

Market Value

MAPLE LEAF FOODS INC. | 2011 ANNUAL REPORT



Maple Leaf has all the ingredients to be a very profitable food company. We have strong brands and market shares – we are the market leader in virtually all of our businesses. These are foundational elements for any great food company and the basis for our long-term growth. Supporting this, we are implementing a comprehensive plan to reduce costs and boost productivity – all to drive Market Value.

Financial Highlights

For years ended December 31

(In millions of Canadian dollars, except share information)

	2011	2010	2009 ⁽ⁱ⁾	2008 ⁽ⁱ⁾	2007 ⁽ⁱ⁾
CONSOLIDATED RESULTS					
Sales	4,894	4,968	5,222	5,243	5,210
Adjusted operating earnings ⁽ⁱⁱ⁾	259	215	196	128	199
Net earnings (loss) from continuing operations ⁽ⁱⁱⁱ⁾	82	29	52	(37)	(23)
Net earnings (loss) ^(iv)	82	29	52	(37)	195
Return on assets employed ^(v)	10.0%	8.6%	5.9%	3.4%	6.7%
FINANCIAL POSITION					
Net assets employed ^(v)	1,907	1,966	2,416	2,348	2,267
Shareholders' equity	865	924	1,189	1,143	1,149
Net borrowings	984	902	1,016	1,023	855
PER SHARE					
Net earnings (loss) from continuing operations	0.59	0.22	0.40	(0.29)	(0.18)
Adjusted net earnings from continuing operations ⁽ⁱⁱⁱ⁾	1.01	0.73	0.57	0.29	0.51
Net earnings (loss), as reported ⁽ⁱⁱⁱ⁾	0.59	0.22	0.40	(0.29)	1.53
Dividends	0.16	0.16	0.16	0.16	0.16
Book value	6.18	6.60	8.69	8.84	8.87
NUMBER OF SHARES (millions)					
Weighted average	138.7	135.6	129.8	126.7	127.3
Outstanding at December 31	140.0	140.0	136.8	129.3	129.6

⁽ⁱ⁾ 2007, 2008 and 2009 figures are in accordance with Canadian GAAP, effective on or before January 1, 2010.

⁽ⁱⁱ⁾ Refer to page 41 of Management's Discussion & Analysis for definition.

⁽ⁱⁱⁱ⁾ Attributable to common shareholders.

^(iv) Includes results of discontinued operations, and is attributable to common shareholders.

^(v) After tax, but before interest, calculated on average month-end net assets employed. Excludes one-time recall costs, restructuring and other related costs and associated gains, and the impact of the change in fair value of non-designated interest rate swaps, unrealized gains/losses on commodity futures contracts and the change in fair value of biological assets.

^(vi) Total assets, less cash, future tax assets and non-interest-bearing liabilities.

TABLE OF CONTENTS

Financial Highlights (Inside front cover) | Message from the Chairman 02 | Message to Shareholders 03 | 2011 Business Review 06
 Progress on Our Value Creation Plan 08 | Corporate Social Responsibility 12 | Corporate Governance and Board of Directors 14
 Senior Management and Officers 15 | Financial Review 2011 16 | Corporate Information (Inside back cover)

Segmented Operating Results

Protein Group

(In millions of Canadian dollars)

	2011	2010	% Change ⁽ⁱ⁾
MEAT PRODUCTS GROUP			
Sales	3,039	3,181	(4.5)%
Adjusted operating earnings	96	81	18.1%
Total assets	1,466	1,503	(2.5)%
AGRIBUSINESS GROUP			
Sales	260	199	30.1%
Adjusted operating earnings	82	51	62.2%
Total assets	223	250	(10.6)%
TOTAL PROTEIN GROUP			
Sales	3,299	3,381	(2.4)%
Adjusted operating earnings	178	132	35.0%
Total assets	1,689	1,753	(3.7)%

Operating Groups

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

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

⁽ⁱ⁾ Amounts may not recalculate due to rounding.

