 79.48**	$ 61.95	28.3%	$	99.67

(i) Spot prices for the week ended January 1, 2011 based on CME (Ontario hogs) or WCB (Western Canada hogs) (Source: USDA)

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

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

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

Impact of Currency

The Canadian dollar strengthened 10.4% on average in 2010 compared to 2009. In general, a stronger Canadian dollar compresses margins in the Company's primary pork processing operations, and to a lesser extent in the rendering operations, to the extent that revenues from export products are reduced. Conversely, it decreases the cost of raw materials and ingredients in the domestic branded and private label prepared meats and fresh bakery businesses. The branded packaged goods businesses have an ability over time to react to changes in input costs through price management, cost reduction or investment in value-added products. However, over the medium term, a stronger Canadian dollar also reduces the relative competitiveness of the domestic Canadian packaged goods operation as imports of goods from the United States become more competitive and impact the margins in the Company's domestic markets. The Company is not able to mitigate these impacts through price changes, and must seek to reduce its costs and improve productivity at least to the level of its competitors in the United States.

Fluctuations in fresh meat prices, and in particular higher fresh pork values, result in higher input costs for the Company's prepared meats business. The extent of these increases in 2010 was partially offset by a stronger Canadian dollar as it decreased the cost of ingredients priced in U.S. dollars; but on an overall basis, the Canadian packaged meats operations were impacted by higher costs that had to be passed on to the market in higher prices.

The stronger Canadian dollar in 2010 reduced earnings from the Company's primary pork processing export sales. With the completion of the sale of the primary processing facility in Burlington, Ontario, and the consequent reduction in the number of hogs processed, the Company's ongoing exposure to currency-affected exports has been reduced, but not eliminated.

Hog production operations are exposed to the U.S. dollar, as the sales value of hogs is pegged to the U.S. dollar. A stronger Canadian dollar in 2010 decreased the selling price of Canadian hogs compared to the prior year; however as almost all of the Company's hogs are transferred to its pork operations in Brandon, Manitoba, this resulted in an offsetting reduction to the price of hogs in Brandon.

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

	At December 31[i]	*Annual Averages*			
	2010	**2010**	2009	Change	2008
U.S. dollar / Canadian dollar	**$ 1.01**	**$ 0.97**	$ 0.88	10.4%	$ 0.94
Japanese yen / Canadian dollar	**$ 81.57**	**$ 85.24**	$ 82.24	3.6%	$ 97.96

(i) Source: Bank of Canada daily closing rates

Value Creation Plan

In the fall of 2010 the Board of Directors approved a comprehensive plan aimed at building significant and sustainable shareholder value both in the near and long-term. The plan includes specific and executable steps that have been developed through a comprehensive assessment of the Company's operational strengths and competitive gaps.

Management has determined that a productivity gap exists between Maple Leaf Foods and larger, U.S. consumer packaged goods companies. Furthermore, the productivity gap is primarily due to the number of sub-scale plants within the prepared meats network that lack the efficiency and improved technology that can be employed in larger facilities. Management has concluded that there is significant opportunity to capitalize on the scale of the Company in the domestic Canadian market place by producing its volume in a smaller number of larger facilities, allowing the Company to earn margins consistent with larger U.S. processors. These changes will also protect the Company from a long-term erosion of competitiveness as compared to U.S. competitors who may seek to enter the Canadian market.

Executing a Clear Plan to Create Value

Management has a clear and comprehensive strategy to build significant and sustainable value by:

- Significantly reducing costs and improving productivity and competitiveness by consolidating existing plants and investing in new technologies
- Funding capital requirements from operating cash flows, maintaining an investment-grade balance sheet and improving the Company's leverage ratio
- Executing against a manageable risk profile – the cost reduction opportunities result from investment in scale and technologies that are widely used today in U.S. and European food companies.

The plan is segmented into near- and longer-term initiatives – both of which will contribute to the achievement of a more competitive cost structure, significant margin expansion and higher levels of growth.

In the near term (2010–2012), the Company is:

- Implementing price increases and normalizing promotional spending
- Taking significant costs out of the supply chain by reducing the number of product formulations and sizes
- Executing disciplined category management that leverages the Company's deep customer relationships
- Consolidating legacy information systems into one integrated SAP platform.

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Over the longer-term (2012–2015), the Company plans to:

- Invest in scale and technology to establish a low cost competitive plant network and close the gap to U.S. peers in the consumer packaged goods sector
- Realize the benefits of scale from a new fresh bakery facility in Hamilton, Ontario, which will be commissioned in July 2011
- Construct a world-class prepared meats facility, commencing in 2012
- Fully realize the benefits of SAP, by reducing selling, general and administrative costs, and providing better business insight and increased efficiencies
- Accelerate growth through product innovation and brand leadership.

Substantial Productivity Improvements Expected
The plan is expected to drive substantial improvements in productivity as volume will be moved into more efficient plants and new technologies and processes will be leveraged. Management intends to invest in technologies that increase throughput, automate processes that are currently manual, convert batch processes into continuous flows and decrease movement and handling of product, energy use and water consumption. As production is consolidated, the Company's average plant will more than double in size.

Driving Growth through Innovation
Along with cost reduction, the Company is also increasing its focus on innovation and sales growth. Innovation and marketing will target higher growth consumer trends such as health and wellness, convenience and changing demographics. For example, Natural Selections deli meats was launched in early 2010 and represented the first national brand to deliver all natural sliced meats. Since it was launched, Natural Selections has grown the Company's market share in deli meats by more than 35%, and all products rank in the top 5% of the category. Management will build on this success in other prepared meat categories. Management is equally committed to driving ongoing top-line and bottom-line growth through both cost reduction and product innovation.

Disciplined Approach to Investment
The strategic capital expenditures required to deliver the plan are expected to occur from 2010 through 2013. The pace of the program and ongoing investments are being balanced with margin improvement. The plan involves several initiatives, many overlapping, yielding benefits in the near and longer term. Management has developed significant expertise in sequencing plant expansions and start-ups, most recently the double-shifting of the Brandon pork processing facility and the expansion of the Winnipeg ham processing plant. Management has planned this capital program such that certain portions may be accelerated to take advantage of opportunities or divided into smaller segments to reduce complexity and risk. Management intends to fund the investments in this plan from internal cash flow and existing debt capacity without issuing equity, and is committed to maintaining an investment-grade balance sheet.

Several significant, strategic capital projects have been identified as part of this plan. The remainder of the base capital includes profit enhancing investment as well as maintenance capital. The most significant elements of strategic capital in the plan include:

- $62 million spent in 2010, primarily to support the new fresh bakery construction, SAP implementation and network improvements in prepared meats. This figure is approximately $18 million less than previously estimated for 2010 mostly due to timing of investment in the new fresh bakery. Management anticipates that the majority of these deferred expenditures will occur in 2011.
- Approximately $145 million planned for 2011 will complete the new bakery, support SAP implementation and several near-term efficiency improvements in both prepared meats and bakery.
- Approximately $355 million is expected to be invested in 2012, a large component of which supports construction of a new scale prepared meats plant, as well as capacity and efficiency improvements. The SAP-related expenditures in 2012 are expected to be significantly smaller as the program nears completion.
- Approximately $195 million in 2013 relates primarily to the construction of the prepared meats plant.

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The Company's base capital expenditures are expected to range from $100 million to $175 million through this period, but may vary significantly depending on the pace of strategic capital expenditures. Specific capital investments and returns continue to be analyzed and remain subject to confirmation of engineering configurations and return on investment. Management is committed to continuously seeking opportunities to reduce capital and increase returns. The following table summarizes actual and estimated base and strategic capital for 2010 to 2013 as described above:

($ millions)	2010 Actual	2011	2012	2013
Base	$ 100	$ 175	$ 130	$ 100
Strategic	$ 62	$ 145	$ 355	$ 195
Total	$ 162	$ 320	$ 485	$ 295

Key Financial Milestones

Management has estimated that the Company will earn a consolidated EBITDA margin of 9.5% in 2012 and 12.5% in 2015, following completion of the components of the strategic plan. As a result of these improvements, the Company's return on net assets ("RONA") is expected to be in excess of 11.5% by 2015.

Following are EBITDA margin targets that the Company has set for its operating groups for each of 2012 and 2015.

	2010 Actual	2012	2015
Protein Group	6.8%	8.5%	12.5%
Bakery Products Group	9.2%	11.5%	12.5%
Total	7.3%	9.5%	12.5%

VALUE CREATION PLAN – 2010 PROGRESS

The Company made progress in a number of areas of its value creation plan in 2010 including:

- Construction of a scale bakery facility in Hamilton, Ontario commenced in August 2010, and by the end of 2010 the building was mostly enclosed and equipment installation had begun. The project is on target to begin production of bakery products in July 2011, and Management expects to have completed the transfer of production from and closure of one of its three bakeries by the end of 2011, with the remaining products transitioning from the two other bakeries through 2012, with completion in 2013.
- Prices were increased across the prepared meats and bakery businesses to protect margins, with substantially all 2010 cost increases covered by increases in prices by the end of the year.
- The closure of the prepared meats facilities in Berwick, Nova Scotia and in Surrey, British Columbia were announced in November 2010 and February 2011, with planned closures at the end of April 2011 and September 2011, respectively. These closures represent initial milestones in the transformation of the Company's prepared meats manufacturing network as they reduce production in small, sub-scale facilities.
- A croissant production line was transferred to consolidate production in an existing low cost facility in Maidstone, U.K., and the Company plans to close a bakery facility in Cumbria, U.K. in the first quarter of 2011. In early 2011 the Company also announced plans to close a sub-scale frozen bakery facility in Laval, Quebec and transfer production to other bakeries where there is available capacity.
- Early benefits from product and formulation simplification in the prepared meats business were realized. Management's aim is to reduce complexity and costs by standardizing product formulations, sizes and specifications as well as rationalizing low volume products. These efforts to simplify production are a critical step in the Company's network optimization plans as they will allow the Company to achieve the full benefits from a scale facility.

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The Company also completed the sale of the Burlington pork processing facility in November 2010. This sale of this facility represents the final major milestone in the transformation of the Company's primary pork processing operations.

Systems Conversion

In January 2009, the Company began an initiative to consolidate all of its information technology systems onto a single platform, in order to standardize processes, reduce costs and enable a shared services platform. Management selected SAP software as its new platform and has since taken a rapid, yet carefully designed, approach to implementation. Since the first installation in March 2009, the Company has completed 37 SAP installations with two business units fully deployed by the end of 2010. Successful execution has been enabled by changing existing businesses to standardized SAP processes, significant limitation of any software modifications, and rigorous master data controls. Although Management is satisfied with progress to date and the performance of the installed programs, the entire program will take longer than initially forecasted, and now expects that the SAP installation should be substantially completed in 2013, as opposed to the original estimate of the first quarter of 2012. This estimate continues to presume an aggressive pace of implementations, and may change depending on actual expense and risk profiles of individual implementations.

The following table summarizes the implementation schedule of the entire project:

	2009				2010				2011				2012				2013
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Corporate Office																	
U.S. Frozen Bakery																	
Fresh Bakery																	
Meat Products Group																	
Agribusiness Group																	
U.K. Frozen Bakery Group																	

OPERATING REVIEW

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

Sales *($ millions)*	**2010**	2009	Change	2008
Meat Products Group	**$ 3,181.1**	$ 3,310.4	(3.9)%	$ 3,303.7
Agribusiness Group	**199.5**	206.1	(3.2)%	233.0
Protein Group	**$ 3,380.6**	$ 3,516.5	(3.9)%	$ 3,536.7
Bakery Products Group	**1,587.5**	1,705.1	(6.9)%	1,705.9
Total Sales	**$ 4,968.1**	$ 5,221.6	(4.9)%	$ 5,242.6

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

($ millions)	2010	2009	Change	2008
Meat Products Group	$ 89.7	$ 55.4	61.9%	$ 29.5
Agribusiness Group	50.8	48.0	5.9%	30.1
Protein Group	$ 140.5	$ 103.4	35.9%	$ 59.6
Bakery Products Group	93.2	102.2	(8.8)%	83.0
Non-allocated costs(i)	(11.7)	(9.5)	23.2%	(14.2)
Adjusted Operating Earnings	$ 222.0	$ 196.1	13.2%	$ 128.4

(i) Non-allocated costs comprise costs related to systems conversion and certain consulting fees. Management believes that not allocating these costs provides a more comparable assessment of segmented operating results.

Meat Products Group

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

Meat Products Group sales decreased 3.9% to $3,181.1 million in 2010 from $3,310.4 million in the prior year. The most significant effects on sales from the prior year were the sale of the Company's Burlington, Ontario primary pork processing operation in November 2010 and the exit of a non-core business line in 2009, which combined to reduce sales by 3.1%. 2010 sales related to the Burlington facility were approximately $270.0 million. Excluding these exited businesses and an extra week in the fourth quarter of 2009, sales of the underlying business increased by 1.0%. Improved pricing, due to higher market prices in fresh pork, increased net pricing in prepared meats, and improved sales mix combined to increase sales by approximately 6.4%, partly offset by volume declines that reduced sales by approximately 4.0%. The balance of the decrease in sales was due to the impact of a stronger Canadian dollar on fresh pork prices.

Adjusted Operating Earnings in the Meat Products Group for the year increased 61.9% to $89.7 million in 2010 compared to $55.4 million last year due to strong performance in primary poultry and pork processing operations and higher margins in prepared meats, partly offset by lower volumes. Higher earnings in the Company's fresh poultry operations were driven by improved market conditions and lower costs due to productivity improvements. In 2010, reduced prepared meats earnings resulting from rising raw materials and lower volumes were partly offset by the mitigating impact of improved processing margins in primary pork processing. The results of the Company's pork operations improved due to higher meat values, but were partly offset by higher hog prices and weaker export margins.

Prepared meats earnings declined due to significant increases in raw material meat costs and timing lags in passing these cost increases on through increased pricing. Volumes were impacted in the short-term as consumers continued to adjust to new price points. However, improved net pricing, favourable foreign exchange impacts on purchases, cost containment initiatives and lower plant costs all contributed to offset raw material impacts and increase margins.

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Agribusiness Group

Consists of Canadian hog production and animal by-product recycling operations.

Sales in the Agribusiness Group decreased 3.2% to $199.5 million in 2010 from $206.1 million last year. Lower volumes, predominantly in core rendering, and the impact of an extra week in the fourth quarter of 2009 more than offset higher sales values.

Adjusted Operating Earnings in 2010 for the Agribusiness Group increased by 5.9% to $50.8 million from $48.0 million last year, driven by stronger performance in hog production that was only partly offset by lower results in by-product recycling.

Hog production results increased compared to last year due to significantly higher North American hog prices and lower feed costs, combined with favourable forward purchases of feed grains. These improvements were partly offset by the unfavourable impact of a stronger Canadian dollar on the sales value of hogs, lower gains on hedging activity and lower government support compared to the prior year. 2010 earnings included $2.7 million of government support to compensate hog producers for losses in prior years compared to $9.2 million in 2009. The Company raised 815,000 hogs in 2010, compared to 897,000 hogs in 2009.

Results in by-products recycling were lower than last year due to higher raw material costs and lower volumes in core rendering, the impact of a stronger Canadian dollar on prices and reduced eco-energy credits received from the Canadian government. Improved biodiesel pricing and operational efficiencies partly offset these results.

Bakery Products Group

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

Sales in the Bakery Products Group decreased 6.9% to $1,587.5 million in 2010, compared to $1,705.1 million in the prior year. Excluding the impacts of an extra week in the fourth quarter of 2009 and currency translation on U.K. and U.S. sales from a stronger Canadian dollar, sales decreased 2.7%, predominantly as a result of lower volumes in the U.K. and U.S. operations. In the U.K., sales volumes continued to be impacted by lower demand for specialty bakery products and reduced promotional activity. In the first quarter of 2011, a significant promotion of the Company's bagel brand in the U.K. was launched to strengthen growth in the bagel category. In North America, lower frozen bakery sales volumes resulted from changes implemented by certain retail customers earlier in 2010. Some progress was made in the fourth quarter of 2010 in securing new business and strengthening volumes.

Adjusted Operating Earnings in the Bakery Products Group decreased to $93.2 million compared to $102.2 million in the prior year. Reduced earnings were primarily due to lower sales volumes. Partially offsetting the impact of the volume decline was margin expansion, driven by lower commodity costs and the favourable impacts of a stronger Canadian dollar on U.S. dollar-based wheat and ingredient purchases. Increased distribution costs and labour inflation mitigated growth in margins. Benefits from pricing activity were offset by increased promotional investment to protect market shares in a competitive Canadian retail environment.

Management continues to focus on reducing costs and consolidating volumes into fewer bakeries. In 2010, a croissant production line was transferred to an existing low cost scale facility in Maidstone, U.K., a move that consolidates the majority of croissant production into one site and reduces manufacturing costs. The Company also announced in early 2011 it will close a sub-scale plant in Laval, Quebec and transfer production to its other bakeries where there is available capacity and divest a small bakery facility in Cumbria, U.K.

On February 18, 2011, the Company announced that it had completed the sale of its fresh sandwich business for $8.0 million, subject to post-closing adjustments.

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Non-allocated Costs

Non-allocated costs were $11.7 million in 2010 compared to $9.5 million last year. 2010 costs were comprised of fees related to research and benchmarking studies that formed the basis of the Company's value creation plan, consulting fees related to the implementation of SAP and legal and consulting fees relating to the Company's board renewal program and the change in its shareholder base. Management believes that not allocating these costs provides a more comparable assessment of the Company's operating results.

GROSS MARGIN

Overall, gross margin increased to $739.2 million from $734.2 million in the prior year primarily driven by improvement in the Meat Products and Agribusiness segments. As a percentage of sales, gross margin increased to 14.9% from 14.1% in 2009. Improved gross margin in the Protein Group reflected strong results in primary poultry and pork operations and hog production. Lower sales volumes, increased distribution costs and labour inflation reduced total gross margin in the Bakery Products Group; however, the combination of lower prices for commodities and the impact of a stronger Canadian dollar partly offset these impacts.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses decreased by 3.9% to $517.2 million in 2010 from $538.1 million in the prior year. As a percentage of sales, 2010 and 2009 were largely consistent, at 10.4% and 10.3%, respectively. The decrease in total expenses was driven by administrative cost control and lower pension expenses. Partly offsetting these lower costs were higher expenses in the Bakery Products Group in 2010, driven by increased advertising and promotional spending to support brands and product innovation including the launch of a significant promotional campaign in fresh bakery with hockey player Sidney Crosby as the brand ambassador of Dempster's® to promote the benefits of breads, healthy eating and good nutrition, and the launch of Dempster's® rye bread line in Ontario.

OTHER INCOME

Other income for 2010 was $0.2 million. Other income in the prior year was $3.6 million, mostly related to insurance proceeds received for business interruption losses in the U.K. bakery operations.

RESTRUCTURING AND OTHER RELATED COSTS

Details of restructuring and other related costs for the years ended December 2010 are as follows:

($ millions)	**2010**	2009	2008
Impairment / sale of Burlington facility	**$ 35.7**	$ –	$ –
Protein Group restructuring	**28.3**	22.3	25.1
Impairment / disposal of hog genetic business	**–**	–	5.0
Impairment / disposal of Ontario & Alberta hog production assets and impairment of long-lived hog production assets	**–**	2.1	6.8
Retention payments	**–**	–	2.7
Bakery Products Group restructuring and plant closures	**15.5**	4.3	10.5
Systems conversion	**1.7**	2.4	15.2
Total restructuring and other related costs	**$ 81.1**	$ 31.1	$ 65.3
Cash incurred and to be incurred	**$ 34.7**	$ 26.5	$ 20.1
Non-cash	**46.4**	4.6	45.2
	$ 81.1	$ 31.1	$ 65.3

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During 2010, the Company recorded restructuring and other related costs of $81.1 million ($61.2 million after-tax). Of this, $32.9 million was an asset impairment charge related to the Company's Burlington facility and $2.8 million of severance and other cash costs related to the sale of the facility. $28.3 million was recorded for restructuring charges in the Meat Products Group, including severance and asset write-downs related to the closure of the Berwick facility in Nova Scotia and costs related to the optimization of the prepared meats manufacturing network. The Company's bakery business incurred $15.5 million in restructuring costs, which included $10.4 million in asset write-downs, severance and retention costs related to plans to replace three current bakeries in the Toronto area with one facility in Hamilton. The balance of the restructuring costs was ongoing costs incurred in connection with previously announced restructuring initiatives of the Company.