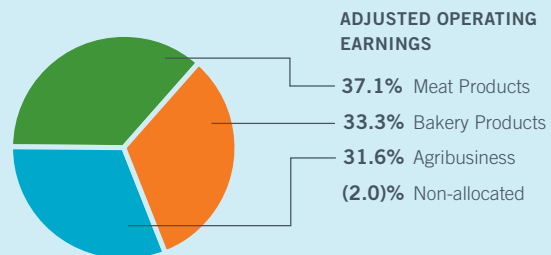
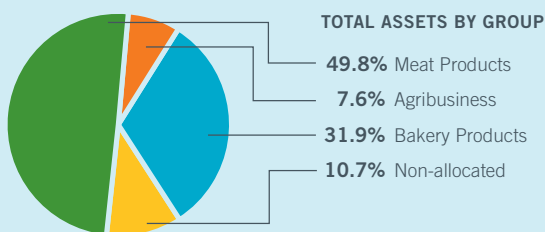
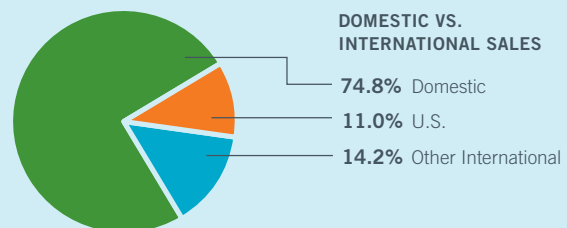
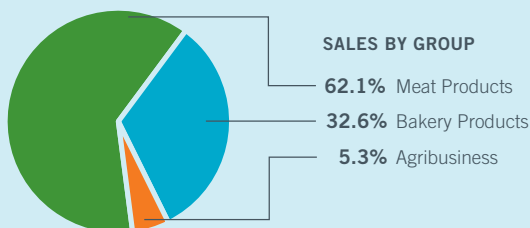
Bakery Products Group

(In millions of Canadian dollars)

	2011	2010	% Change ⁽ⁱ⁾
TOTAL BAKERY PRODUCTS GROUP			
Sales	1,595	1,587	0.4%
Adjusted operating earnings	86	94	(8.6)%
Total assets	937	836	12.1%

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

⁽ⁱ⁾ Amounts may not recalculate due to rounding.



Message from the Chairman

We are confident that this strategy will deliver significant improvements in profitability and the best return for our investors.

Dear Fellow Shareholders:

The last twelve months has been a period marked by change and a high level of Board activity and engagement.

In May, we experienced the loss of Wallace McCain after his valiant battle with pancreatic cancer. Wallace was one of Canada's most eminent entrepreneurs, and he had a profound impact on Maple Leaf Foods and everyone who knew him. He brought a unique blend of penetrating insights, experience and humility during his sixteen years as Chairman. Words cannot convey the magnitude of his contribution to Maple Leaf Foods or how deeply he is missed by his fellow directors, Management and employees.

There were two material governance events this year. The first was the execution of an agreement with McCain Capital, which owns 31.3% of the Company's shares, to provide them proportionate representation on the Board. The second was securing approval by shareholders to adopt a shareholder rights plan, which will ensure all shareholders participate in any transaction in which control of the Company is acquired or increased.

In October, the Board approved a capital investment of \$560 million to establish a low cost, highly competitive prepared meats network, the single largest investment in our Company's history. This decision was made after an intensive review and recommendation by a working group of five independent directors, including two new directors. This working group stress-tested management assumptions, the risks and the return on investment. We are confident that this strategy will deliver significant

improvements in profitability and the best return for our investors, and we are diligently tracking progress, recognizing our collective accountability as a Board and Management team to deliver results.

We continue to add to the breadth and experience of the Board with the addition of new independent directors. At the 2012 Annual General Meeting a slate of directors will be presented to shareholders that will reflect some departures and continuing Board renewal. At that time I will also be relinquishing my role as Chairman, which I assumed upon Wallace's death, and retiring from the Board. It has been a very rewarding experience for me. I firmly believe that this Company is following a path that will reward its shareholders in both the near and longer term, and strengthen its position as one of Canada's great food companies.

Maple Leaf has a Board that is united in its confidence in the Company's strategic direction and path to create significant value. We have a governance structure that recognizes and protects the rights of all shareholders, and a Board that brings a combination of broad experience, historical knowledge and new perspectives to its responsibilities. I am honoured to have worked alongside these dedicated directors and to have participated in the growth of a great business.

Sincerely,



PURDY CRAWFORD
Chairman

47

Board/Committee meetings held in 2011

85%

of directors on the Board are independent

Message to Shareholders

This was a “show me” year for Maple Leaf Foods.

In 2010, we launched our value creation plan with a very strong commitment that we would significantly increase earnings now and over the next several years. We're very pleased to report that we are making excellent progress.