During 2009, the Company recorded restructuring and other related costs of $31.1 million ($22.8 million after-tax). Of these costs, $22.1 million related to severance and lease termination costs in the Company's further processed protein operations. The Company's bakery business announced the consolidation of its pasta and sandwich operations and recorded $3.5 million which included severances and a write-down of $1.2 million related to the discontinuance of the Martel brand name. The balance of the restructuring costs was ongoing costs incurred in connection with previously announced restructuring initiatives of the Company.

During 2010, the Company announced a value creation plan that includes rationalization of its supply chains and manufacturing facilities in the Protein and Bakery packaged goods businesses. These plans will result in facility closures and related severance, asset write-down and decommissioning charges. Management estimated that total cash restructuring costs associated with the plan will approximate $100.0 million. Management anticipates there will also be non-cash restructuring charges associated with this rationalization which have not been quantified at this stage.

CHANGE IN FAIR VALUE OF NON-DESIGNATED INTEREST RATE SWAPS

During the year, the Company recorded a loss of $24.9 million ($18.2 million after-tax) due to the change in the fair value of non-designated interest rate swaps. In the second quarter of 2010, the Company entered into $590.0 million of interest rate swaps. Swaps totalling $330.0 million started on April 28, 2010 and have an expiry date of April 28, 2015 with an average interest rate of 3.34%. Swaps totalling $260.0 million will start on December 8, 2011 and have an expiry date of December 8, 2015 with an average interest rate of 4.18%. These swaps effectively fix the interest rates for five years at an average rate of 3.71% on $590.0 million of the Company's outstanding debt. The structure of the Company's outstanding debt does not allow for these swaps to be accounted for using hedge accounting, therefore the swaps cannot be designated in a formal hedging relationship for accounting purposes. Accordingly, the Company is required to mark these swaps to market at each accounting period end, and such mark-to-market gains or losses flow through net earnings. These short-term non-cash earnings impacts do not reflect the economic effect of the swaps, which is to fix interest rates over the next five years. Management expects that future earnings will be impacted by these adjustments until the expiry of the swaps, or until they can be designated in a hedging relationship at a future time.

The effect on the fair value of the interest rate swaps of a parallel shift in the yield curve is as follows:

($ thousands)	50 bps Increase	50 bps Decrease
Change in fair value	$ 11,414	$ (11,693)

Subsequent to year-end, the Company entered into swaps to offset $330.0 million of existing interest rate swaps with an expiry date of April 28, 2015. The offsetting interest rate swaps were executed as new fixed rate private placement debt, finalized in the fourth quarter, reduced the Company's expected floating rate debt requirements by $355.0 million dollars. Under the offsetting interest rate swaps, the Company receives an average fixed rate of 2.52% and pays a floating rate of interest on a notional amount of $330.0 million. These offsetting interest rate swaps effectively neutralize the mark-to-market income volatility on the notional amount of $330.0 million created by the existing interest rate swaps. Details of the fixed rate private placement debt are provided in Note 10 of the Consolidated Financial Statements.

management's discussion and analysis

The effect on the fair value of the interest rate swaps of a parallel shift in the yield curve which includes the impact of the $330.0 million swaps entered subsequent to year-end is as follows:

($ thousands)	50 bps Increase	50 bps Decrease
Change in fair value	$ 4,829	$ (5,070)

INTEREST EXPENSE

Interest expense for the year decreased to $66.4 million compared to $81.2 million last year due to lower short-term interest rates and lower average debt balances throughout the year. The Company's average borrowing rate for 2010 was 4.8% (2009: 5.1%). As at December 31, 2010, 89.0% of indebtedness was fixed and not exposed to interest fluctuations (2009: 57.0%).

INCOME TAXES

Income tax expense decreased to $17.8 million from $27.3 million in 2009 and the Company's effective tax rate increased from 31.3% in 2009 to 35.7% in 2010.

A reconciliation between statutory tax rates and the Company's effective tax rate is provided in Note 20 of the Consolidated Financial Statements. Following is a discussion of certain reconciling amounts:

- During the year, the Company recorded restructuring and other related costs of $81.1 million (2009: $31.1 million) that had a tax effect of $19.9 million (2009: $8.3 million), at an effective tax rate of 24.6%. The lower tax rate was primarily driven by lower tax rates applied to deductions expected to be claimed in future years.
- During the third quarter of 2006, the Company recorded a tax expense of $21.2 million to write down future tax assets related to its U.S. frozen bakery business. The total valuation allowance recorded on the losses related to the U.S. frozen bakery business is $22.5 million as of the end of 2010.
- During the year, the Company recorded an income tax reduction of $1.5 million relating to a prior acquisition in its fresh bakery business.

The Company's income tax rate varies and could increase or decrease based on the amounts of taxable income derived and from which source, any amendments to tax laws and income tax rates, and changes in assumptions and estimates used for tax assets or liabilities.

PENSION EXPENSE

Pension expense for the year was $15.8 million compared to $17.8 million in 2009. Components of pension expense are provided in Note 21 of the Consolidated Financial Statements.

The Company operates both defined contribution and defined benefit plans. The assets of the defined benefit plans are invested primarily in foreign and domestic fixed income and equity securities that are subject to fluctuations in market prices. Discount rates used to measure plan liabilities are based on long-term market interest rates. Fluctuations in these market prices and rates can impact pension expense and funding requirements. In 2010, the Company's defined benefit pension plans averaged a gain of approximately 9.9% compared to 17.4% in 2009. Long-term market interest rates decreased impacting the discount rate used to measure the plan liabilities.

The Company's contributions are funded through cash flows generated from operations. Management anticipates that future cash flows from operations will be sufficient to fund expected future contributions. Contributions to defined benefit plans during 2010 were $12.8 million (2009: $11.0 million).

management's discussion and analysis

TRANSACTIONS WITH RELATED PARTIES

During the year, the Company recorded sales to McCain Foods Limited of $3.6 million (2009: $3.3 million) in the normal course of business and at market prices. McCain Foods Limited is partly owned by McCain Capital Corporation, a 31.3% shareholder in Maple Leaf Foods Inc.

The Company paid $4.9 million (2009: $4.6 million) for services in the normal course of business to Day & Ross Transportation Group, a subsidiary of McCain Foods Limited.

GOVERNMENT INCENTIVES

During the year, the Company recorded incentive payments from the Canadian government of $2.7 million (2009: $9.1 million) to compensate hog producers for losses in prior periods, and $7.3 million (2009: $12.6 million) from the Canadian government as part of its policy to support the development of renewable energies. These incentives were recorded as reductions of cost of goods sold in the consolidated statement of earnings. Furthermore, the Company received an interest free loan of $2.0 million from the Canadian government related to the construction of a new bakery in Hamilton, Ontario. The loan is repayable over a period of five years beginning in 2012.

ACQUISITIONS AND DIVESTITURES

In the fourth quarter of 2010, assets held for sale at December 31, 2009 that related to the Company's Burlington, Ontario pork processing facility were sold. Details of the assets held for sale are provided in Note 6 of the Consolidated Financial Statements.

On January 29, 2008, the Company acquired the shares of Aliments Martel Inc. ("Martel"), a manufacturer and distributor of sandwiches, meals and sweet goods based in Quebec for an initial purchase price of $44.6 million plus contingent consideration of up to $22.6 million, based on financial performance over three years post-acquisition. During the first quarter of 2009, the Company finalized the purchase equation, allocating $15.4 million to the identifiable net tangible assets of Martel at the acquisition date and $29.2 million to goodwill and intangible assets. The acquired intangible assets included $1.5 million allocated to trademarks that are being amortized on a straight-line basis over 10 years and $1.7 million allocated to customer relationships that are being amortized on a straight-line basis over 20 years. No amounts have been paid to the vendors in respect of contingent consideration.

On January 14, 2008, the Company purchased the assets of Central By-Products ("CBP"), a rendering business located near London, Ontario for $18.1 million. During the first quarter of 2009, the Company finalized the purchase price equation and allocated $6.0 million to the net identifiable assets of CBP at the acquisition date and $12.1 million to goodwill.

Subsequent to December 31, 2010 the Company announced the following events:

- The closure of a prepared meats facility located in Surrey, British Columbia, to be closed on September 30, 2011. The Company expects that closure costs, including severance, decommissioning and accelerated depreciation, will amount to approximately $12.1 million before tax, $4.6 million of which will be cash expenditures.
- The completion of the sale of its fresh bakery's sandwich business on February 18, 2011.

INVESTMENTS IN CANADA BREAD COMPANY, LIMITED

During the second quarter of 2010, the Company purchased 56,700 shares of Canada Bread Company, Limited ("Canada Bread") for cash consideration of $2.7 million. This purchase increases the Company's ownership interest in Canada Bread from 89.8% to 90.0%. The Company allocated $1.7 million of the purchase price to the net identifiable assets of Canada Bread at the acquisition date and $1.0 million to goodwill. The Company has not yet finalized the purchase equation for this acquisition.

On July 17, 2008, the Company purchased 458,000 shares of Canada Bread for cash consideration of $32.6 million, increasing the Company's ownership interest in Canada Bread from 88.0% to 89.8%. During the second quarter of 2009, the Company finalized the purchase equation for these purchases, allocating $11.4 million of the purchase price to the net tangible assets of Canada Bread at the acquisition date, $1.1 million to intangible assets and $20.1 million to goodwill.

management's discussion and analysis

OTHER MATTERS

On February 23, 2011 Maple Leaf Foods Inc. declared a dividend of $0.04 per share payable on March 31, 2011 to shareholders of record at the close of business on March 10, 2011. Unless indicated otherwise by the Company in writing at or before the time the dividend is paid, these dividends will not be considered an eligible dividend for the purposes of the "Enhanced Dividend Tax Credit System".

It is currently anticipated that the full amount of the dividends to be paid in the first and second quarters of 2011 and a portion of the dividends to be paid in the third quarter will not be considered an eligible dividend for the purposes of the "Enhanced Dividend Tax Credit System". A portion of the dividend in the third quarter and the dividend for the fourth quarter are expected to be considered an eligible dividend for the purposes of the "Enhanced Dividend Tax Credit System".

CAPITAL RESOURCES

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

During 2010, the Company completed an agreement with a syndicate of banks, including the majority of the banks in its existing revolving credit facility, to augment the Company's primary revolving credit facility with a $250.0 million short-term bank lending facility. The short-term bank facility matures concurrently with the Company's primary revolving credit facility, on May 31, 2011.

Subsequent to year-end, following the issuance of new long-term debt in December 2010, the Company terminated the $250.0 million short-term lending facility. There were no drawings on the facility on termination.

The Company has $551.4 million of debt, including related cross-currency swaps, maturing in 2011. The maturities include the Company's main revolving debt facility in May 2011 and a bond repayment in December 2011. Negotiations regarding the replacement of the credit facility are currently underway and the Company expects the refinancing to be complete by May 2011.

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

($ millions)	**2010**	2009
Credit facilities		
Maple Leaf Foods Inc.	**$ 1,702.9**	$ 1,539.1
Subsidiaries	**78.6**	85.6
Total Available	**$ 1,781.5**	$ 1,624.7
Drawn amount		
Maple Leaf Foods Inc.	**$ 903.4**	$ 994.1
Subsidiaries	**48.6**	50.9
Letters of credit	**124.9**	140.5
Total Drawn	**$ 1,076.9**	$ 1,185.5
% drawn	**60.4%**	73.0%

management's discussion and analysis

To access competitively priced financing, and to further diversify its funding sources, the Company operates two accounts receivable financing facilities under which it sells certain accounts receivable to an entity owned by a financial institution.

During 2010, the Company entered into a three-year, committed accounts receivable securitization facility to access competitively priced financing, and to further diversify its funding sources. This program replaced the existing accounts receivable financing facilities. Under the new facility, the Company sells certain accounts receivable, with limited recourse, to an entity owned by an international financial institution with a long-term debt rating of AAA. The receivables are sold at a discount to face value based on prevailing money market rates. At year-end, the Company had $292.9 million (2009: $174.8 million under the former facilities) of trade accounts receivable serviced under this facility. In return for the sale of its trade receivables, the Company received cash of $156.2 million and notes receivable in the amount of $136.7 million.

The program is subject to certain restrictions and requires the maintenance of certain debt ratios. The Company was in compliance with all of the requirements of the program during 2010. These facilities are accounted for as an off-balance sheet transaction under Canadian GAAP and will continue to be accounted for in the same manner under IFRS effective January 1, 2011.

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

CAPITAL EXPENDITURES

Capital expenditures for 2010 were $162.3 million, consistent with 2009 spend of $162.9 million.

A significant portion of the strategic investment made by the Company in 2010 was related to the implementation of SAP, which is replacing and harmonizing the Company's systems across all its businesses. Since beginning this enterprise-wide implementation, the Company has completed 37 SAP installations across the Company, with two business units now fully deployed.

The second major contributor to strategic spend in 2010 was the Company's investment in the construction of its new large-scale fresh bakery facility in Hamilton, Ontario. Construction of a scale bakery facility in Hamilton, Ontario commenced in August 2010, and by the end of 2010 the building was mostly closed in and equipment installation had begun. The project is on target to begin production of bakery product in July 2011, and Management expects to have completed the transfer of production from and closure of one of its three bakeries near Toronto, Ontario, by the end of 2011, with the remaining products from the two other bakeries by early 2013.

Other projects were undertaken by the Company during 2010 related to profit enhancement and supply chain optimization.

Overall, the Company's investment in property and equipment in 2010 was lower than originally planned, largely driven by timing shifts in spend related to strategic initiatives, mostly due to timing of investment in the new fresh bakery. Management anticipates that the majority of these deferred expenditures will occur in 2011.

CASH FLOW AND FINANCING

Total debt, net of cash balances, as at December 31, 2010 was $901.8 million, compared to $1,015.6 million as at December 31, 2009. The decrease in debt for the year is due to cash flow from operations and the impact of changes in foreign exchange rates on U.S. dollar-denominated debt, offset by investment in property and equipment.

Cash Flow from Operating Activities

Cash flow from continuing operations for the year was $283.7 million compared to $89.2 million last year. Cash generated from operating activities was higher mainly due to lower working capital levels in 2010 as the Company continues to manage the working capital balances, negative changes to the fair value of non-designated interest rate swaps and an increase in impairments and accelerated depreciation charges included in restructuring and other related costs.

management's discussion and analysis

Cash Flow from Financing Activities

Cash flow from financing activities was an outflow of $164.5 million for the year ended December 31, 2010 compared to an outflow of $283.0 million in the prior year. The change is mainly due to the repayment of maturing debt in 2009 that was not refinanced during the same year. The Company refinanced the 2009 and 2010 maturities throughout 2010.

In April 2010 and May 2010, the Company issued notes payable of $75.0 million, bearing interest at 6.08% per annum and notes payable of $15.0 million, bearing interest at 5.76% per annum, respectively. The notes payable are due in April 2015.

During the fourth quarter of 2010, the Company issued or agreed to issue notes payable in tranches of Canadian and U.S. dollar denominations totalling approximately $355.0 million. Proceeds totalling $37.0 million were received on December 16, 2010 and the remaining proceeds were received on January 4, 2011. Maturities of the notes range from 2015 to 2021.

The notes are unsecured and were issued to institutional investors in Canada and the United States. The Company effectively converted the U.S. dollar-denominated notes (US$213 million) into Canadian dollar-denominated debt of CAD$215 million through the use of cross-currency interest rate swaps. The average Canadian interest rate for the entire financing after taking account of the cross-currency swaps is 5.99%.

The Company's debt facilities are subject to certain restrictions and require the maintenance of certain debt and cash flow ratios. The Company was in compliance with all of the requirements of its lending agreements during 2010. At the end of the year, net debt to EBITDA excluding the change in fair value of non-designated interest rate swaps was 2.5x (2009: 2.9x) and net debt to EBITDA including the change in fair value of non-designated interest rate swaps was 2.7x (2009: 2.9x).

Cash Flow from Investing Activities

Cash flow from investing activities was an outflow of $160.1 million compared to an outflow of $137.8 million in the prior period, principally due to investments in property and equipment of $162.3 million (2009: $162.9 million), partly offset by proceeds on the sale of property and equipment in 2009 that did not occur in 2010.

CONTRACTUAL OBLIGATIONS

The following table provides information about certain of the Company's significant contractual obligations as at December 31, 2010:

Payments due by fiscal year:

($ millions)	**Total**	2011	2012	2013	2014	2015	After 2015
Long-term debt	**$ 885.9**	$ 496.8	$ 6.0	$ 5.7	$ 208.6	$ 103.5	$ 65.3
Cross-currency swaps related to long-term debt	**96.1**	54.6	–	–	37.6	–	3.9
	$ 982.0	$ 551.4	$ 6.0	$ 5.7	$ 246.2	$ 103.5	$ 69.2
Contractual obligations including leases	**344.1**	68.6	55.1	45.7	36.8	29.3	108.6
	$1,326.1	$ 620.0	$ 61.1	$ 51.4	$ 283.0	$ 132.8	$ 177.8

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

management's discussion and analysis

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT ACTIVITIES(i)

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

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

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

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

Capital

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

The Company uses leverage in its capital structure to reduce the cost of capital. The Company's goal is to maintain its primary credit ratios and leverage at levels that are designed to provide continued access to investment-grade credit pricing and terms. The Company measures its credit profile using a number of metrics, primarily net debt to EBITDA and EBITDA to interest expense.

In addition to senior debt and equity, the Company may use operating leases and limited recourse accounts receivable securitization programs as additional sources of financing.

The Company has maintained a stable dividend distribution that is based on the sustainable net earnings base. From time to time, the Company has purchased shares for cancellation pursuant to normal course issuer bids and to satisfy awards under its Restricted Share Unit plan, an equity compensation program established in 2006. The Company did not purchase any shares in 2010.

For the year ended December 31, 2010, total equity increased by $28.3 million to $1,217.4 million. During the same period, total debt net of cash and cash equivalents decreased by $113.9 million to $901.8 million.

Credit Risk

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

In the normal course of business, the Company is exposed to credit risk from its customers, substantially all of which are in the grocery and foodservice markets. 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. As at December 31, 2010 approximately $8.2 million (2009: $12.5 million) of the Company's accounts receivable were greater than 60 days past due. The Company maintains an allowance for doubtful accounts that represents its estimate of uncollectible amounts. The components of this allowance include a provision related to specific losses estimated on individually significant exposures and a provision based on historical trends of collections. As at December 31, 2010, the Company has recorded an allowance for doubtful accounts of $6.8 million (2009: $10.2 million). Average accounts receivable days sales outstanding for the year is consistent with historic trends. There are no significant impaired accounts receivable that have not been provided for in the allowance for doubtful accounts. The Company believes that the allowance for uncollectible accounts sufficiently covers any credit risk related to past due or impaired accounts receivable balances.

Management believes concentrations of credit risk with respect to accounts receivable is limited due to the credit quality of the Company's major customers, as well as the large number and geographic dispersion of smaller customers. The Company does, however, conduct a significant amount of business with a small number of large grocery retailers. The Company's five largest customers comprise approximately 39.8% of consolidated pre-securitized accounts receivable at December 31, 2010 (2009: 42.7%) and the two largest customers comprise approximately 20.4% (2009: 21.2%) of consolidated sales.

(i) *For a comprehensive discussion on the Company's risk management practices and derivative exposures, please refer to the Financial Instruments note in the Financial Statements.*

management's discussion and analysis

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

The Company's maximum exposure to credit risk at the balance sheet date consists primarily of the carrying value of non-derivative financial assets and non-exchange-traded derivatives with positive fair values.

Liquidity Risk

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

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

As at December 31, 2010, the Company had available undrawn committed credit of $683.7 million under the terms of its principal banking arrangements. These banking arrangements, which mature in May 2011, are subject to certain covenants and other restrictions.

Market Risk

Interest Rate Risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. The Company does from time to time enter into interest rate swaps to manage its current and anticipated market exposure, and to achieve an overall desired borrowing rate.

The Company's interest rate risk arises from short- and 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. The Company actively monitors the market to ensure that the desired overall funding rate, as well as the targeted proportionate fixed to variable debt mix is achieved.

As at December 31, 2010, 89% of the Company's outstanding debt was not exposed to interest rate movements (2009: 57%).

Foreign Exchange Risk

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

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

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

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

Commodity Price Risk

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

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

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

management's discussion and analysis

SEASONALITY

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

SHARE CAPITAL AND DIVIDENDS

During the second quarter of 2009, the Company amended its articles to change its authorized capital by creating an unlimited number of preference shares issuable in one or more series. No preference shares have been issued.

During 2010, a major shareholder converted 22,000,000 non-voting common shares to common shares, and in the fourth quarter of 2010, 2,947,367 common share purchase warrants were exercised resulting in the issuance of 2,947,367 common shares. As at December 31, 2010, there were 140,044,089 voting common shares issued and outstanding (2009: 114,774,802) and no non-voting common shares issued and outstanding (2009: 22,000,000). Following the exercise of warrants in the fourth quarter, there are no further warrants outstanding and unexercised.

In each of the quarters of 2010, the Company declared and paid cash dividends of $0.04 per common share (voting and non-voting). This represents a total dividend of $0.16 per common share (voting and non-voting) and aggregate dividend payments of $21.7 million (2009: $20.9 million).

PRIVATE EQUITY UNIT PLACEMENT

On December 16, 2008 the Company completed the issuance, on a private placement basis, of 7,368,421 units at a price of $9.50 per unit for aggregate gross proceeds of $70 million. Each unit consisted of one subscription receipt for common shares and 0.4 common share purchase warrant. Each subscription receipt entitled the holder to receive one common share of the Company on August 4, 2009 or, at the election of the Company, the return in cash of $9.50 per subscription receipt. Each whole common share purchase warrant is exercisable into one common share of the Company until December 16, 2010 at a price of $9.50 per common share. The net proceeds after issuance costs were used for general corporate purposes.

On August 4, 2009, the Company issued 7,368,421 common shares in satisfaction of the subscription receipts that were issued on December 16, 2008. This decision, made by an independent committee of the Board of Directors, reflected the Company's approach to ensuring that it maintains an appropriate mix of equity and debt in its capital structure and that these levels are maintained over time.

On December 14, 2010, the above common share purchase warrants were exercised into common shares of the Company. The Company received net proceeds of $28.0 million on the exercise of the warrants.

ENVIRONMENT

Maple Leaf is committed to maintaining high standards of environmental responsibility and positive relationships in the communities where it operates. Each of its businesses operates within the framework of an environmental policy entitled "Our Environmental Commitment" that is approved by the Board of Directors' Environment, Health and Safety Committee. The Company's environmental program is monitored on a regular basis by the Committee, including compliance with regulatory requirements, the use of internal environmental specialists and independent, external environmental experts. In 2010, the Company completed deployment of its Environmental Excellence program at more than 90% of its manufacturing facilities. This program establishes a standard environmental management system across the Company's various business interests. The Company continues to invest in environmental infrastructure related to water, waste and air emissions to ensure that environmental standards continue to be met or exceeded, while implementing procedures to reduce the impact of operations on the environment. Expenditures related to current environmental requirements are not expected to have a material effect on the financial position or earnings of the Company. However, there can be no assurance that certain events will not occur that will cause expenditures related to the environment to be significant and have a material adverse effect on the Company's financial condition or results of operations. Such events could include, but not be limited to additional environmental regulation or the occurrence of an adverse event at one of the Company's locations.

management's discussion and analysis

As a large food company there are health, environmental and social issues that go beyond short-term profitability that Management believes must shape its business if the Company is to realize a sustainable future. On the environmental front, the Company is undertaking multiple initiatives in conjunction with key customers to reduce packaging, track greenhouse gas emissions and the mileage it takes to produce and deliver food products. Increasingly sound environmental practices are becoming a key component of maintaining a competitive advantage. In 2009, the Company completed a comprehensive planning process to establish its environmental sustainability priorities and develop longer-term environmental objectives. While this process was briefly delayed due to product recall activities, priorities such as greenhouse gas and energy management, water conservation, waste reduction, packaging and supply chain environmental sustainability were established.

SUMMARY OF QUARTERLY RESULTS

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

		First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Sales	**2010**	**$ 1,191,507**	**$ 1,271,366**	**$ 1,293,211**	**$ 1,212,035**	**$ 4,968,119**
	2009	1,279,299	1,320,803	1,296,597	1,324,903	5,221,602
	2008	1,203,263	1,355,301	1,344,334	1,339,704	5,242,602
Net earnings (loss) from continuing operations	**2010**	**$ 8,754**	**$ 2,967**	**$ (16,078)**	**$ 30,179**	**$ 25,822**
	2009	2,871	4,899	22,457	21,920	52,147
	2008	(10)	(9,353)	(12,919)	(14,575)	(36,857)
Net earnings (loss)	**2010**	**$ 8,754**	**$ 2,967**	**$ (16,078)**	**$ 30,179**	**$ 25,822**
	2009	2,871	4,899	22,457	21,920	52,147
	2008	(10)	(9,353)	(12,919)	(14,575)	(36,857)
Earnings per share						
Basic from continuing operations(i)	**2010**	**$ 0.06**	**$ 0.02**	**$ (0.12)**	**$ 0.22**	**$ 0.19**
	2009	0.02	0.04	0.17	0.16	0.40
	2008	0.00	(0.07)	(0.10)	(0.12)	(0.29)
Adjusted EPS from continuing operations(i)(ii)	**2010**	**$ 0.09**	**$ 0.17**	**$ 0.23**	**$ 0.27**	**$ 0.76**
	2009	0.05	0.12	0.21	0.19	0.57
	2008	0.04	(0.01)	0.13	0.12	0.29
Total Basic(i)	**2010**	**$ 0.06**	**$ 0.02**	**$ (0.12)**	**$ 0.22**	**$ 0.19**
	2009	0.02	0.04	0.17	0.16	0.40
	2008	0.00	(0.07)	(0.10)	(0.12)	(0.29)
Diluted from continuing operations(i)	**2010**	**$ 0.06**	**$ 0.02**	**$ (0.12)**	**$ 0.21**	**$ 0.19**
	2009	0.02	0.04	0.17	0.16	0.39
	2008	0.00	(0.07)	(0.10)	(0.12)	(0.29)
Total diluted(i)	**2010**	**$ 0.06**	**$ 0.02**	**$ (0.12)**	**$ 0.21**	**$ 0.19**
	2009	0.02	0.04	0.17	0.16	0.39
	2008	0.00	(0.07)	(0.10)	(0.12)	(0.29)

(i) May not add due to rounding.

(ii) Refer to Non-GAAP Measures starting on page 49.

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Quarterly sales and net earnings in 2010 were impacted by the following significant items:

- the appreciation of the Canadian dollar relative to the U.S. dollar and the British pound reduced the sales value of fresh pork and frozen bakery products sold in the U.S. and the U.K.
- lower sales volumes in prepared meats as consumers adjust to new price levels following price adjustments implemented in the second and third quarters of 2010
- the exit of a non-core business line in prepared meats at the end of 2009
- lower sales volumes of frozen bakery products in the U.S. and the U.K.
- better poultry results due to higher market prices and improved operations although market impacts were less favourable in the fourth quarter
- improved results in hog production operations reflecting stronger hog market prices and better feed costs
- lower earnings in primary pork processing operations due to the unfavourable impact of a stronger Canadian dollar and weaker export markets
- a pre-tax loss of $24.9 million ($18.2 million after-tax) due to the change in fair value of non-designated interest rate swaps
- pre-tax charges of $81.1 million ($61.2 million after-tax) due to restructuring and other related costs. The majority of these costs related to the write-down of Burlington pork plant assets and severances related to the prospective closure of three Ontario bakeries or incurred with respect to the Company's network optimization initiatives.

Quarterly sales and net earnings in 2009 were impacted by the following significant items:

- strategic divestiture of hog production operations in 2008
- price increases implemented in 2008 in response to escalating input costs in the Bakery Products Group
- a product recall that occurred in the prepared meats business in August 2008 and the progress made in the recovery throughout 2009
- normalization of bakery margins in 2009 due mostly to the combination of prior year price increases and the decline in commodity costs
- the benefits realized from the restructure of hog production and primary pork processing as the Company largely completed its three-year strategy to refocus its operations on value-added meat, meals and bakery businesses
- increased earnings in the poultry operations due to better markets and lower operating costs

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

management's discussion and analysis

Summary of 2010 Fourth Quarter Results

Following is a summary of sales by business segment:

($ thousands)	Fourth Quarter 2010	2009
Meat Products Group	$ 762,561	$ 842,175
Agribusiness Group	56,167	50,686
Protein Group	$ 818,728	$ 892,861
Bakery Products Group	393,307	432,042
Sales	$ 1,212,035	$1,324,903

Following is a summary of Adjusted Operating Earnings by business segment:

($ thousands)	Fourth Quarter 2010	2009
Meat Products Group	$ 39,513	$ 24,244
Agribusiness Group	14,731	14,505
Protein Group	$ 54,244	$ 38,749
Bakery Products Group	22,296	21,896
Non-allocated Costs(i)	(5,097)	(2,805)
Adjusted Operating Earnings	$ 71,443	$ 57,840

(i) Non-allocated costs comprise costs related to systems conversion and consulting fees. Management believes that not allocating these costs provides a more comparable assessment of segmented operating results.

Sales for the fourth quarter decreased 8.5% to $1,212.0 million compared to $1,324.9 million last year. Excluding the impacts of an extra week in the fourth quarter of 2009, the divestiture of the Burlington pork facility and the exit of a non-core business line, sales increased by approximately 2.6% in the quarter. Favourable pricing, largely in primary pork processing, and improved sales mix driven by prepared meats and U.K. bakery operations, had the combined effect of increasing total sales by approximately 6.0%, however this was offset by lower volumes and unfavourable currency translation on sales in the U.S. and U.K. due to the strong Canadian dollar. Volumes in prepared meats declined in the quarter as consumers continue to adjust to new points that resulted from feature price increases taken in 2010.

Adjusted Operating Earnings in the quarter increased by 23.5% to $71.4 million compared to $57.8 million last year, due to material earnings growth in the Meat Products Group. Performance in the Bakery Products Group was slightly ahead of last year, while the earnings in the Agribusiness Group were consistent with prior year.

Strong earnings performance in primary pork processing operations contributed to the positive results of the Meat Products Group, despite substantial raw material increases and lower volumes in prepared meats. Favourable hog market conditions in North America and improved pricing contributed to the strong performance in pork processing. Margins in the prepared meats business continued to be pressured by further increases in raw material meat costs; however, improved net pricing and lower plant costs mitigated this impact.

Net earnings increased by 37.7% to $30.2 million or $0.22 basic earnings per share in the fourth quarter of 2010 compared to net earnings of $21.9 million or $0.16 basic earnings per share last year.

management's discussion and analysis

RISK FACTORS

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

Risks Related to the Business of Maple Leaf

Implementing the Company's Comprehensive Value Creation Plan

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

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

The value creation plan requires strategic capital expenditures (over and above base or maintenance capital) which are currently estimated to be approximately $775 million between 2010 and 2013 inclusive. While the pace of spending will be balanced with margin improvement, with interim margin targets achieved before committing to new levels of capital investment, and while the Company believes it has the underlying cash flow and balance sheet strength required to support the capital investments with no incremental requirement for new capital from shareholders, there can be no assurance that the capital required to implement the plan will be available as and when required or on commercially reasonable or acceptable terms.

Systems Conversion and Standardization

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

management's discussion and analysis

Food Safety and Consumer Health

The Company is subject to risks that affect the food industry in general, including risks posed by food spoilage, accidental contamination, product tampering, consumer product liability, and the potential costs and disruptions of a product recall. The Company's products are susceptible to contamination by disease-producing organisms, or pathogens, such as *E. Coli, Salmonella* and *Listeria*. There is a risk that these pathogens, as a result of food processing, could be present in the Company's products. The Company actively manages these risks by maintaining strict and rigorous controls and processes in its manufacturing facilities and distribution systems and by maintaining prudent levels of insurance. However, the Company cannot assure that such systems, even when working effectively, will eliminate the risks related to food safety. The Company could be required to recall certain of its products in the event of contamination or adverse test results, similar to the recall in 2008, or as precautionary measures, similar to the recalls in 2009. Any product contamination could subject the Company to product liability claims, adverse publicity and government scrutiny, investigation or intervention, resulting in increased costs and decreased sales. Any of these events could have a material adverse impact on the Company's financial condition and results of operations.

Leverage and Availability of Capital

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

Business Acquisitions and Capital Expansion Projects

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

Pension Plan Assets and Liabilities

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

management's discussion and analysis

Hog and Pork Market Cyclicality

The Company's results of operations and financial condition are partially dependent upon the cost and supply of hogs and the selling prices for fresh meat products, both of which are influenced by constantly changing market forces of supply and demand over which the Company has little or no control. These prices for the most part are denominated in or related to U.S. dollars which add further variability due to fluctuations in exchange rates. The North American primary pork processing markets are highly competitive, with major and regional companies competing in each market. The market prices for pork products regularly experience periods of supply and demand imbalance, and are sensitive to changes in industry processing capacity. Other factors that can influence the supply and market price of live hogs include fluctuations in the size of herds maintained by North American hog suppliers, environmental and conservation regulations, economic conditions, the relative cost of feed for hogs, weather and livestock diseases. There can be no assurance that all or part of any such increased costs experienced by the Company from time to time can be passed along to consumers of the Company's products directly or in a timely manner. As a result, there is no assurance that the occurrence of these events will not have a material adverse effect on the Company's financial condition and results of operations.

Livestock

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

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

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

Foreign Currencies

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

management's discussion and analysis

Commodities

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

International Trade

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

Regulation

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

Legal Matters

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

management's discussion and analysis

Consumer Trends

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

Environmental Regulation

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

Consolidating Customer Environment

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

Competitive Industry Environment

The food industry is intensely competitive. 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. 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 21,000 full- and part-time employees, which include salaried and union employees, many of whom are covered by collective agreements. These employees are located in various jurisdictions around the world, each such jurisdiction having differing employment laws and practices and differing liabilities for employment violations, which may result in punitive or extraordinary damages. While the Company maintains systems and procedures to comply with the applicable requirements, there is a risk that failures or lapses by individual managers could result in a violation or cause of action that could have a material adverse effect on the Company's financial condition and results of operations. Furthermore, if a collective agreement covering a significant number of employees or involving certain key employees were to expire 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.

Direct Store Delivery Disruptions

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

management's discussion and analysis

CRITICAL ACCOUNTING ESTIMATES

The preparation of the Company's consolidated financial statements requires Management to make certain estimates and assumptions. The estimates and assumptions are based on the Company's experience combined with Management's understanding of facts and circumstances at the time. These estimates may differ from actual results, and certain estimates are considered critical as they are both important to reflect the Company's financial position and results of operations and require significant or complex judgement on the part of Management. The following is a summary of certain accounting estimates or policies considered to be critical and that require significant or complex judgement by the Management of the Company.

Goodwill and Intangible Assets Valuation
Goodwill is tested for impairment annually in the second quarter and otherwise as required if events occur that indicate that it is more likely than not that the carrying value of a reporting unit has been impaired. Impairment of goodwill is tested at the reporting unit level by comparing the reporting unit's carrying amount to its fair value. The Company determines the fair value of its reporting units for accounting purposes based on a capitalization of earnings approach, corroborated by other techniques such as comparison to market values. The estimates of earnings used in the evaluation of goodwill are consistent with plans and estimates that are presented annually to the Board of Directors. Indefinite life intangibles are tested for impairment annually in the fourth quarter and, also as required, if events occur that indicate it is more likely than not that the carrying value has been impaired. The fair value of indefinite life intangibles is determined based on a "royalty savings approach", that is a discounted cash flow method. The estimates of fair value include projected future sales, terminal growth rates, royalty rates and discount rates. The impairment tests for indefinite life intangible assets and goodwill were performed in 2010 and no impairment was identified.

Reserve for Doubtful Accounts
The Company establishes an appropriate provision for uncollectible or doubtful accounts. Estimates of recoverable amounts are based on Management's best estimate of a customer's ability to settle its obligations, and actual amounts received may be affected by various factors, including industry conditions and changes in individual customer financial condition. To the extent that actual losses on uncollectible accounts differ from those estimated in the Company's provision, both accounts receivable and operating earnings will be affected.

Provisions for Inventory
Management makes estimates as to the future customer demand for our products when establishing the appropriate provisions for inventory. In making these estimates, Management considers product life of inventory and the profitability of recent sales of inventory. In many cases, product sold by the Company turns quickly and inventory values are lower, thus reducing the risk of material misstatement in realizable value. However, in the fresh and prepared meats businesses, code dates are very important in the determination of realizable value, and inventory values are significant. Management ensures that systems are in place to highlight and properly value inventory that may be approaching best before code dates. To the extent that actual losses on inventory differ from those estimated, both inventory and operating earnings will be affected.

Trade Merchandise Allowances and Other Trade Discounts
The Company provides for estimated payments to customers based on various trade programs and contracts that in many cases include payments that are contingent upon attainment of specified sales volumes. Significant estimates used to determine these liabilities include the projected level of volume sales for the relevant period and the historical promotional expenditure rate compared to contracted rates. As such 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 provisions incurred to value these obligations. To the extent that payments on trade discounts differ from estimates of the related liability, both accrued liabilities and operating earnings will be affected.

management's discussion and analysis

Employee Benefit Plans

The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on service and Management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected heath care costs. Discount rates used in actuarial calculations are based on long-term interest rates and can have a material effect on the amount of plan liabilities. Management employs external experts to advise them when deciding upon the appropriate estimates to use to value employee benefit plan obligations and expenses. Significant actuarial assumptions adopted in measuring the Company's accrued benefit obligations and benefit plan expenses are as follows:

	2010	2009
Discount rate used to calculate net benefit plan expense	**5.75%**	6.50%
Discount rate used to calculate year-end benefit obligation	**5.00%**	5.75%
Expected long-term rate of return on plan assets	**7.25%**	7.25%
Rate of compensation increase	**3.50%**	3.50%

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

($ millions)	1% Increase	1% Decrease
End-of-year obligation	$ 3.5	$ (3.9)
Aggregate of 2010 current service cost and interest cost	$ 0.2	$ (0.3)

Taxes

Provisions for income taxes are based on domestic and international statutory income tax rates and tax planning opportunities available to the Company in the jurisdictions in which it operates. Significant judgement is required in determining income tax provisions and evaluating the need for valuation allowances, if applicable. The calculation of current and future income tax balances, as well as any related valuation allowances as applicable, 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 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.

Reserves for Restructuring and Other Related Costs

The Company evaluates accruals related to restructuring and other related costs at each reporting date to ensure these accruals are still appropriate. As the Company has been involved in a significant amount of transformation and restructuring of businesses and assets in the past several years, these provisions and accruals can be significant and are prepared using estimates of the costs of future activities. In certain instances, Management may determine that these accruals are no longer required because of efficiencies in carrying out restructuring and other related activities. In certain circumstances, Management may determine that certain accruals are insufficient as new events occur or as additional information is obtained. These costs and provisions are separately identified and disclosed in the Company's financial statements.

management's discussion and analysis

CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2009, the Company adopted Emerging Issues Committee Abstract 173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities" ("EIC 173"). EIC 173 requires the Company to consider its own credit risk and the credit risk of the counterparty in determining the fair value of financial assets and financial liabilities, including derivative instruments. The adoption of EIC 173, which was adopted on a retrospective basis without restatement of prior periods did not have a material impact on the Company's financial statements.

In 2008, the Canadian Institute of Chartered Accountants ("CICA") issued Handbook Section 3064, "Goodwill and Intangible Assets" ("CICA 3064"). CICA 3064, which replaces Section 3062, "Goodwill and Other Intangible Assets", and Section 3450, "Research and Development Costs", establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. The Company adopted this standard on a retrospective basis on January 1, 2009. The adoption of the new standard did not have a material impact on the Company's financial statements.

In June 2009, the CICA amended Section 3862, "Financial Instruments – Disclosures", to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three-level hierarchy that reflects the significance of the inputs used in making the fair value measurements. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities:

Level 1 – inputs are unadjusted quoted prices of identical instruments in active markets.

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

Level 3 – one or more significant inputs used in a valuation technique are unobservable in determining fair values of the instruments.

Determination of fair value and the resulting hierarchy requires the use of observable market data whenever available. The classification of a financial instrument in the hierarchy is based upon the lowest level of input that is significant to the measurement of fair value. The Company has complied with the new disclosure requirements beginning in 2009 and this disclosure is presented in Note 12 of the Consolidated Financial Statements.

RECENT ACCOUNTING PRONOUNCEMENTS

In January 2009, the CICA issued Handbook Section 1582, "Business Combinations" ("CICA 1582"). CICA 1582 requires that all assets and liabilities of an acquired business will be recorded at fair value on the acquisition date and is consistent with International Financial Reporting Standards ("IFRS"). Obligations for contingent considerations and contingencies will also be recorded at fair value at the acquisition date. The standard also states that acquisition-related costs will be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date. The Section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period on or after January 1, 2011.

In January 2009, the CICA issued Handbook Section 1601, "Consolidations" ("CICA 1601"), and Section 1602, "Non-controlling Interests" ("CICA 1602"). CICA 1601 establishes standards for the preparation of consolidated financial statements. CICA 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011.

In February 2008, the CICA announced that Canadian public companies will be required to prepare their financial statements in accordance with International Financial Reporting Standards ("IFRS") for fiscal years beginning on or after January 1, 2011. The Company will issue its financial statements in the first quarter of 2011 in accordance with IFRS including comparative data for 2010.

management's discussion and analysis

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

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, 2010 and have concluded that such controls and procedures are effective.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

For fiscal years beginning on or after January 1, 2011, Canadian public companies will be required to prepare their financial statements in accordance with International Financial Reporting Standards ("IFRS"). While IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences in accounting policies that must be evaluated. IFRS will also require more disclosures than Canadian GAAP. The Company will issue its financial statements in the first quarter of 2011 in accordance with IFRS including comparative data for 2010.

In order to meet the requirement of transition to IFRS, in 2008, the Company established an enterprise-wide project team and project plan. The IFRS project philosophy is to align with current accounting practices and policies, where possible, and to minimize the impact of any changes to the business or reporting to shareholders. Regular reporting of the progress on the IFRS conversion project is provided to senior Management and the Audit Committee of the Board of Directors.

The Company's IFRS conversion project plan is comprised of three main phases: initial diagnostic assessment, design and implementation. The Company has completed the initial assessment and design phases of the plan and has identified and documented the key accounting and disclosure differences between Canadian GAAP and IFRS. The implementation phase of the project is ongoing and will continue until the Company issues its first IFRS financial statements for the quarter ended March 31, 2011. Substantial progress has been made in the implementation phase of the project as described below and in the Company's MD&A for prior periods. The IFRS conversion project is on schedule and Management expects that the project will be completed in time to enable the Company to issue IFRS-compliant financial statements for the first quarter of 2011 as required.

A summary of key accounting differences and IFRS 1 elections was provided in the Company's annual MD&A for the year ended December 31, 2009 as well as policy alternatives under IFRS, including certain exemptions and elections available on transition under IFRS 1. Outlined below are the IFRS 1 elections that the Company expects to make on transition to IFRS and the impact of these elections.

IFRS 1 Optional Exemptions

Business Combinations

IFRS 1 provides an exemption that allows an entity to elect not to retrospectively restate business combinations prior to January 1, 2010 (the "Transition Date") in accordance with IFRS 3, "Business Combinations". The Company elected not to retrospectively restate those business combinations that occurred prior to the Transition Date.

Fair Value as Deemed Cost

IFRS 1 allows an entity to elect to measure property and equipment at fair value in the opening IFRS balance sheet. Fair value would then become the deemed cost of the item. Alternatively, an entity can retrospectively apply the historical cost model in IAS 16, "Property, Plant and Equipment", to arrive at the carrying value of property, plant and equipment on the Transition Date. The Company has elected to retroactively apply the historical cost model for property and equipment for IFRS purposes on the Transition Date.

management's discussion and analysis

Employee Benefits
In accordance with IAS 19, "Employee Benefits", an entity may elect to use a "corridor" approach that leaves some actuarial gains and losses unrecognized. Retrospective application of this approach requires an entity to split the cumulative actuarial gains and losses from the inception of the plan until the date of transition to IFRS into a recognized portion and an unrecognized portion. Alternatively, an entity may elect to recognize all cumulative actuarial gains and losses at the date of transition to IFRS, even if it uses the corridor approach for later actuarial gains and losses, recognized after the Transition Date. The Company elected to recognize all cumulative actuarial gains and losses that existed at the Transition Date in retained earnings for all of the Company's employee benefit plans. This will result in a decrease in total shareholders' equity.

Cumulative Translation Differences
Retrospective application of IFRS would require the Company to determine cumulative currency translation differences in accordance with IAS 21, "The Effects of Changes in Foreign Exchange Rates", from the date a foreign subsidiary or associate was formed or acquired. IFRS 1 allows an entity to elect not to calculate the translation difference retrospectively. Where this election is made, the cumulative translation balance for all foreign operations is set to zero at the Transition Date. The Company elected not to retrospectively calculate the cumulative translation balances and all of these balances will be reset to zero on the Transition Date. There is no impact to total shareholders' equity as a result of this election.

Share-Based Payment Transactions
IFRS 1 allows an entity to elect to be exempt from retrospectively applying the requirements of IFRS 2, "Share-Based Payments" for awards that are vested or settled prior to the Transition Date. There are several differences between IFRS 2 and Canadian GAAP. For example, when a share-based award vests in installments over the vesting period (graded vesting), IFRS 2 requires each installment to be accounted for as a separate arrangement. Canadian GAAP allows an entity to treat the entire award as a pool, determine fair value using the average life of the instruments and then recognize the compensation expense on a straight-line basis over the vesting period. Since the Company recorded share-based payment transactions in this manner, retrospective application of IFRS 2 would require the Company to revalue all of its prior share-based payment transactions. Therefore, the Company elected to apply this exemption. There is no impact to total shareholders' equity as a result of this exemption.

Decommissioning Liabilities Included in the Cost of Property, Plant and Equipment
IFRS 1 allows an entity to elect not to retrospectively apply the requirements of IFRIC 1, "Changes in Existing Decommissioning, Restoration and Similar Liabilities". The Company elected not to retrospectively recognize changes to these liabilities under IFRIC 1 that may have occurred prior to the Transition Date.

Borrowing Costs
IAS 23, "Borrowing Costs", requires an entity to capitalize borrowing costs relating to qualifying assets. Under IFRS 1, an entity may elect to apply the transitional provisions of IAS 23, which allow an entity to choose the date to apply the capitalization of borrowing costs relating to all qualifying assets as either the Transition Date or an earlier date. The Company elected to apply the transitional provisions of IAS 23 and will choose the Transition Date as the date to commence the capitalization of borrowing costs to all qualifying assets.

IFRS 1 Mandatory Exemptions
Hedge Accounting
Hedge accounting may only be applied prospectively from the Transition Date to transactions that meet the hedge accounting criteria in IAS 39, "Financial Instruments – Recognition and Measurement", at that date. Hedging relationships cannot be designated retrospectively and the supporting documentation cannot be created retrospectively. The Company designated all hedges appropriately under IFRS on the Transition Date.

The Company has determined that some of its commodity hedging activities will not qualify for hedge accounting under IFRS. On the Transition Date, this will result in a debit to retained earnings and a credit to accumulated other comprehensive loss of $0.7 million with no impact to total shareholders' equity.

management's discussion and analysis

Non-controlling Interests
An entity must apply the requirements of IAS 27, "Consolidated and Separate Financial Statements", which relate to non-controlling interests prospectively from the Transition Date. The Company does not expect an impact related to this exemption.

Estimates
Estimates previously determined under Canadian GAAP cannot be revised due to the application of IFRS except where necessary to reflect differences in accounting policies.

Key Accounting Differences between Canadian GAAP and IFRS
Changes in accounting policies upon adoption of IFRS are likely, but at this time the Company cannot quantify the total or net impact that the future adoption of IFRS will have on its consolidated financial statements and operating performance measures. The International Accounting Standards Board has significant ongoing projects that could affect the ultimate differences between Canadian GAAP and IFRS and the impact on the Company's consolidated financial statements. Outlined below are the key areas where changes in accounting policy are expected that may affect the Company's consolidated financial statements.

Securitization Programs
IFRS has different requirements than Canadian GAAP to allow off-balance sheet treatment of accounts receivable securitization programs. On October 27, 2010, the Company finalized new accounts receivable securitization agreements that do qualify for de-recognition under IFRS and is effective as of that date. Accounts receivable that were sold under previous securitization agreements will be recorded on the balance sheet for the restated 2010 comparative periods.

Biological Assets
Under IFRS, livestock is considered a separate asset class called biological assets, which must be carried at fair value, less costs to sell. The Company has finalized the transitional impact as of the Transition Date, which results in a decrease in inventory of $52.0 million, an increase in biological assets of $42.9 million, an increase in deferred tax assets of $2.3 million and a decrease in retained earnings of $6.8 million. This change will result in periodic revaluation of the Company's biological assets to fair value less costs to sell. The Company is not able to estimate the impact of this change on future financial results.

Employee Benefits
IAS 19, "Employee Benefits", requires past service costs of defined benefit pension plans to be expensed on an accelerated basis, with vested past service costs expensed immediately and unvested past service costs recognized on a straight-line basis until the benefits become vested. Under Canadian GAAP, past service costs are generally amortized on a straight-line basis over the average remaining service period of employees active at the date of the amendment.

IAS 19 also requires an entity to make an accounting policy choice regarding the recognition of actuarial gains and losses. The three options that are available are as follows: delayed recognition using a "corridor" approach; immediate recognition through the income statement; and, immediate recognition through other comprehensive income.

Under IFRS 1, the Company elected to recognize all cumulative actuarial gains and losses that existed at the Transition Date in opening retained earnings for all of its employee benefit plans. The expected transitional impact of this adjustment is a decrease in other long-term assets of $161.1 million, a decrease in deferred tax liabilities of $41.2 million and a decrease in retained earnings of $119.9 million. The Company also finalized its accounting policy for pensions and post-retirement benefits and the impact of IFRIC 14, "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction". The Company's chosen accounting policy will recognize gains and losses immediately through other comprehensive income. The impact of IFRIC 14, is that $36.3 million of pension plan assets will not be recognized due to the asset ceiling requirements of the interpretation and there is an additional liability of $20.6 million due to the minimum funding requirements under the interpretation. These two adjustments result in a pre-tax charge to retained earnings on transition of $56.9 million. The Company is not able to estimate the impact of this change on future financial results.

management's discussion and analysis

Borrowing Costs
IAS 23, "Borrowing Costs", requires the capitalization of borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Under Canadian GAAP, the Company's accounting policy is to expense these borrowing costs as incurred. The impact of this change will be a periodic reduction in interest expense during periods where significant capital projects are underway. The Company has determined there will not be an adjustment on transition to IFRS. The Company is not able to estimate the impact of this change on future financial results.

Business Combinations
IFRS 3, "Business Combinations", does not allow the accrual of restructuring provisions pursuant to an acquisition. On the Transition Date any existing restructuring accruals that were the result of an acquisition will be written off through retained earnings. The Company has finalized the transitional impact as of the Transition Date which results in a decrease in accrued liabilities of $0.9 million, a decrease in deferred tax asset of $0.2 million and an increase in retained earnings of $0.7 million.

Income Taxes
IAS 12, "Income Taxes", requires a balance sheet liability approach in assessing future income taxes very similar to CICA Handbook Section 3465 with some noticeable differences. Under IAS 12, deferred tax assets or liabilities are recognized for the differences in tax bases on inter-company transfers. Deferred taxes are calculated using the purchaser's tax rate and any current taxes payable/recoverable of the seller are recognized and not deferred. Other than recording the tax effect of the various other transitional adjustments and the reclassification of certain tax balances, the Company does not expect to record any significant tax-related adjustments on the transition to IFRS. The Company is not able to estimate the impact of this change on future financial results.

Cumulative Translation Differences
Under IFRS 1, the Company will elect not to retrospectively calculate its cumulative translation balances, and all of these balances will be reset to zero on the Transition Date. The Company has finalized the transitional impact as of the Transition Date, which results in an increase in accumulated other comprehensive loss of $48.1 million and a corresponding decrease in retained earnings with no impact on total shareholders' equity.

Share-Based Payment Transactions
When a share-based award vests in installments over the vesting period (graded vesting), IFRS requires each installment to be accounted for as a separate arrangement. Canadian GAAP allows an entity to treat the entire award as a pool, determine fair value using the average life of the instruments and then recognize the compensation expense on a straight-line basis over the vesting period. Certain of the Company's historical share-based awards would have had a different quantification and amortization of compensation expense related to this difference. The Company has finalized the transitional impact of this difference, which resulted in an increase in contributed surplus of $4.1 million and a decrease in retained earnings of $4.1 million resulting in no impact on total shareholders' equity.

Property and Equipment
IFRS has more specific guidance than Canadian GAAP on the capitalization and componentization of assets, requiring that significant asset components with different useful lives than the main asset be recorded and depreciated separately. As a result of this difference, the Company determined that certain assets should have separately capitalized components under IFRS. The retrospective application of this standard resulted in a pre-tax decrease of $6.9 million in total shareholders' equity due to revised depreciation rates.

Impairment of Assets
Canadian GAAP generally uses a two-step approach to impairment testing, first comparing asset carrying values with undiscounted future cash flows to determine whether impairment exists, and then measuring any impairment by comparing asset carrying values with their fair values. IAS 36, "Impairment of Assets", uses a one-step approach to determine if impairment exists and for measuring that impairment, by comparing asset carrying values to the higher of fair value less costs to sell and value in use (determined using discounted future cash flows). This can potentially result in asset impairments, where the carrying values of assets were previously supported under Canadian GAAP on an undiscounted cash flow basis, but would not be supported on a discounted cash flow basis.

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Additionally, for the purposes of asset impairment testing, Canadian GAAP requires assets to be grouped at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. IFRS requires that assets be tested for impairment at the level of the cash generating unit (or groups of cash generating units for the purposes of testing goodwill impairment), which is the lowest level of assets that generate largely independent cash inflows. In many cases, this requirement will result in a lower level grouping of assets, which could result in the identification of impairment under IFRS for assets that were not considered impaired under Canadian GAAP. The Company has estimated that an impairment adjustment on certain assets will decrease retained earnings by $80.0 million to $100.0 million before taxes on the Transition Date subject to finalization of the determination of cash generating units.

This summary of expected areas of significance should not be regarded as a complete list of adjustments that will result from the transition to IFRS. It is intended to highlight those areas that have been completed and are most significant. The Company has completed the determination of the accounting adjustments necessary on the transition to IFRS based on current IFRS pronouncements in existence at December 31, 2010.

Non-GAAP Financial Measures

The Company uses the following non-GAAP measures: Adjusted Operating Earnings, Adjusted EPS, EBITDA, Net Debt and Return on Net Assets ("RONA"). Management believes that these non-GAAP 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 Canadian GAAP 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 Canadian GAAP.

Adjusted Operating Earnings

The following table reconciles Adjusted Operating Earnings to Net Earnings as reported under Canadian GAAP in the audited consolidated statements of earnings for the three years ended December 31, 2010. Management believes this is the most appropriate basis upon which to evaluate operating results, as restructuring and other related costs, other income (expense) and the change in fair value of non-designated interest rate swaps are not representative of operating results.

	2010				
	Meat Products Group	Agribusiness Group	Bakery Products Group	Non-allocated Costs	Consolidated
Net earnings					$ 25,822
Non-controlling interest					6,193
Income tax					17,766
Earnings from operations before income taxes					49,781
Interest expense					66,386
Change in the fair value of non-designated interest rate swaps					24,922
Earnings from operations before income taxes, interest expense and the change in fair value of non-designated interest rate swaps	$ 26,692	$ 50,158	$ 77,715	$ (13,476)	$ 141,089
Restructuring and other related costs	64,001	(22)	15,548	1,581	81,108
Other income (loss)	(992)	698	(57)	189	(162)
Adjusted Operating Earnings	$ 89,701	$ 50,834	$ 93,206	$ (11,706)	$ 222,035

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	2009				
	Meat Products Group	Agribusiness Group	Bakery Products Group	Non-allocated Costs	Consolidated
Net earnings					$ 52,147
Non-controlling interest					7,902
Income tax					27,296
Earnings from operations before income taxes					87,345
Interest expense					81,234
Change in the fair value of non-designated interest rate swaps					–
Earnings from operations before income taxes, interest expense and the change in fair value of non-designated interest rate swaps	$ 33,159	$ 46,891	$ 99,399	$ (10,870)	$ 168,579
Restructuring and other related costs	22,298	2,026	4,908	1,913	31,145
Other income (loss)	(69)	(894)	(2,152)	(498)	(3,613)
Adjusted operating earnings	$ 55,388	$ 48,023	$ 102,155	$ (9,455)	$ 196,111

	2008				
	Meat Products Group	Agribusiness Group	Bakery Products Group	Non-allocated Costs	Consolidated
Net earnings					$ (36,857)
Non-controlling interest					7,211
Income tax					(8,538)
Earnings from operations before income taxes					(38,184)
Interest expense					88,651
Change in the fair value of non-designated interest rate swaps					–
Earnings from operations before income taxes, interest expense and the change in fair value of non-designated interest rate swaps	$ (25,166)	$ 20,523	$ 87,192	$ (32,082)	$ 50,467
Product recall, restructuring and other related costs	59,832	14,286	10,491	18,203	102,812
Other income (loss)	(5,211)	(4,677)	(14,704)	(272)	(24,864)
Adjusted operating earnings	$ 29,455	$ 30,132	$ 82,979	$ (14,151)	$ 128,415

management's discussion and analysis

Adjusted Earnings per Share

The following table reconciles Adjusted Earnings per Share to basic earnings per share as reported under Canadian GAAP in the audited consolidated statements of earnings for the three years ended December 31, 2010. Management believes this is the most appropriate basis on which to evaluate financial results as restructuring and other related costs and the change in the fair value of non-designated interest rate swaps are not representative of operational results.

($ per share)	**2010**	2009	2008
Basic earnings per share	**$ 0.19**	$ 0.40	$ (0.29)
One-time direct product recall costs(i)	**–**	–	0.22
Restructuring and other related costs(ii)	**0.45**	0.17	0.36
Change in the fair value of non-designated interest rate swaps(iii)	**0.12**	–	–
Adjusted earnings per share	**$ 0.76**	$ 0.57	$ 0.29

(i) Includes per share impact of one-time direct product recall costs incurred in 2008, net of tax and non-controlling interest.

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

(iii) Includes per share impact of the change in fair value of non-designated interest rate swaps, net of tax.

Earnings before Interest, Tax, Depreciation and Amortization

The following table reconciles earnings from operations before restructuring and other related costs, change in the fair value of non-designated interest rate swaps, interest, income taxes, and depreciation and intangible asset amortization ("EBITDA") to net earnings as reported under Canadian GAAP in the audited consolidated statements of earnings for the years ended as indicated below. Management believes 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.

($ thousands)	**2010**	2009	2008
Net earnings	**$ 25,822**	$ 52,147	$ (36,857)
Non-controlling interest	**6,193**	7,902	7,211
Income taxes	**17,766**	27,296	(8,538)
Earnings from operations before income taxes	**49,781**	87,345	(38,184)
Interest expense	**66,386**	81,234	88,651
Restructuring and other related costs	**81,108**	31,145	102,812
Change in the fair value of non-designated interest rate swaps	**24,922**	–	–
Depreciation and amortization	**141,785**	149,489	149,219
EBITDA	**$ 363,982**	$ 349,213	$ 302,498

Net Debt

The following table reconciles Net Debt used in net debt to EBITDA ratios reflected on page 30 to amounts reported under GAAP in the consolidated balance sheet as at each of the three years ended December 31, 2010.

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

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($ thousands)	**2010**	2009	2008
Bank indebtedness	**$ 15,858**	$ 4,247	$ 8,894
Current portion of long-term debt	**496,835**	206,147	179,244
Long-term debt	**389,078**	834,557	1,200,244
Sub-total	**$ 901,771**	$ 1,044,951	$ 1,388,382
Cash and cash equivalents	**–**	(29,316)	(365,518)
Net debt	**$ 901,771**	$ 1,015,635	$1,022,864

Return on Net Assets

Return on Net Assets ("RONA") is calculated by dividing tax-effected earnings from operations before restructuring and other related costs, the change in fair value of non-designated interest rate swaps and interest by average monthly net assets. Net assets are defined as total assets less cash, future tax assets and non-interest bearing liabilities. Management believes that RONA is an appropriate basis upon which to evaluate long-term financial performance.

Forward-Looking Statements

This document contains, and the Company's oral and written public communications often contain, forward-looking statements that are based on current expectations, estimates, forecasts and projections about the industries in which the Company operates and beliefs and assumptions made by the Management of the Company. Such statements include, but are not limited to, statements with respect to objectives and goals, as well as statements with respect to beliefs, plans, objectives, expectations, anticipations, estimates and intentions. Specific forward-looking statements in this document include, but are not limited to, statements with respect to improving business trends in 2011, expectations regarding actions to reduce costs, restore and/or promote volumes and/or increase prices, improve efficiencies, the expected use of cash balances, source of funds for ongoing business requirements, capital investments and debt repayment, expectations regarding sufficiency of the allowance for uncollectible accounts and the potential impact of the adoption of IFRS. Words such as "expect", "anticipate", "intend", "attempt", "may", "will", "plan", "believe", "seek", "estimate", and variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve assumptions and risks and uncertainties that are difficult to predict.

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

management's discussion and analysis

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

- the risks associated with implementing and executing the protein business transformation;
- the risks associated with changes in the Company's shared systems and processes;
- the risks posed by food contamination, consumer liability and product recalls;
- the risks associated with the Company's outstanding indebtedness;
- the impact on pension expense and funding requirements of fluctuations in the market prices of fixed income and equity securities and changes in interest rates;
- the risks associated with acquisitions and capital expansion projects;
- the cyclical nature of the cost and supply of hogs and the competitive nature of the pork market generally;
- the risks related to the health status of livestock;
- the impact of a pandemic on the Company's operations;
- the Company's exposure to currency exchange risks;
- the ability of the Company to hedge against the effect of commodity price changes through the use of commodity futures and options;
- the impact of international events on commodity prices and the free flow of goods;
- the risks associated with a consolidating retail environment;
- the risks posed by compliance with extensive government regulation;
- the risks posed by the adoption of the International Financial Reporting Standards;
- the risks posed by litigation;
- the impact of changes in consumer tastes and buying patterns;
- the impact of extensive environmental regulation and potential environmental liabilities;
- the risks associated with complying with differing employment laws and practices globally and the potential for work stoppages due to non-renewal of collective agreements;
- the risks associated with the Company's independent distributors; and
- the risks posed by competition.

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

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

Maple Leaf Foods Inc. ("Maple Leaf" or the "Company") is a leading Canadian value-added meat, meals and bakery company committed to delivering quality food products to consumers around the world. Headquartered in Toronto, Canada, the Company employs approximately 21,000 people at its operations across Canada and in the United States, Europe and Asia.

independent auditors' report

To the Shareholders

We have audited the accompanying consolidated financial statements of Maple Leaf Foods Inc., which comprise the consolidated balance sheets as at December 31, 2010 and December 31, 2009 and the consolidated statements of earnings, comprehensive income, retained earnings, and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Maple Leaf Foods Inc. as at December 31, 2010 and December 31, 2009, and its consolidated results of its operations and its consolidated cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants, Licensed Public Accountants
Toronto, Canada
February 24, 2011

Consolidated Balance Sheets

As at December 31 *(In thousands of Canadian dollars)*	2010	2009
ASSETS		
Current assets		
Cash and cash equivalents	$ –	$ 29,316
Accounts receivable (Note 3)	84,117	189,221
Notes receivable (Note 3)	136,663	–
Inventories (Note 4)	319,263	331,781
Income and other taxes recoverable	29,957	18,067
Future tax asset (Note 20)	6,229	4,301
Prepaid expenses and other assets	14,766	15,328
Assets held for sale (Note 6)	–	29,224
	$ 590,995	$ 617,238
Property and equipment (Note 5)	1,037,428	1,059,694
Other long-term assets (Note 7)	333,833	328,063
Future tax asset (Note 20)	20,737	22,116
Goodwill (Note 8)	850,382	857,278
Other intangible assets (Note 9)	163,420	137,239
Assets held for sale (Note 6)	–	35,836
	$ 2,996,795	$3,057,464
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank indebtedness	$ 15,858	$ 4,247
Accounts payable and accrued charges	521,746	477,071
Current portion of long-term debt (Note 10)	496,835	206,147
Other current liabilities	63,465	37,837
Liabilities held for sale (Note 6)	–	12,111
	$ 1,097,904	$ 737,413
Long-term debt (Note 10)	389,078	834,557
Future tax liability (Note 20)	15,289	27,851
Other long-term liabilities (Note 11)	192,311	187,523
Non-controlling interest	84,836	81,070
Shareholders' equity (Note 14)	1,217,377	1,189,050
	$ 2,996,795	$3,057,464

Contingencies and commitments (Note 23)

See accompanying Notes to the Consolidated Financial Statements

On behalf of the Board:

MICHAEL H. MCCAIN
DIRECTOR

DIANE MCGARRY
DIRECTOR

Consolidated Statements of Earnings

Years ended December 31 *(In thousands of Canadian dollars, except share amounts)*	**2010**	2009
Sales	**$ 4,968,119**	$5,221,602
Cost of goods sold	**4,228,928**	4,487,378
Gross margin	**$ 739,191**	$ 734,224
Selling, general and administrative expenses	**517,156**	538,113
Earnings from operations before the following:	**$ 222,035**	$ 196,111
Restructuring and other related costs (Note 13)	**(81,108)**	(31,145)
Change in fair value of non-designated interest rate swaps	**(24,922)**	–
Other income (Note 18)	**162**	3,613
Earnings from operations before interest and income taxes	**$ 116,167**	$ 168,579
Interest expense (Note 19)	**66,386**	81,234
Earnings from operations before income taxes	**$ 49,781**	$ 87,345
Income taxes (Note 20)	**17,766**	27,296
Earnings from operations before non-controlling interest	**$ 32,015**	$ 60,049
Non-controlling interest	**6,193**	7,902
Net earnings	**$ 25,822**	$ 52,147
Basic earnings per share (Note 17)	**$ 0.19**	$ 0.40
Diluted earnings per share (Note 17)	**$ 0.19**	$ 0.39
Weighted average number of shares (millions)	**135.6**	129.8

See accompanying Notes to the Consolidated Financial Statements

Consolidated Statements of Comprehensive Income

Years ended December 31 *(In thousands of Canadian dollars)*	2010	2009
Net earnings for the year	$ 25,822	$ 52,147
Other comprehensive loss (Note 15)		
Change in accumulated foreign currency translation adjustment	(20,310)	(15,644)
Change in unrealized loss on cash flow hedges	(4,026)	12,871
	$ (24,336)	$ (2,773)
Comprehensive income	$ 1,486	$ 49,374

Consolidated Statements of Retained Earnings

Years ended December 31 *(In thousands of Canadian dollars)*	2010	2009
Retained earnings, beginning of year	$ 344,839	$ 314,649
Net earnings for the year	25,822	52,147
Adoption of new accounting standard (Note 2(p)(i))	–	(207)
Dividends declared ($0.16 per share; 2009: $0.16 per share)	(21,677)	(20,913)
Premium on shares issued from Restricted Share Unit Trust	(2,665)	(837)
Retained earnings, end of year	$ 346,319	$ 344,839

See accompanying Notes to the Consolidated Financial Statements

Consolidated Statements of Cash Flows

Years ended December 31 *(In thousands of Canadian dollars)*	2010	2009
CASH PROVIDED BY (USED IN)		
Operating activities		
Net earnings	$ 25,822	$ 52,147
Add (deduct) items not affecting cash		
Depreciation and amortization	141,785	149,489
Stock-based compensation (Note 16)	17,725	18,400
Non-controlling interest	6,193	7,902
Future income taxes	(12,264)	(7,390)
Loss (gain) on sale of property and equipment	(217)	1,137
Gain on sale of investments	–	(501)
Amortization of terminated interest rate swaps	2,010	2,106
Change in fair value of non-designated interest rate swaps	24,922	–
Change in fair value of derivative financial instruments	1,372	(13,373)
Change in other long-term receivables	–	90
Decrease (increase) in net pension asset	(1,077)	962
Change in provision for restructuring and other related costs	60,823	15,046
Other	(2,729)	(7,828)
Change in non-cash operating working capital	19,303	(128,981)
Cash provided by operating activities	$ 283,668	$ 89,206
Financing activities		
Dividends paid	(21,677)	(20,913)
Dividends paid to non-controlling interest	(747)	(672)
Increase in long-term debt	129,078	–
Decrease in long-term debt	(297,842)	(262,795)
Proceeds on issuance of share capital (Note 14)	31,287	1,480
Purchase of treasury stock (Note 14)	(496)	(3,190)
Increase in financing costs	(2,656)	–
Other	(1,437)	3,110
Cash used in financing activities	$ (164,490)	$ (282,980)
Investing activities		
Additions to property and equipment	(162,304)	(162,893)
Proceeds from disposal of property and equipment	4,610	23,717
Proceeds from sale of investments	140	1,540
Purchase of Canada Bread shares (Note 22)	(2,690)	–
Other	139	(145)
Cash used in investing activities	$ (160,105)	$ (137,781)
Decrease in cash and cash equivalents	(40,927)	(331,555)
Cash and cash equivalents, beginning of year	25,069	356,624
Cash and cash equivalents (bank indebtedness), end of year	$ (15,858)	$ 25,069
Net cash and cash equivalents is comprised of:		
Cash and cash equivalents	–	29,316
Bank indebtedness	(15,858)	(4,247)
Net cash and cash equivalents (bank indebtedness), end of year	$ (15,858)	$ 25,069

See accompanying Notes to the Consolidated Financial Statements

Notes to the Consolidated Financial Statements

(Tabular amounts in thousands of Canadian dollars, except share amounts)
Years ended December 31, 2010 and 2009

1. THE COMPANY

Maple Leaf Foods Inc. ("Maple Leaf Foods" or the "Company") is a leading Canadian-based value-added meat, meals and bakery company, serving wholesale, retail and foodservice customers across North America and internationally. The Company's results are organized into three segments: Meat Products Group, Agribusiness Group and Bakery Products Group.

2. SIGNIFICANT ACCOUNTING POLICIES

The following are the significant accounting policies of the Company, which are in accordance with Canadian Generally Accepted Accounting Principles ("GAAP").

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. Investments in associated companies over which the Company exercises significant influence, are accounted for by the equity method. Variable Interest Entities ("VIEs"), as defined by Accounting Guideline 15 – "Consolidation of Variable Interest Entities" are consolidated by the Company when it is determined that the Company will, as the primary beneficiary, absorb the majority of the VIEs' expected losses and/or expected residual returns. Investments in equity securities of entities over which the Company does not exert significant influence are accounted for at cost or at fair value depending on whether such investments are publicly traded.

(b) Use of estimates

The preparation of periodic financial statements necessarily involves the use of estimates. Estimates are used when accounting for items and matters such as allowances for uncollectible accounts, sales of receivables, inventory obsolescence, depreciation and amortization, asset valuations, impairment assessments, fair value determinations, employee benefits, pensions, taxes and any corresponding valuation allowances, restructuring and other related costs, stock-based compensation and contingencies. Should the underlying assumptions change, the actual amounts could differ from those estimates.

(c) Translation of foreign currencies

The accounts of the Company are presented in Canadian dollars. 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 year-end for assets and liabilities and the average exchange rates for the period for revenue, expenses and cash flows. Exchange gains or losses on translation of foreign subsidiaries are included in accumulated other comprehensive income, a component of shareholders' equity until realized.

(d) Revenue recognition

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

Except for fresh bread, the Company generally does not accept returns of spoiled products from customers. To account for spoiled products, in certain cases customers are provided with allowances to cover any damage or spoilage, and such allowances are deducted from sales at the time of revenue recognition. In the case of fresh bread, customer returns are deducted from sales to that customer.

Notes to the Consolidated Financial Statements

(e) Financial instruments

The Company's financial assets and financial liabilities are classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables or other financial liabilities. The classification depends on the purpose for which the financial instruments were acquired and their characteristics. Held-for-trading is the required classification for all derivative financial instruments unless they are specifically designated within an effective hedge relationship. Held-for-trading financial instruments are measured at fair value with changes in fair value recognized in net earnings in the period in which they arise. Available-for-sale financial assets are measured at fair value with changes in fair value recognized in other comprehensive income in the period in which they arise. Held-to-maturity financial assets, loans and receivables and other financial liabilities are initially recorded at fair value and are subsequently measured at amortized cost.

(f) Hedge accounting

The Company uses derivatives and other non-derivative financial instruments to manage 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 the strategy for undertaking the hedge. The documentation identifies the specific asset, liability or anticipated cash flows being hedged, the risk that is being hedged, the type of hedging instrument used and how effectiveness will be assessed.

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

When hedge accounting is appropriate, the hedging relationship is designated as a cash flow hedge, a fair value hedge or a hedge of foreign currency exposure of a net investment in a self-sustaining foreign operation.

In a cash flow hedge, the change in fair value of the hedging instrument is recorded, to the extent it is effective, in other comprehensive income until the hedged item affects net earnings. The Company uses cash flow hedges primarily to convert fixed-rate U.S. dollar-denominated notes payable to fixed-rate notes denominated in Canadian dollars. The Company also uses cash flow hedges to mitigate the risk from variable cash flows associated with forecasted foreign currency-denominated cash flows and forecasted purchases and sales of various commodities.

In a fair value hedge, the change in fair value of the hedging derivative is offset in the consolidated statement of earnings by the change in fair value of the hedged item relating to the hedged risk.

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

Hedge ineffectiveness is measured and recorded in current period earnings in the consolidated statement of earnings. When either a fair value hedge or cash flow hedge is discontinued, any cumulative adjustment to either the hedged item or other comprehensive income is recognized in earnings as the hedged item affects 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, with any gains or losses recorded in earnings, without any offset from the hedged item.

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

(g) Inventories

Inventories are valued at the lower of cost and net realizable value, with cost being determined substantially on a first-in, first-out basis. Included in the cost of inventory are direct product costs, direct labour and an allocation of variable and fixed manufacturing overhead including depreciation.

Notes to the Consolidated Financial Statements

(h) Impairment or disposal of long-lived assets

The Company reviews long-lived assets or asset groups held and used including property and equipment and other intangible assets subject to amortization for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Recoverability of assets to be held and used is measured by comparing the carrying amount of the asset to the sum of the undiscounted cash flows expected to result from the use and eventual disposal of the asset or asset group. An impairment loss is recognized when the carrying amount is not recoverable and exceeds the fair value of the asset or asset group. Long-lived assets are classified as held-for-sale when certain criteria are met and a sale is expected to be completed within one year. The assets to be disposed of are separately presented in the balance sheet and reported at the lower of their carrying amount or fair value, less costs to sell, and are no longer depreciated.

(i) Property and equipment

Property and equipment are recorded at cost including, where applicable, 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 is calculated using the straight-line basis, which is based on the expected useful life of the assets as follows:

Buildings	15 – 40 years
Machinery and equipment	3 – 10 years

(j) Financing costs

Costs incurred to obtain long-term debt financing are amortized over the term of such debt and the amount amortized is included in interest expense for the year.

(k) Goodwill and other intangible assets

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to identifiable assets acquired, less liabilities assumed, based on their fair values. Goodwill is allocated as of the date of the business combination to the Company's reporting units that are expected to benefit from the synergies of the business combination. The Company assigns value to certain acquired identifiable intangible assets, primarily brands, customer relationships, poultry production quota and delivery routes.

The Company has both definite life and indefinite life intangible assets. Definite life intangibles are amortized on a straight-line basis over their estimated useful lives.

Trademarks	10 years
Customer relationship intangibles	20 – 25 years
Software	3 – 10 years

Goodwill is not amortized and is tested for impairment annually in the second quarter and otherwise as required if events occur that indicate that it is more likely than not that the carrying value of a reporting unit has been impaired. Impairment of goodwill is tested at the reporting unit level by comparing the reporting unit's carrying amount to its fair value. Indefinite life intangibles are tested for impairment annually in the fourth quarter and, as required, if events occur that indicate it is more likely than not the carrying value has been impaired. The impairment tests for indefinite life intangible assets and goodwill were performed in 2010 and 2009 and no impairments were identified.

(l) Income taxes

The Company uses the asset and liability method of accounting for income taxes. Accordingly, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. In addition, the effect on future tax assets and liabilities of a change in tax rates is recognized in income in the year that includes the enactment or substantive enactment date. A valuation allowance is recognized against future tax assets when it is more likely than not that all or some part of the asset will not be realized.

Notes to the Consolidated Financial Statements

(m) Employee benefit plans

The Company accrues obligations and costs in respect of employee benefit plans. The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on service and Management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs. Changes in these assumptions could affect future pension expense. For the purpose of calculating the expected return on plan assets, those assets are valued at fair value. Past service costs arising from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment.

Actuarial gains and losses in excess of 10% of the greater of the actuarial liabilities and the fair value of assets at the beginning of the year and all gains and losses due to changes in plan provisions are amortized on a straight-line basis over the expected average remaining service period of the active plan members. When a restructuring of a benefit plan gives rise to both a curtailment and settlement of obligations, the curtailment is accounted for prior to the settlement.

(n) Stock-based compensation

The Company applies the fair value method of accounting for its stock-based compensation. The fair value at grant date of stock options ("options") is estimated using the Black-Scholes option-pricing model. The fair value of restricted stock units ("RSUs") is measured based on the fair value of the underlying shares on the grant date. Compensation cost is recognized on a straight-line basis over the expected vesting period of the stock-based compensation. The Company estimates forfeitures at the grant date and revises the estimate as necessary if subsequent information indicates that actual forfeitures differ significantly from the original estimate.

(o) Statement of cash flows

Cash and cash equivalents are defined as cash and short-term securities with maturities less than 90 days at the date of acquisition, less bank indebtedness.

(p) Accounting changes

(i) Effective January 1, 2009, the Company adopted Emerging Issues Committee Abstract 173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities" ("EIC 173"). EIC 173 requires the Company to consider its own credit risk and the credit risk of the counterparty in determining the fair value of financial assets and financial liabilities, including derivative instruments. The adoption of EIC 173, which was adopted on a retrospective basis without restatement of prior periods, did not have a material impact on the Company's financial statements.

(ii) In 2008, the Canadian Institute of Chartered Accountants ("CICA") issued Handbook Section 3064, "Goodwill and Intangible Assets" ("CICA 3064"). CICA 3064, which replaces Section 3062, "Goodwill and Other Intangible Assets", and Section 3450, "Research and Development Costs", establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. The Company adopted this standard on a retrospective basis on January 1, 2009. The adoption of the new standard did not have a material impact on the Company's financial statements.

(iii) In June 2009, the CICA amended Section 3862, "Financial Instruments – Disclosures", to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three-level hierarchy that reflects the significance of the inputs used in making the fair value measurements. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities:

Level 1 – inputs are unadjusted quoted prices of identical instruments in active markets.

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

Level 3 – one or more significant inputs used in a valuation technique are unobservable in determining fair values of the instruments.

Determination of fair value and the resulting hierarchy requires the use of observable market data whenever available. The classification of a financial instrument in the hierarchy is based upon the lowest level of input that is significant to the measurement of fair value. The Company has complied with the new disclosure requirements beginning in 2009 and this disclosure is presented in Note 12.

Notes to the Consolidated Financial Statements

(q) Recent accounting pronouncements
In January 2009, the CICA issued Handbook Section 1582, "Business Combinations" ("CICA 1582"). CICA 1582 requires that all assets and liabilities of an acquired business be recorded at fair value on the acquisition date and is consistent with International Financial Reporting Standards ("IFRS"). Obligations for contingent considerations and contingencies will also be recorded at fair value at the acquisition date. The standard also requires that acquisition-related costs be expensed as incurred and that restructuring charges be expensed in the periods in which they are incurred after the acquisition date. The Section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period on or after January 1, 2011.

In January 2009, the CICA issued Handbook Section 1601, "Consolidations" ("CICA 1601"), and Section 1602, "Non-controlling Interests" ("CICA 1602"). CICA 1601 establishes standards for the preparation of consolidated financial statements. CICA 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011.

In February 2008, the CICA announced that Canadian public companies will be required to prepare their financial statements in accordance with International Financial Reporting Standards ("IFRS") for fiscal years beginning on or after January 1, 2011. The Company will issue its financial statements in the first quarter of 2011 in accordance with IFRS including comparative data for 2010.

(r) Comparative figures
Certain 2009 comparative figures have been reclassified to conform to the financial statement presentation adopted in 2010.

3. ACCOUNTS RECEIVABLE

	2010	2009
Trade receivables (a)	$ 37,433	$ 166,422
Less: Allowance for bad debts	(6,764)	(10,204)
Net trade receivables	$ 30,669	$ 156,218
Other receivables	53,448	33,003
	$ 84,117	$ 189,221

(a) During 2010, the Company entered into a new revolving securitization program that replaced the existing accounts receivable financing facilities. At December 31, 2010, the Company has sold certain of its trade accounts receivable to an entity owned by a financial institution. The Company retains servicing responsibilities and retains a limited recourse obligation for delinquent receivables. At December 31, 2010, trade accounts receivable being serviced under this program amounted to $292.9 million (2009: $174.8 million under the former facilities). In return for the sale of its trade receivables, the Company received cash of $156.2 million (2009: $174.8 million under former facilities) and notes receivable in the amount of $136.7 million (2009: nil). The notes receivable are non-interest bearing and are due on the monthly accounts receivable settlement dates.

Notes to the Consolidated Financial Statements

4. INVENTORIES

	2010	2009
Raw materials	**$ 45,872**	$ 49,617
Work in process	**50,662**	52,836
Finished goods	**158,074**	166,988
Packaging	**25,380**	25,067
Spare parts	**39,275**	37,273
	$ 319,263	$ 331,781

5. PROPERTY AND EQUIPMENT

		2010	
	Cost	**Accumulated Depreciation**	**Net Book Value**
Land	**$ 59,507**	**$ –**	**$ 59,507**
Building	**704,385**	**(299,182)**	**405,203**
Machinery and equipment	**1,581,643**	**(1,103,456)**	**478,187**
Construction in progress	**94,531**	**–**	**94,531**
Total property and equipment	**$2,440,066**	**$(1,402,638)**	**$1,037,428**

		2009	
	Cost	Accumulated Depreciation	Net Book Value
Land	$ 60,501	$ –	$ 60,501
Building	672,956	(255,378)	417,578
Machinery and equipment	1,532,193	(1,045,185)	487,008
Construction in progress	94,607	–	94,607
Total property and equipment	$ 2,360,257	$ (1,300,563)	$1,059,694

Depreciation expense included in earnings for the current year was $139.5 million (2009: $147.2 million). Details of asset impairments are discussed in Note 13.

Notes to the Consolidated Financial Statements

6. ASSETS HELD FOR SALE

Assets and related liabilities held for sale in 2009 are those relating to the Company's Burlington, Ontario pork processing facility, which was sold in the fourth quarter of 2010. The facility's assets held for sale, and liabilities related thereto, are comprised of the following:

As at December 31	2009
Assets held for sale	
Accounts receivable	$ 11,096
Inventories	18,128
Property and equipment	35,836
	$ 65,060
Classified as:	
Current	$ 29,224
Long-term	35,836
	$ 65,060
Liabilities related to assets held for sale	
Accounts payable and accrued charges	$ 12,111

7. OTHER LONG-TERM ASSETS

	2010	2009
Deferred pension asset (Note 21)	$ 327,407	$ 322,656
Other	6,426	5,407
	$ 333,833	$ 328,063

8. GOODWILL

	2010	2009
Balance, beginning of period	$ 857,278	$ 876,261
Acquisitions	1,010	–
Finalization of prior purchase equations	–	(689)
Reversal of acquisition-related accruals (net of tax)	–	(8,112)
Effect of changes in foreign exchange rates	(7,906)	(10,182)
Balance, end of period	$ 850,382	$ 857,278

Notes to the Consolidated Financial Statements

9. OTHER INTANGIBLE ASSETS

2010	Brands	Poultry Quota	Customer Relationships	Software	Other	Total
Cost						
Balance December 31, 2009	$ 59,591	$ 28,567	$ 14,440	$ 40,230	$ 1,545	$ 144,373
Additions	–	–	–	30,389	–	30,389
Disposals	–	–	–	–	(254)	(254)
Effect of changes in foreign exchange rates	(25)	–	(1,074)	–	–	(1,099)
Balance December 31, 2010	$ 59,566	$ 28,567	$ 13,366	$ 70,619	$ 1,291	$ 173,409
Amortization and impairment						
Balance December 31, 2009	$ 4,933	$ –	$ 1,497	$ 704	$ –	$ 7,134
Amortization	639	–	545	1,156	–	2,340
Impairments	–	–	623	–	–	623
Effect of changes in foreign exchange rates	(2)	–	(106)	–	–	(108)
Balance December 31, 2010	$ 5,570	$ –	$ 2,559	$ 1,860	$ –	$ 9,989
Net carrying value						
December 31, 2010	$ 53,996	$ 28,567	$ 10,807	$ 68,759	$ 1,291	$ 163,420

2009	Brands	Poultry Quota	Customer Relationships	Software	Other	Total
Cost						
Balance December 31, 2008	$ 57,053	$ 28,567	$ 13,341	$ –	$ 2,047	$ 101,008
Additions	2,629	–	1,700	40,230	–	44,559
Disposals	–	–	–	–	(502)	(502)
Effect of changes in foreign exchange rates	(91)	–	(601)	–	–	(692)
Balance December 31, 2009	$ 59,591	$ 28,567	$ 14,440	$ 40,230	$ 1,545	$ 144,373
Amortization and impairment						
Balance December 31, 2008	$ 2,788	$ –	$ 863	$ –	$ –	$ 3,651
Amortization	933	–	673	704	–	2,310
Impairments	1,212	–	–	–	–	1,212
Effect of changes in foreign exchange rates	–	–	(39)	–	–	(39)
Balance December 31, 2009	$ 4,933	$ –	$ 1,497	$ 704	$ –	$ 7,134
Net carrying value						
December 31, 2009	$ 54,658	$ 28,567	$ 12,943	$ 39,526	$ 1,545	$ 137,239

Intangible asset impairments relate to restructuring in the Bakery Products Group (Note 13).

Notes to the Consolidated Financial Statements

10. LONG-TERM DEBT

	2010	2009
Notes payable:		
– due 2010 (US$75.0 million and CAD$115.0 million) (a)	$ –	$ 193,810
– due 2010 (CAD$2.6 million) (d)	–	2,704
– due 2011 (US$207.0 million) (b)	205,892	216,775
– due 2011 to 2016 (CAD$34.8 million) (d)	37,684	43,078
– due 2014 (US$98.0 million and CAD$105.0 million) (b)	201,549	206,610
– due 2015 (CAD$90.0 million) (c)	89,067	–
– due 2015 (CAD$7.0 million) (e)	7,000	–
– due 2016 (US$7.0 million and CAD$20.0 million) (b)	26,775	27,122
– due 2020 (CAD$30.0 million) (e)	29,823	–
Revolving term facility (f)	285,000	345,000
Other (g)	3,123	5,605
	$ 885,913	$1,040,704
Less: Current portion	496,835	206,147
	$ 389,078	$ 834,557

(a) In April 2000, the Company issued notes payable due April 2010. The notes payable include a Canadian dollar-denominated tranche for CAD$115.0 million, bearing interest at 7.7% per annum, and a U.S. dollar-denominated tranche for US$75.0 million, bearing interest at 8.5% per annum. Through the use of cross-currency interest rate swaps, the Company hedged the U.S. dollar tranche into Canadian dollar-denominated debt, at an effective fixed interest rate of 7.7% per annum. In April 2010, the Company repaid the notes payable in full and settled the related cross-currency interest rate swap. At December 31, 2009, fair value of the swap liability was $32.4 million.

(b) In December 2004, the Company issued $500.0 million of notes payable. The notes were issued in tranches of U.S. and Canadian dollar-denominations, with maturity dates from seven to 12 years and bearing interest at fixed annual coupon rates.

Details of the five tranches are as follows:

Principal	Maturity Date	Annual Coupon
US$207.0 million	2011	5.2%
US$98.0 million	2014	5.6%
CAD$105.0 million	2014	6.1%
US$7.0 million	2016	5.8%
CAD$20.0 million	2016	6.2%

Interest is payable semi-annually. Through the use of cross-currency interest rate swaps, the Company hedged: US$177.0 million of debt maturing in 2011 into Canadian dollar-denominated debt bearing interest at an annual fixed rate of 5.4%, US$98.0 million of debt maturing in 2014 into Canadian dollar-denominated debt bearing interest at an annual fixed rate of 6.0%, and US$2.0 million of debt maturing in 2016 into Canadian dollar-denominated debt bearing interest at an annual fixed rate of 6.1%. At December 31, 2010, the fair value of the swap liabilities were $94.6 million based on year-end exchange rates (2009: $86.7 million).

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

Notes to the Consolidated Financial Statements

(d) With the acquisition of Schneider Corporation in April 2004, the Company assumed liabilities outstanding in respect of debentures previously issued by Schneider Corporation. In April 2004, the debentures provided for principal payments totalling $13.1 million and $60.0 million, bearing interest at fixed annual rates of 10.0% and 7.5%, respectively. The debentures require annual principal repayments over the term of the bonds that have final maturity dates of September 2010 and October 2016, respectively. These debentures were recorded at their fair value on the acquisition closing date. The difference between the acquisition date fair value and the face value of the bonds is amortized over the remaining life of the debentures on an effective yield basis. In September 2010, the Company repaid the 2010 debenture in full. On December 31, 2010, the remaining book value was $37.7 million for the 2016 debenture (2009: $43.1 million) and the remaining principal payments outstanding was $34.8 million (2009: $39.3 million).

(e) In December 2010, the Company issued or agreed to issue notes payable in tranches of U.S. and Canadian dollar-denominations, with maturity dates from five to 11 years and bearing interest at fixed annual coupon rates. The Company received proceeds of CAD$37.0 million in December 2010 and the remaining proceeds in January 2011.

Details of the five tranches are as follows:

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

Interest is payable semi-annually. Through the use of cross-currency interest rate swaps, the Company hedged US$213.0 million of debt maturing in 2021 into Canadian dollar-denominated debt bearing interest at an annual fixed rate of 6.1%. At December 31, 2010, the fair value of the swap liabilities were $12.2 million based on year-end exchange rates.

(f) The Company has an unsecured revolving debt facility with a principal amount of $870.0 million. The maturity date of the facility is May 31, 2011. This facility can be drawn in Canadian dollars, U.S. dollars, or British pounds, and bears interest based on bankers' acceptance rates for Canadian dollar loans and LIBOR for U.S. dollar and British pound loans. As at December 31, 2010, $400.8 million of the revolving facility was utilized (2009: $476.6 million), of which $115.8 million was in respect of letters of credit and trade finance (2009: $131.6 million).

(g) During 2010, the Company completed an agreement with a syndicate of banks, including the majority of the banks in its existing revolving credit facility, to augment the Company's primary revolving credit facility with a $250.0 million short-term bank lending facility maturing May 31, 2011. The facility was terminated subsequent to year-end (Note 27).

(h) The Company has other various lending facilities, with interest rates ranging from non-interest bearing to 7.1% per annum. These facilities are repayable over various terms from 2011 to 2016. As at December 31, 2010, $12.2 million (2009: $14.5 million) was outstanding, of which $9.1 million (2009: $8.9 million) was in respect of letters of credit.

The Company's estimated blended average effective cost of borrowing for 2010 was approximately 4.8% (2009: 5.1%) after taking into account the impact of interest rate hedges.

Required repayments of long-term debt are as follows:

2011	$ 496,835
2012	5,945
2013	5,735
2014	208,597
2015	103,518
Thereafter	65,283
Total long-term debt	$ 885,913

Notes to the Consolidated Financial Statements

11. OTHER LONG-TERM LIABILITIES

	2010	2009
Derivative instruments (Note 12)	$ 71,676	$ 77,328
Pension liabilities (Note 21)	34,275	31,067
Post-retirement benefits (Note 21)	66,706	65,062
Other	19,654	14,066
	$ 192,311	$ 187,523

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT ACTIVITIES

Capital

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

The Company uses leverage in its capital structure to reduce the cost of capital. The Company's goal is to maintain its primary credit ratios and leverage at levels that are designed to provide continued access to investment-grade credit pricing and terms. The Company measures its credit profile using a number of metrics, primarily net debt to earnings before interest, income taxes, depreciation, amortization, restructuring and other related costs. The Company's various credit facilities, all of which are unsecured, are subject to certain financial covenants. As at December 31, 2010, the Company was in compliance with all of these covenants.

In addition to senior debt and equity, the Company may use operating leases and limited recourse accounts receivable securitization programs as additional sources of financing.

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

For the year ended December 31, 2010, total equity increased by $28.3 million to $1,217.4 million. During the same period, total debt net of cash and cash equivalents decreased by $113.9 million to $901.8 million.

Financial Instruments

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

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

(i) These derivative instruments may be designated as cash flow hedges or as fair value hedges as appropriate.

Notes to the Consolidated Financial Statements

The fair value of financial assets and liabilities classified as loans and receivables and other financial liabilities (excluding long-term debt) approximate their carrying value due to their short-term nature. Financial assets and liabilities classified as held-for-trading and all derivative financial instruments are recorded at fair value. The fair value of long-term debt as at December 31, 2010 was $924.9 million as compared to its carrying value of $885.9 million on the consolidated balance sheet.

The fair value of the Company's long-term debt was estimated based on discounted future cash flows using current rates for similar financial instruments subject to similar risks and maturities. The fair values of the Company's interest rate and foreign exchange derivative financial instruments were estimated using current market measures for interest rates and foreign exchange rates. Commodity futures and options contracts are exchange-traded and fair value is determined based on exchange prices.

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

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

In the normal course of business, the Company is exposed to credit risk from its customers. The Company performs ongoing credit evaluations of new and existing customers' financial condition and reviews the collectibility of its trade and other receivables in order to mitigate any possible credit losses. As at December 31, 2010 approximately $8.2 million (2009: $12.5 million) of the Company's accounts receivable were greater than 60 days past due. The Company maintains an allowance for doubtful accounts that represents its estimate of uncollectible amounts. The components of this allowance include a provision related to specific losses estimated on individually significant exposures and a general provision based on historical trends of collections. As at December 31, 2010, the Company has recorded an allowance for doubtful accounts of $6.8 million (2009: $10.2 million). Average accounts receivable days sales outstanding for the year is consistent with historic trends. There are no significant impaired accounts receivable that have not been provided for in the allowance for doubtful accounts. The Company believes that the allowance for doubtful accounts sufficiently covers any credit risk related to past due or impaired accounts receivable balances.

Management believes concentrations of credit risk with respect to accounts receivable is limited due to the generally high credit quality of the Company's major customers, as well as the large number and geographic dispersion of smaller customers. The Company does, however, conduct a significant amount of business with a small number of large grocery retailers. The Company's five largest customers comprise approximately 39.8% (2009: 42.7%) of consolidated pre-securitized accounts receivable at December 31, 2010 and the two largest customers comprise approximately 20.4% (2009: 21.2%) of consolidated sales.

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

The Company's maximum exposure to credit risk at the balance sheet date consisted primarily of the carrying value of non-derivative financial assets and non-exchange-traded derivatives with positive fair values.

Notes to the Consolidated Financial Statements

Liquidity Risk

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

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

As at December 31, 2010	Due within 1 year	Due between 1 and 2 years	Due between 2 and 3 years	Due after 3 years	Total
Financial liabilities					
Bank indebtedness	$ 15,858	$ –	$ –	$ –	**$ 15,858**
Accounts payable and accrued charges	521,746	–	–	–	**521,746**
Long-term debt	496,835	5,945	5,735	377,398	**885,913**
Cross-currency interest rate swaps	54,645	–	–	41,461	**96,106**
Total	$ 1,089,084	$ 5,945	$ 5,735	$ 418,859	**$1,519,623**

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, 2010, the Company had available undrawn committed credit of $683.7 million under the terms of its principal banking arrangements. These banking arrangements, which mature in 2011, are subject to certain covenants and other restrictions.

Market Risk

Interest Rate Risk

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

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

At December 31, 2010, the Company had variable rate debt of $294.3 million with a weighted average interest rate of 3.0% (2009: $350.1 million with a weighted average of 1.5%). In addition, the Company is exposed to floating interest rates on its accounts receivable securitization programs. As at December 31, 2010, the amount sold pursuant to these programs was $155.5 million at a weighted average interest rate of 2.4% (2009: $174.8 million with a weighted average rate of 2.4%).

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, 2010, 89% of the Company's outstanding debt and revolving accounts receivable securitization program were not exposed to interest rate movements (2009: 57%).

Foreign Exchange Risk

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

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

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

Notes to the Consolidated Financial Statements

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

(In thousands of currency units)

Maturity	Notional amount	Receive rate(i)	Notional amount	Pay rate(i)
	US$		CAD$	
2011	177,000	5.2%	231,025	5.4%
2014	100,000	5.6%	138,000	6.0%
2021	213,000	5.2%	215,366	6.1%

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

A portion of the Company's U.S. dollar-denominated notes payable is not swapped into Canadian dollars and is designated as a net investment hedge of its U.S. operations. At December 31, 2010, this amount of notes payable designated as a hedge of the Company's net investment in U.S. operations was US$35.0 million (December 31, 2009: US$35.0 million). Foreign exchange gains and losses on the designated notes payable are recorded in shareholders' equity in the foreign currency translation component of accumulated other comprehensive income and offset translation adjustments on the underlying net assets of the U.S. operations, which are also recorded in accumulated other comprehensive income. The gain on the net investment hedge recorded in other comprehensive loss for the year ended December 31, 2010 was $1.9 million before taxes (2009: gain of $24.8 million).

The Company uses foreign exchange forward contracts to manage foreign exchange transaction exposures. The primary currencies to which the Company is exposed are the U.S. dollar and the Japanese yen. Qualifying foreign currency forward contracts are accounted for as cash flow hedges. As of December 31, 2010, $142.8 million of anticipated foreign currency-denominated sales have been hedged with underlying foreign exchange forward contracts settling at various dates beginning January 2011. The aggregate fair value of these forward contracts was a gain of $2.2 million at December 31, 2010 (2009: gain of $2.9 million) and was recorded in other current assets.

At December 31, 2010, the Company had fixed-rate debt of $599.4 million with a weighted average interest rate of 5.7%. Changes in market interest rates cause the fair value of long-term debt with fixed interest rates to fluctuate but do not affect net earnings, as the Company's debt is carried at amortized cost and the carrying value does not change as interest rates change.

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

For cross-currency interest rate swaps designated as cash flow or fair value hedges of foreign exchange risk, changes in the fair values of the hedged item and the hedging instruments attributable to foreign exchange rate movements offset completely in the income statement in the same period. As a consequence, these financial instruments are not exposed to foreign exchange risks and do not affect net earnings.

It is estimated that, all else constant, a hypothetical 10% change in the value of the Canadian dollar against all relevant currencies would result in a change in the fair value of the Company's foreign exchange forward contracts of $18.7 million, an offsetting change in net earnings of $3.2 million and a corresponding change in other comprehensive income of $9.6 million.

Commodity Price Risk

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

Notes to the Consolidated Financial Statements

Derivatives designated as a hedge of an anticipated or forecasted transaction are accounted for as cash flow hedges. Changes in the fair value of the hedging derivatives are recorded in other comprehensive income to the extent the hedge is effective in mitigating the exposure to the related anticipated transaction, and subsequently reclassified to earnings to offset the impact of the hedged items when they affect earnings.

The Company also uses futures to minimize the price risk assumed under forward priced contracts with suppliers. The futures contracts are designated and accounted for as fair value hedges.

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

It is estimated that, all else constant, a hypothetical 10% change in market prices of the underlying commodities would result in a change in the fair value of underlying outstanding derivative contracts of $9.2 million, a corresponding change in net earnings of $0.7 million and a corresponding change in other comprehensive income of $5.6 million. These amounts exclude the offsetting impact of the commodity price risk inherent in the transactions being hedged.

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

	2010			2009		
	Notional Amount	**Fair Value Asset**	**Fair Value Liability**	Notional Amount	Fair Value Asset	Fair Value Liability
Cash flow hedges						
Cross-currency interest rate swaps	**US $490,000**	**$ –**	**$106,761**	US $352,000	$ –	$ 114,012
Foreign exchange forward contracts(i)	**142,750**	**2,215**		119,033	2,905	–
Commodity futures contracts(i)	**18,528**		**460**	21,538		736
Fair value hedges						
Commodity futures contracts(i)	**$ 60,437**	**$ –**	**$ 2,869**	$ 18,903	$ –	$ 417
Derivatives not designated in a formal hedging relationship						
Interest rate swaps	**$590,000**	**$ –**	**$ 24,922**	$ –	$ –	$ –
Foreign exchange forward contracts(i)	**87,100**	**620**	**–**	119,306	845	–
Commodity futures contracts(i)	**42,408**	**–**	**129**	10,985	36	–
Total		**$ 2,835**	**$ 135,141**		$ 3,786	$ 115,165
Current		**$ 2,835**	**$ 63,465**		$ 3,786	$ 37,837
Non-current		**–**	**71,676**		–	77,328
Total		**$ 2,835**	**$ 135,141**		$ 3,786	$ 115,165

(i) Notional amounts are stated at the contractual Canadian dollar equivalent.

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

For the years ended December 31, 2010 and 2009, the amount of hedge ineffectiveness recognized in earnings was not material.

Non-designated Interest Rate Swaps

During the second quarter, the Company executed $590.0 million of interest rate swaps. Swaps totalling $330.0 million started on April 28, 2010 and have an expiry date of April 28, 2015 with an average interest rate of 3.34%. Swaps totalling $260.0 million start on December 8, 2011 and have an expiry date of December 8, 2015 with an average interest rate of 4.18%. These swaps are not currently designated in a formal hedging relationship. For the year ended December 31, 2010, the change in fair value recorded in net earnings was a loss of $24.9 million.

Notes to the Consolidated Financial Statements

Fair Value Hierarchy

Assets and liabilities carried at fair value must be classified using a three-level hierarchy that reflects the significance and transparency of the inputs used in making the fair value measurements. The table below sets out fair value measurements of financial instruments using the fair value hierarchy (Note 2(p)(ii)).

	Level 1	Level 2	Level 3	**Total**
Assets:				
Foreign exchange forward contracts	$ –	$ 2,835	$ –	**$ 2,835**
	$ –	$ 2,835	$ –	**$ 2,835**
Liabilities:				
Commodity futures contracts	$ 3,458	$ –	$ –	**$ 3,458**
Interest rate swaps	–	131,683	–	**131,683**
	$ 3,458	$ 131,683	$ –	**$135,141**

There were no transfers between levels during the year ended December 31, 2010.

13. RESTRUCTURING AND OTHER RELATED COSTS

During 2010, the Company recorded restructuring and other related costs of $81.1 million ($61.2 million after-tax). Of this pre-tax amount, $32.9 million related to an asset impairment charge on the Company's Burlington, Ontario pork processing facility. A further $13.1 million related to severances and asset write-downs due to the planned closure of a prepared meats facility in Berwick, Nova Scotia. The Company's bakery business also incurred $9.6 million in severance and retention costs related to the planned replacement of three bakeries in the Toronto area with one facility in Hamilton, Ontario. The balance of the restructuring costs comprises ongoing costs incurred in connection with previously announced restructuring initiatives of the Company.

During 2009, the Company recorded restructuring and other related costs of $31.1 million ($22.8 million after-tax). Of these amounts, $22.1 million related to severance and lease termination costs in the Company's further processed protein operations. The Company's bakery business announced the consolidation of its pasta and sandwich operations and recorded $3.5 million that included severances and a write-down of $1.2 million related to the discontinuance of a brand name. The balance of the restructuring costs was incurred in connection with the ongoing restructuring initiatives of the Company.

Notes to the Consolidated Financial Statements

The following table provides a summary of costs recognized and cash payments made in respect of the above-mentioned restructuring and other related costs and the corresponding liability as at December 31, 2010, all on a pre-tax basis:

	Severance	Site closing	Asset impairment and accelerated depreciation	Retention	Pension	**Total**
Balance at December 31, 2008	$ 4,737	$ 5,252	$ –	$ 225	$ –	**$ 10,214**
Charges	15,399	11,098	4,648	–	–	**31,145**
Cash payments	(8,722)	(7,237)	–	(140)	–	**(16,099)**
Non-cash items	–	–	(4,648)	–	–	**(4,648)**
Balance at December 31, 2009	$ 11,414	$ 9,113	$ –	$ 85	$ –	**$ 20,612**
Charges	25,808	8,543	45,575	384	798	**81,108**
Cash payments	(10,462)	(9,799)	–	(24)	–	**(20,285)**
Non-cash items	–	–	(45,575)	–	(798)	**(46,373)**
Balance at December 31, 2010	**$ 26,760**	**$ 7,857**	**$ –**	**$ 445**	**$ –**	**$ 35,062**

14. SHAREHOLDERS' EQUITY

Shareholders' equity consists of the following:

	2010	2009
Share capital(i), (ii)	**$ 902,942**	$ 869,485
Retained earnings	**346,319**	344,839
Contributed surplus(i)	**56,734**	53,429
Accumulated other comprehensive loss (Note 15)	**(78,540)**	(54,204)
Treasury stock(iii)	**(10,078)**	(24,499)
	$ 1,217,377	$ 1,189,050

(i) On December 16, 2008, the Company issued 7,368,421 units, each unit consisting of one subscription receipt and 0.4 of a common share purchase warrant for net proceeds of $69.1 million. Each whole warrant entitled the holder to purchase one common share at any time until December 16, 2010 at a price of $9.50 per common share. For each subscription receipt, the holder was entitled to receive one common share of the Company on August 4, 2009, or, at the Company's election, $9.50 in cash. The Company allocated $66.9 million of the proceeds to the subscription receipts and $2.2 million was recorded in contributed surplus related to the warrants.

On August 4, 2009, the Company settled the subscription receipts through the issuance of 7,368,421 shares of the Company. As a result, the $66.9 million recorded as subscription receipts was added to share capital.

The 2,947,367 common share purchase warrants issued on December 16, 2008 were exercised on December 14, 2010. As a result, the net proceeds of $28.0 million ($9.50 per share) and the $2.2 million value of the warrants which had been recorded in contributed surplus were added to share capital.

(ii) On June 30, 2010 and August 23, 2010, a shareholder converted 11,700,000 and 10,300,000 non-voting common shares to common shares, respectively. On December 31, 2010 there were 140,044,089 (2009: 114,774,802) voting common shares issued and outstanding and nil (2009: 22,000,000) non-voting common shares issued and outstanding.

(iii) Treasury stock consists of shares held in a trust established for the purpose of settling future grants under the Restricted Share Unit Plan. During the year, 1,173,647 common shares (2009: 1,063,810) were issued from the trust. In the current year, the Company also repurchased 55,100 common shares (2009: 358,000) through the trust for cash consideration of $0.5 million (2009: $3.2 million).

Notes to the Consolidated Financial Statements

On June 2, 2009, the Company filed Articles of Amendment to increase its authorized capital by creating an unlimited number of preference shares issuable in one or more series. No preference shares have been issued.

Details of share transactions relating to both voting and non-voting shares during the years are as follows:

	Number of shares	Share capital
Balance, December 31, 2008	129,258,681	$ 800,734
Issued for settlement on exercise of subscription receipts	7,368,421	66,936
Issued for settlement of RSUs and exercise of options (Note 16)	147,700	1,815
Balance, December 31, 2009	136,774,802	$ 869,485
Issued for settlement of RSUs and exercise of options (Note 16)	321,920	3,301
Issued for settlement on exercise of warrants	2,947,367	30,156
Balance, December 31, 2010	**140,044,089**	**$ 902,942**

15. ACCUMULATED OTHER COMPREHENSIVE LOSS

Accumulated other comprehensive loss consists of the following:

Years ended December 31,	**2010**	2009
Balance at the beginning of the year – net(i)	**$ (54,204)**	$ (52,331)
Adoption of new accounting standard(ii)	**–**	900
Adjusted balance at the beginning of the year	**$ (54,204)**	$ (51,431)
Change in accumulated foreign currency translation adjustment – net(i)	**(20,310)**	(15,644)
Change in unrealized loss on cash flow hedges – net(iii)	**(4,026)**	12,871
Other comprehensive loss for the year	**$ (24,336)**	$ (2,773)
Balance at end of year	**$ (78,540)**	$ (54,204)

(i) Balance at the beginning of the current year is net of tax of $0.8 million (2009: net of tax of $7.3 million). The change in accumulated foreign currency translation adjustment is net of tax of $0.2 million for 2010 (2009: $6.5 million).

(ii) Effective January 1, 2009, the Company adopted Emerging Issues Committee Abstract 173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities" ("EIC 173"). EIC 173 requires the Company to consider its own credit risk and the credit risk of the counterparty in determining the fair value of financial assets and financial liabilities, including derivative instruments.

(iii) Change in unrealized derivative loss on cash flow hedges is net of tax of $1.1 million for 2010 (2009: $6.8 million).

The Company estimates that $0.5 million of net unrealized derivative losses included in other comprehensive 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 and the actual amount reclassified could differ from this estimated amount. During the year, a loss of approximately $1.8 million, net of tax of $0.8 million (2009: $0.3 million, net of tax of $0.1 million) was released to net earnings from accumulated other comprehensive loss, which is included in the net change for the year.

Notes to the Consolidated Financial Statements

The ending balance of accumulated other comprehensive loss comprises accumulated unrealized foreign currency translation losses of $68.4 million, net of tax of $0.6 million (2009: $48.1 million, net of tax of $0.8 million) and unrealized losses on cash flow hedges of $10.1 million, net of tax of $3.6 million (2009: $6.1 million, net of tax of $2.5 million).

16. STOCK-BASED COMPENSATION

Under the Maple Leaf Foods Share Incentive Plan as at December 31, 2010, the Company may grant options to its employees and employees of its subsidiaries to purchase up to 7,487,514 shares of common stock and may grant Restricted Share Units (RSUs) entitling employees to receive up to 1,597,980 common shares. Options and RSUs are granted from time to time by the Board of Directors on the recommendation of the Human Resources and Compensation Committee. The vesting conditions are specified by the Board of Directors and may include continued service of the employee with the Company and/or other criteria based on measures of the Company's performance.

Stock Options

A summary of the status of the Company's outstanding stock options as at December 31, 2010 and 2009, and changes during these years are presented below:

	2010		2009	
	Options outstanding	**Weighted average exercise price**	Options outstanding	Weighted average exercise price
Outstanding, beginning of year	**2,805,250**	**$ 13.02**	4,449,450	$ 13.29
Exercised	**(321,000)**	**10.30**	(141,500)	10.46
Expired and terminated	**(1,501,150)**	**12.73**	(1,502,700)	14.06
Outstanding, end of year	**983,100**	**$ 14.13**	2,805,250	$ 13.02
Options currently exercisable	**900,100**	**$ 14.21**	2,190,950	$ 12.12

All outstanding share options vest and become exercisable over a period not exceeding six years (time vesting) from the date of grant and/or upon the achievement of specified performance targets (based on return on net assets, earnings, share price or total stock return relative to an index). The options have a term of between seven and 10 years.

The number of options outstanding at December 31, 2010, including details on time and performance vesting conditions of the options, is as follows:

	Options outstanding			Options currently exercisable		Options subject to time vesting	
Range of exercise prices	Number outstanding	Weighted average exercise price	Weighted average remaining term (in years)	Number exercisable	Weighted average exercise price	Number outstanding	Weighted average exercise price
$11.64 to $13.50	667,000	$ 13.07	0.9	584,000	$ 13.05	83,000	$ 13.24
$14.56 to $16.88	316,100	16.36	1.7	316,100	16.36	–	–
$11.64 to $16.88	983,100	$ 14.13	1.1	900,100	$ 14.21	83,000	$ 13.24

The fair value of options issued was determined using the Black-Scholes option pricing model and is being amortized to income over the vesting period of the related options. As at December 31, 2009, the fair value of options has been fully amortized.

Notes to the Consolidated Financial Statements

Restricted Stock Units

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

In both plans, RSUs are subject to time vesting and performance vesting based on the achievement of specified stock performance targets relative to a North American index of food stocks. Under the 2004 Plan, one common share in the capital of the Company will be issued to the holder on vesting. All outstanding RSUs under the 2004 Plan vest over a period of between three and five years from the date of grant. Under the 2006 Plan, between 0.5 and 1.5 common shares in the capital of the Company can be distributed for each RSU as a result of the performance of the Company against the target levels required for vesting. All outstanding RSUs under the 2006 Plan vest over a period of three years from the date of grant.

A summary of the status of the Company's RSU plan as at December 31, 2010 and 2009, and changes during these years, are presented below:

	2010		2009	
	RSUs outstanding	**Weighted average fair value at grant**	RSUs outstanding	Weighted average fair value at grant
Outstanding, beginning of year	**6,357,430**	**$ 10.11**	5,983,990	$ 11.51
Granted	**2,131,272**	**11.39**	2,509,400	8.91
Issued	**(1,174,317)**	**11.58**	(1,070,010)	13.01
Expired and terminated	**(928,950)**	**14.80**	(1,065,950)	12.19
Outstanding, end of year	**6,385,435**	**$ 9.58**	6,357,430	$ 10.11

The fair value of RSUs granted in 2010 on the date of grant was $19.1 million (2009: $17.1 million), after taking account of forfeiture due to performance, and is amortized to income on a pro rata basis over the vesting periods of the related RSUs. The amortization of the fair value of all RSUs in 2010 is $17.7 million (2009: $18.4 million).

The fair value of the total RSUs granted in the year is based on the following weighted average assumptions:

	2010	2009
Expected RSU life (in years)	**3.0**	3.0
Forfeiture rate	**15.0%**	15.0%
Discount rate	**1.4%**	1.3%
Dividend yield	**1.7%**	1.6%

Notes to the Consolidated Financial Statements

17. EARNINGS PER SHARE

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

Years ended December 31	2010			2009		
	Net Earnings	Weighted Average Number of Shares(ii)	EPS	Net Earnings	Weighted Average Number of Shares(ii)	EPS
Basic	$ 25,822	135.6	$ 0.19	$ 52,147	129.8	$ 0.40
Stock options(i)	–	3.5	–	–	2.5	(0.01)
Diluted	25,822	139.1	0.19	52,147	132.3	0.39

(i) Excludes the effect of approximately 3.8 million options, restricted share units and warrants (2009: 9.6 million) to purchase common shares that are anti-dilutive.

(ii) In millions.

18. OTHER INCOME (EXPENSE)

	2010	2009
Gain (loss) on sale of property and equipment	$ 217	$ (1,137)
Recovery from insurance claims	–	3,328
Rental income	509	475
Other	(564)	947
	$ 162	$ 3,613

19. INTEREST EXPENSE

	2010	2009
Interest expense on long-term debt	$ 61,293	$ 75,779
Other interest expense, net	5,093	5,455
	$ 66,386	$ 81,234

Notes to the Consolidated Financial Statements

20. INCOME TAXES

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:

	2010	2009
Income tax expense according to combined statutory rate of 30.2% (2009: 31.4%)	$ 15,038	$ 27,423
Increase (decrease) in income taxes resulting from:		
Statutory rate changes	131	(2,135)
Difference between current rates and future enacted rates	3,065	430
Tax benefits related to prior acquisitions	(1,500)	–
Rate differences in other jurisdictions	(562)	(930)
Manufacturing and processing credit	(500)	(450)
Non-taxable (gains) losses	710	(121)
Stock-based compensation	–	35
Dividends not taxable	–	(2)
Non-deductible expenses	158	1,384
Valuation allowance on U.S. tax losses	2,405	896
Other	(1,179)	766
	$ 17,766	$ 27,296

Notes to the Consolidated Financial Statements

The tax effects of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities at December 31 are presented below:

	2010	2009
Future tax assets:		
Losses carried forward	$ 122,283	$ 122,892
Accrued liabilities	22,546	20,970
Tax on intra-subsidiary asset transfer	18,588	19,552
Other	15,315	12,221
Valuation allowance	(29,309)	(32,537)
Cash basis farming	–	381
	$ 149,423	$ 143,479
Future tax liabilities:		
Property and equipment	$ 32,268	$ 38,799
Pension asset	69,668	68,737
Goodwill and other intangible assets	24,428	22,219
Unrealized foreign exchange gain on long-term debt	606	875
Other	10,552	14,283
Cash basis farming	224	–
	$ 137,746	$ 144,913
Classified in the consolidated financial statements as:		
Future tax asset – current	$ 6,229	$ 4,301
Future tax asset – non-current	20,737	22,116
Future tax liability – non-current	(15,289)	(27,851)
Net future tax asset (liability)	$ 11,677	$ (1,434)

In accordance with CICA Handbook Section 3465, "Accounting for Income Taxes", the Company reviews all available positive and negative evidence to evaluate the recoverability of future tax assets. This includes a review of the Company's cumulative losses in recent years, the carry forward period related to the tax losses, and the tax planning strategies available to the Company. Upon applying these accounting rules to the Company's accumulated tax losses in the U.S. frozen bakery business, there continues to be sufficient uncertainty surrounding the timing and amount of losses that will be utilized. Accordingly, the Company has recorded a valuation allowance of $22.5 million (US$22.6 million) as at December 31, 2010 (2009: $24.1 million (US$23.0 million)) with respect to accumulated tax losses in the U.S.

Notes to the Consolidated Financial Statements

21. PENSIONS AND OTHER POST-RETIREMENT BENEFITS

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

	Other post-retirement benefits	Total pensions	**2010 Total**	Other post-retirement benefits	Total pensions	2009 Total
Accrued benefit obligation:						
Balance, beginning of year	$ 76,310	$ 1,023,068	**$ 1,099,378**	$ 67,733	$ 933,863	$ 1,001,596
Current service cost	664	17,809	**18,473**	533	12,412	12,945
Interest cost	4,321	57,794	**62,115**	4,328	59,200	63,528
Benefits paid	(3,347)	(71,589)	**(74,936)**	(3,176)	(79,357)	(82,533)
Actuarial (gains) losses	(3,930)	106,152	**102,222**	6,892	92,900	99,792
Employee contributions	–	4,184	**4,184**	–	4,050	4,050
Plan amendments	–	1,733	**1,733**			
Special termination benefits	–	350	**350**	–	–	–
Curtailments	–	(50)	**(50)**	–	–	–
Balance, end of year	$ 74,018	$ 1,139,451	**$ 1,213,469**	$ 76,310	$ 1,023,068	$ 1,099,378
Plan assets:						
Fair value, beginning of year	$ –	$ 1,159,730	**$ 1,159,730**	$ –	$ 1,077,892	$ 1,077,892
Actual return on plan assets	–	97,746	**97,746**	–	167,443	167,443
Employer contributions	3,347	9,496	**12,843**	3,176	7,806	10,982
Employee contributions	-	4,184	**4,184**	–	4,050	4,050
Benefits paid	(3,347)	(71,589)	**(74,936)**	(3,176)	(79,357)	(82,533)
Asset transfer to Company defined contribution plan	–	(18,859)	**(18,859)**	–	(18,104)	(18,104)
Fair value, end of year	$ –	$ 1,180,708	**$ 1,180,708**	$ –	$ 1,159,730	$ 1,159,730
Funded status – plan surplus (deficit)	$ (74,018)	$ 41,257	**$ (32,761)**	$ (76,310)	$ 136,662	$ 60,352
Unamortized transition amount	–	(78,686)	**(78,686)**	–	(96,216)	(96,216)
Unamortized actuarial losses	3,965	316,920	**320,885**	8,072	237,408	245,480
Unamortized prior service costs	–	12,358	**12,358**	–	11,852	11,852
Other	–	(238)	**(238)**	–	(191)	(191)
Accrued benefit asset (liability), end of year	$ (70,053)	$ 291,611[(i)]	**$ 221,558**	$ (68,238)	$ 289,515[(i)]	$ 221,277

(i) Includes three defined benefit plans with accrued benefit liabilities of $22.9 million (2009: $21.5 million).

Notes to the Consolidated Financial Statements

Amounts recognized in the consolidated balance sheet consist of:

	2010	2009
Other long-term assets	$ 327,407	$ 322,656
Accounts payable and accrued charges	4,868	5,250
Other long-term liabilities	100,981	96,129

Pension benefit expense:

	2010	2009
Current service cost – defined benefit	$ 17,809	$ 12,412
Current service cost – defined contribution	27,275	28,185
Interest cost	57,794	59,200
Actual return on plan assets	(97,746)	(167,443)
Difference between actual and expected return	16,864	92,175
Actuarial losses recognized	106,152	92,900
Difference between actual and recognized actuarial gains in the year	(96,732)	(82,233)
Amortization of transitional amount	(17,530)	(18,398)
Difference between amortization of prior service costs and actual plan amendments in the year	(648)	984
Plan amendments	1,733	–
Curtailment loss	448	–
Contractual termination benefits	350	–
Net benefit plan expense	$ 15,769	$ 17,782

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

	2010	2009
Discount rate used to calculate net benefit plan expense	5.75%	6.50%
Discount rate used to calculate year-end benefit obligation	5.00%	5.75%
Expected long-term rate of return on plan assets	7.25%	7.25%
Rate of compensation increase	3.50%	3.50%

Notes to the Consolidated Financial Statements

Other post-retirement benefits expense:

	2010	2009
Current service cost	$ 664	$ 533
Interest cost	4,321	4,328
Actuarial losses (gains) recognized	(3,930)	6,892
Difference between actual and expected actuarial (gains) losses	4,107	(6,967)
	$ 5,162	$ 4,786

Impact of 1% change in health care cost trend:

	1% Increase	1% Decrease
Effect on end-of-year obligation	$ 3,510	$ (3,879)
Aggregate of 2010 current service cost and interest cost	241	(271)

Measurement dates:	
2010 expense	December 31, 2009
Balance sheet	December 31, 2010

The pension assets were invested in the following asset categories at December 31, 2010 and December 31, 2009:

Asset category:	2010	2009
Equity securities	59%	56%
Debt securities	41%	44%
	100%	100%

22. ACQUISITIONS AND DIVESTITURES

(a) During the second quarter of 2010, the Company purchased 56,700 shares of Canada Bread Company, Limited ("Canada Bread") for cash consideration of $2.7 million. This purchase increased the Company's ownership interest in Canada Bread from 89.8% to 90.0%. The Company allocated $1.0 million to goodwill and $1.7 million of the purchase price to the net identifiable assets of Canada Bread at the acquisition date by reducing its non-controlling interest. The Company has not yet finalized the purchase equation for this acquisition.

On July 17, 2008, the Company purchased 458,000 shares in Canada Bread Company, Limited ("Canada Bread") for cash consideration of $32.6 million, increasing the Company's ownership interest in Canada Bread from 88.0% to 89.8%. During the second quarter of 2009, the Company finalized the purchase equation for these purchases, allocating $11.4 million of the purchase price to the net tangible assets of Canada Bread at the acquisition date, $1.1 million to intangible assets and $20.1 million to goodwill.

Notes to the Consolidated Financial Statements

(b) On January 29, 2008, the Company acquired the shares of Aliments Martel Inc. ("Martel"), a manufacturer and distributor of sandwiches, meals and sweet goods based in Quebec for an initial purchase price of $44.6 million plus contingent consideration of up to $22.6 million, based on financial performance over three years post-acquisition. During the first quarter of 2009, the Company finalized the purchase equation, allocating $15.4 million to the identifiable net tangible assets of Martel at the acquisition date and $29.2 million to goodwill and intangible assets. The acquired intangible assets included $1.5 million allocated to trademarks that were being amortized on a straight-line basis over 10 years and $1.7 million allocated to customer relationships that are being amortized on a straight-line basis over 20 years. No amounts have been paid to the vendors in respect of contingent consideration.

(c) On January 14, 2008, the Company purchased the assets of Central By-Products ("CBP"), a rendering business located near London, Ontario for $18.1 million. During the first quarter of 2009, the Company finalized the purchase price equation and allocated $6.0 million to the net identifiable assets of CBP at the acquisition date and $12.1 million to goodwill.

Details of net assets acquired and purchase adjustments made in 2010 and 2009 are as follows:

	2010	2009
Net working capital	$ –	$ (624)
Future taxes	–	233
Property and equipment	–	(2,445)
Intangible assets	–	4,329
Goodwill	1,010	(689)
Other long-term liabilities	–	(481)
Non-controlling interest	1,680	–
Total purchase cost	$ 2,690	$ 323

23. CONTINGENCIES AND COMMITMENTS

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

(b) In the normal course of business, the Company and its subsidiaries enter into sales commitments with customers, and purchase commitments with suppliers. These commitments are for varying terms and can provide for fixed or variable prices. With respect to certain of its contracts, the Company has the right to acquire at fair value, and the suppliers have the right to sell back to the Company, certain assets that have an estimated fair value of $12.1 million (2009: $12.3 million). The Company believes that these contracts serve to reduce risk, and does not anticipate that losses will be incurred on these contracts.

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

2011	$ 68,650
2012	55,145
2013	45,677
2014	36,800
2015	29,257
Thereafter	108,615
	$ 344,144

Notes to the Consolidated Financial Statements

24. SUPPLEMENTAL CASH FLOW INFORMATION

	2010	2009
Net interest paid	$ 63,384	$ 76,841
Net income taxes paid	39,298	28,037

25. RELATED PARTY TRANSACTION

On December 16, 2008, the Company issued 7,368,421 equity units each consisting of one subscription receipt and 0.4 common share purchase warrants for net proceeds of $69.1 million. Ontario Teachers Pension Plan Board, a related shareholder, subscribed for 5,484,784 units and McCain Capital Corporation, a related shareholder, subscribed for 1,694,737 units. The subscription receipts were settled on August 4, 2009, and the warrants were exercised on December 14, 2010 (Note 14).

During the year, the Company recorded sales to McCain Foods Limited of $3.6 million (2009: $3.3 million) in the normal course of business and at market prices. McCain Foods Limited is partly owned by McCain Capital Corporation; a 31.3% shareholder in Maple Leaf Foods Inc.

The Company paid $4.9 million (2009: $4.6 million) for services in the normal course of business and at market prices to Day & Ross Transportation Group, a subsidiary of McCain Foods Limited.

26. GOVERNMENT INCENTIVES

During the year, the Company recorded incentive payments from the Canadian government of $2.7 million (2009: $9.1 million) to compensate hog producers for losses in prior periods, and $7.3 million (2009: $12.6 million) from the Canadian government as part of its policy to support the development of renewable energies. The Company received other incentives totalling $0.4 million (2009: $0.1 million). These incentives were recorded as reductions of cost of goods sold in the consolidated statement of earnings. Furthermore, the Company received an interest-free loan of $2.0 million from the Canadian government related to the construction of a new bakery in Hamilton, Ontario. The loan is repayable over a period of five years beginning 2012.

27. SUBSEQUENT EVENT

Subsequent to year-end, the Company terminated a $250.0 million short-term lending facility. There were no drawings on the facility on termination.

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

On January 4, 2011, the Company received proceeds of CAD$102.5 million and US$213.0 million pursuant to the issuance of notes payable that were finalized in December 2010.

On February 18, 2011, the Company completed the sale of its fresh bakery sandwich business for $8.0 million, subject to post closing adjustments.

On February 23, 2011, the Company declared a dividend of $0.04 per share, payable on March 31, 2011 to shareholders of record as of March 10, 2011.

28. SEGMENTED FINANCIAL INFORMATION

The Company's operations are classified into the following three primary business segments which have been used for the operating segment disclosures for all years presented:

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

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

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

Notes to the Consolidated Financial Statements

	2010	2009
Sales		
Meat Products Group	$ 3,181,134	$3,310,393
Agribusiness Group	199,498	206,064
Bakery Products Group	1,587,487	1,705,145
	$ 4,968,119	$5,221,602
Earnings from operations before restructuring and other related costs, change in fair value of non-designated interest rate swaps and other income		
Meat Products Group	$ 89,701	$ 55,388
Agribusiness Group	50,834	48,023
Bakery Products Group	93,206	102,155
Non-allocated costs	(11,706)	(9,455)
	$ 222,035	$ 196,111
Capital expenditures		
Meat Products Group	$ 66,423	$ 86,770
Agribusiness Group	16,978	13,048
Bakery Products Group	78,903	63,075
	$ 162,304	$ 162,893
Depreciation and amortization		
Meat Products Group	$ 71,933	$ 76,077
Agribusiness Group	16,447	16,508
Bakery Products Group	53,405	56,904
	$ 141,785	$ 149,489
Total assets		
Meat Products Group	$ 1,572,940	$1,653,389
Agribusiness Group	276,913	287,057
Bakery Products Group	976,897	955,469
Non-allocated assets	170,045	161,549
	$ 2,996,795	$3,057,464
Goodwill		
Meat Products Group	$ 442,123	$ 442,943
Agribusiness Group	14,142	14,136
Bakery Products Group	394,117	400,199
	$ 850,382	$ 857,278

Notes to the Consolidated Financial Statements

Information about geographic areas

During the year, total revenues from customers outside Canada were $1,284.9 million (2009: $1,308.6 million). Of this amount $700.5 million (2009: $667.6 million) was attributed to sales made in the United States and $153.2 million (2009: $196.2 million) attributed to sales made in the United Kingdom.

Property and equipment located outside of Canada were $127.0 million (2009: $134.8 million). Of this amount $72.3 million (2009: $74.0 million) was related to property and equipment located in the United States and $31.8 million (2009: $32.3 million) related to property and equipment located in the United Kingdom.

Goodwill attributed to operations located outside Canada is $122.8 million (2009: $130.8 million). Of this amount $55.1 million (2009: $57.4 million) is goodwill attributed to operations in the United States and $67.7 million (2009: $73.4 million) is goodwill attributed to operations located in the United Kingdom.

Information about major customers

During the year, the Company reported sales to one customer representing 11.7% (2009: 11.6%) of total sales. These sales are reported in both the Meat Products and Bakery Products Groups. No other sales were made to any one customer in excess of 10.0% of total sales.

corporate governance and board of directors

CORPORATE GOVERNANCE

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

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

COMPOSITION OF THE BOARD OF DIRECTORS

The Board is comprised of experienced directors with a diversity of relevant skills and competencies. The Board of Directors has assessed each of the Company's 10 non-management directors to be independent.

A more comprehensive analysis of the Company's approach to corporate governance matters is included in the Management Proxy Circular for the April 28, 2011 annual meeting of shareholders.

BOARD OF DIRECTORS

W. Geoffrey Beattie

President and CEO, The Woodbridge Company (Investment company)

Mr. Beattie, 51, is the Chief Executive Officer of The Woodbridge Company Limited (1998), the Thomson family's principal holding company, Deputy Chairman of Thomson Reuters and Chairman of CTVglobemedia Inc. Mr. Beattie is a director of The Royal Bank of Canada and General Electric Company. Mr. Beattie is also a trustee of the University Health Network.

DIRECTOR SINCE: 2008

Gregory A. Boland

President & CEO, West Face Capital Inc. (Investment manager)

Mr. Boland, 47, is the President and Chief Executive Officer of West Face Capital Inc., a Toronto based investment manager, a position he has held since 2007. Previously, he managed portfolios for Enterprise Capital Management. Prior to joining Enterprise Capital Management in 1998, he was Vice-President and Partner in proprietary investments at RBC Dominion Securities. Mr. Boland is a director of Ace Aviation Inc. and SilverBirch Energy Corporation.

DIRECTOR SINCE: 2011

John L. Bragg, O.C.

Chairman, President and Co-CEO, Oxford Frozen Foods (Food manufacturing)

Mr. Bragg, 70, founded Oxford Frozen Foods, an international frozen foods supplier, in 1968 and Bragg Communications, Canada's fifth largest cable television provider and a major Maritimes Internet and wireline telephone service provider, in 1970. Mr. Bragg is an Officer of the Order of Canada. Mr. Bragg was appointed a Canadian Business Hall of Fame Laureate in 2003, and was one of the original four members inducted into the Nova Scotia Business Hall of Fame in 1993.

DIRECTOR SINCE: 2008

Purdy Crawford, C.C.

Counsel, Osler, Hoskin & Harcourt (Law firm)

Mr. Crawford, 79, is a director of several Canadian companies. From 1986 to 1995 he was CEO of Imasco, and from 1995 to 2000 he was the non-Executive Chairman of Imasco Limited and CT Financial Services. Mr. Crawford is a Companion of the Order of Canada and a member of the Canadian Business Hall of Fame.

DIRECTOR SINCE: 1995

corporate governance and board of directors

Jeffrey Gandz

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

Dr. Gandz, 66, has been a consultant for many Canadian and multinational corporations and government ministries and is the author of several books, many articles and government reports on a variety of subjects, including leadership and organizational effectiveness.

DIRECTOR SINCE: 1999

James F. Hankinson

Corporate Director

Mr. Hankinson, 67, is a director of several Canadian companies. Mr. Hankinson served as President and Chief Executive Officer of Ontario Power Generation from 2005 until his retirement in 2009. He was President and Chief Operating Officer of Canadian Pacific Limited until 1995, and President and Chief Executive Officer of New Brunswick Power Corporation until 2002.

DIRECTOR SINCE: 1995

Chaviva M. Hošek, O.C.

President and Chief Executive Officer, The Canadian Institute for Advanced Research (Research Institute)

Dr. Hošek, 64, received her Ph.D. from Harvard University in 1973 and spent 13 years at the University of Toronto as Professor of English Literature. She was appointed an Officer of the Order of Canada in 2006. Her career included being Director of Policy and Research for Prime Minister Jean Chretien and Ontario's Minister of Housing. She is trustee of the Central European University, director of Great-West Lifeco Inc. and numerous volunteer boards of charitable organizations, including Mount Sinai Hospital and the Trudeau Foundation.

DIRECTOR SINCE: 2002

Claude R. Lamoureux, O.C.

Corporate Director

Mr. Lamoureux, 68, was Chief Executive Officer of the Ontario Teachers' Pension Plan until his retirement in 2007. He was appointed to the position in 1990, when the Ontario government established the new independent corporation to replace the Ontario Teachers' Superannuation Fund. An actuary by profession, Mr. Lamoureux joined Teachers' from Metropolitan Life, where he had a successful career in their New York and Ottawa offices. Mr. Lamoureux is an Officer of the Order of Canada.

DIRECTOR SINCE: 2008

G. Wallace F. McCain, C.C.

Chairman, Maple Leaf Foods Inc.

Mr. McCain, 80, was appointed Chairman following the acquisition of the Company in April 1995. Mr. McCain co-founded McCain Foods Limited in 1956 which has grown to become one of the largest frozen food companies in the world. Mr. McCain was President and Co-Chief Executive Officer of McCain Foods Limited until 1994 and is currently its Vice-Chairman and director of other associated companies within the McCain Foods Group. Mr. McCain is a Companion of the Order of Canada.

DIRECTOR SINCE: 1995

J. Scott McCain

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

Before joining Maple Leaf Foods Inc. in April 1995, Mr. McCain was Vice-President for Production of McCain Foods Limited in Canada, a company he joined in 1978 and where he held progressively senior positions in manufacturing and operations. He is a director of Canada Bread Company, Limited and McCain Capital Corporation. Mr. McCain, 54, is a director of McCain Foods Group.

DIRECTOR SINCE: 1995

corporate governance and board of directors

Michael H. McCain
President and Chief Executive Officer, Maple Leaf Foods Inc.

Mr. McCain, 52, joined Maple Leaf Foods Inc. in April 1995 as President and Chief Operating Officer and was appointed its Chief Executive Officer in 1999. Prior to joining Maple Leaf Foods, Mr. McCain spent 16 years with McCain Foods Limited in Canada and the United States. He is the Chairman and director of Canada Bread Company, Limited, a director of McCain Foods Group Ltd., the American Meat Institute, and Royal Bank of Canada. He is a past director of American Frozen Food Institute and Bombardier Inc.

DIRECTOR SINCE: 1995

Diane E. McGarry
Corporate Director

Ms. McGarry, 61, has over 30 years' experience with Xerox including five years in Canada as Chairman, President and Chief Executive Officer of Xerox Canada from 1993 to 1998. Prior to retiring in 2005, Ms. McGarry held the position of Chief Marketing Officer, Xerox Corporation.

DIRECTOR SINCE: 2005

Gordon Ritchie
Principal Advisor, Hill & Knowlton Canada (Government and public relations company)

Mr. Ritchie, 67, is Chief Executive Officer of Strategico Inc. and has been a director of a number of leading Canadian corporations. Mr. Ritchie had 22 years of distinguished public service. As Ambassador for Trade Negotiations, Mr. Ritchie was one of the principal architects of the Canada/United States Free Trade Agreement.

DIRECTOR SINCE: 1995

Note: Ages of the Board of Directors provided as at March 2011.

senior management and officers

COMMITTEES OF THE BOARD OF DIRECTORS

STANDING COMMITTEES:

AUDIT COMMITTEE

D.E. McGarry, Chair
J.L. Bragg
J.F. Hankinson
C.R. Lamoureux

CORPORATE GOVERNANCE COMMITTEE

J.F. Hankinson, Chairman
W.G. Beattie
G.A. Boland
P. Crawford
C.M. Hošek

ENVIRONMENT, HEALTH AND SAFETY COMMITTEE

J. Gandz, Chairman
J.L. Bragg
C.M. Hošek
D.E. McGarry
G. Ritchie

HUMAN RESOURCES AND COMPENSATION COMMITTEE

G. Ritchie, Chairman
W.G. Beattie
G.A. Boland
P. Crawford
J. Gandz
C.R. Lamoureux

CORPORATE COUNCIL

G. Wallace F. McCain
Chairman

Michael H. McCain
President and Chief Executive Officer

J. Scott McCain
President and Chief Operating Officer, Agribusiness Group

Richard A. Lan
Chief Operating Officer, Food Group

Michael H. Vels
Executive Vice-President and Chief Financial Officer

Douglas W. Dodds
Chief Strategy Officer

Les Dakens
Senior Vice-President and Chief Human Resources Officer

Rocco Cappuccitti
Senior Vice-President, Transactions & Administration and Corporate Secretary

Lynda J. Kuhn
Senior Vice-President, Communications

EXECUTIVE COUNCIL

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

Peter Baker
President, Maple Leaf Bakery UK

Kevin P. Golding
President, Rothsay and Maple Leaf Agri-Farms

Stephen Graham
Chief Marketing Officer

Randall D. Huffman
Chief Food Safety Officer

E. Jeffrey Hutchinson
Chief Information Officer

Bill Kaldis
Vice-President, Logistics

Gary Maksymetz
President, Maple Leaf Consumer Foods

Rory A. McAlpine
Vice-President, Government and Industry Relations

Barry McLean
President, Fresh Bakery

Réal Ménard
President, Frozen Bakery

Bruce Y. Miyashita
Vice-President, Six Sigma

Deborah K. Simpson
Senior *Vice-President, Finance*

Peter C. Smith
Vice-President, Corporate Engineering

Simon Wookey
President, Fresh Prepared Foods

Richard Young
Executive Vice-President, Transformation, Maple Leaf Consumer Foods

OTHER CORPORATE OFFICERS

J. Nicholas Boland
Vice-President, Finance Projects

Catherine Brennan
Vice-President and Treasurer

Glen L. Gratton
Vice-President, Maple Leaf Agri-Farms

Jeffrey W. McDowell
Vice-President, Cold Springs Farm

Dianne Singer
Assistant Corporate Secretary

corporate information

CAPITAL STOCK

The Company's authorized capital consists of an unlimited number of voting common and an unlimited number of non-voting common shares. At December 31, 2010, 140,044,089 voting common shares were issued and outstanding, for a total of 140,044,089 outstanding shares. There were 767 shareholders of record of which 725 were registered in Canada, holding 87.52% of the issued voting shares.

OWNERSHIP

The Company's major shareholder is McCain Capital Corporation holding 43,890,784 voting shares representing 31.34% of the total issued and outstanding shares. The remainder of the issued and outstanding shares are publicly held.

CORPORATE OFFICE

Maple Leaf Foods Inc.
30 St. Clair Avenue West
Suite 1500
Toronto, Ontario, Canada M4V 3A2
Tel: (416) 926-2000
Fax: (416) 926-2018
Website: www.mapleleaf.com

ANNUAL MEETING

The annual meeting of shareholders of Maple Leaf Foods Inc. will be held on Thursday, April 28, 2011 at 11:00 a.m. at the Metro Toronto Convention Centre, North Building, 255 Front Street West, Toronto, Ontario.

DIVIDENDS

The declaration and payment of quarterly dividends are made at the discretion of the Board of Directors. Anticipated payment dates in 2011: March 31, June 30, September 30 and December 30.

SHAREHOLDER INQUIRIES

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

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

COMPANY INFORMATION

For public and investment analysis inquiries, please contact our Senior Vice-President, Communications at (416) 926-2000.

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

TRANSFER AGENT AND REGISTRAR

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

AUDITORS

KPMG LLP
Toronto, Ontario

STOCK EXCHANGE LISTINGS AND STOCK SYMBOL

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

RAPPORT ANNUEL

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

MAPLE LEAF FOODS INC.
30 St. Clair Avenue West, Suite 1500
Toronto, Ontario, Canada M4V 3A2
www.mapleleaf.com