- Delivered over \$1.00 adjusted earnings per share, the first time in our history
- Compound annual growth rate in EBT of 44% since 2008
- Double-digit adjusted earnings per share growth over the past three years

This progress was achieved in the face of rising food costs and an uncertain economy. In North America, food costs rose approximately 3% over last year. Consumers ranked concern over rising food costs second only to high gas costs in a 2011 Nielsen survey. The clear winner was the discount grocery channel, which increased sales by 3% at the expense of other banners.

We managed this challenging market environment with great merchandising and promotions, increasing our penetration into discount channels and launching new product innovation. The result was

an increase in market share across our core prepared meats categories (bacon, wieners and sliced meats) for our flagship Maple Leaf® and Schneiders® brands and in our U.K. bagel business.

2011 FINANCIAL HIGHLIGHTS

In 2011, Maple Leaf Foods grew adjusted operating earnings by 21%, despite a decline in our fourth quarter results, which reflected the near-term impact of high meat costs, weaker commodity markets and transitory duplicative overhead costs in our fresh bakery business due to network changes. For the year, wheat prices increased 45% from 2010, which escalated costs in our bakery business. Corn prices were up 59%, increasing the cost of livestock production and raw material costs in our prepared meats business. We managed this commodity inflation with price increases across our businesses. Volumes, however, declined for Maple Leaf and our peers in the short term, as higher prices resulted in tighter consumer spending.

Our adjusted earnings per share increased 40% to \$1.01 – which was a record performance for Maple Leaf Foods. Since 2008 we have increased adjusted operating

earnings by 102% and adjusted earnings per share by 250%. We are very satisfied with these results. While the share price did not track our increased earnings, we are confident that the market will recognize continued growth in our financial results and the value potential in our stock.

Progress on a number of priority projects moved our value creation plan forward in 2011 and delivered some early contributions to earnings. Most notably these included two early plant closures and ongoing changes to simplify our prepared meats product mix, which in turn reduced manufacturing costs.

We've also been active on other fronts – building a great culture that fosters success. In 2011, our innovative ThinkFOOD! Centre hosted close to 200 customer events, where we collaborated on new recipe, product development and merchandising ideas. We are living our commitment to becoming a global food safety leader. We were named one of the top 10 Marketers of the Year in 2011. We have been recognized as having one of Canada's leading corporate cultures. And we continue to build on our Maple Leaf Leadership Values as the foundation for everything we do.

EBITDA Margin Targets

	2010	2011	2012	2015
Protein EBITDA	6.6%	7.8%	8.5%	12.5%
Bakery EBITDA	9.3%	8.7%	11.5%	12.5%
Total EBITDA	7.2%	8.0%	9.5%	12.5%

We are targeting a 15% to 25% reduction in costs in our prepared meats network over the next three years.

Summary Financial Highlights

	2011	2010
Sales	\$ 4,893.6M	\$ 4,968.1M
Return on net assets ("RONA")	10.0%	8.6%
Adjusted operating earnings	\$ 259.0M	\$ 214.5M
Adjusted earnings per share	\$ 1.01	\$ 0.73
Operating cash flow from continuing operations	\$ 244.8M	\$ 285.2M
Capital expenditures	\$ 229.2M	\$ 162.3M
Debt to EBITDA ratio	2.5x	2.5x
Share price performance relative to S&P Food Index	(19.0)%	(16.4)%

WHAT'S AHEAD IN 2012

This is a year of significant momentum as we move ahead with a number of strategic initiatives. By the end of 2012, we plan to hit our first EBITDA margin target of 9.5%. The big hitters behind this improvement are our ongoing product simplification activities, the benefit of early prepared meats plant closures, pricing, and continued improvements in the base business.

By the end of the year, we will have largely completed the expansions to our prepared meats plants in Winnipeg and Saskatoon, and commenced volume transition from other facilities. We'll have closed two of our three smaller Ontario bakeries, consolidating volume into our new scale bakery. SAP will be implemented across our prepared meats and rendering businesses. Construction of our new prepared meats plant in Hamilton, Ontario will commence mid-year and is scheduled for completion in mid-2013. We also expect to deliver higher levels of growth across our consumer-facing businesses.

These complex change initiatives are not without risk. We have identified potential threats or variables and developed mitigation strategies for each one. We have established a disciplined project management process and structure to guide these multiple initiatives. This includes detailed planning and resource mapping to ensure we have the right people, with the right skills, leading and managing these projects. We are benefiting deeply from the experience gained from the

transformation of our fresh pork business, the expansion of the Brandon, Manitoba pork plant and the construction and commissioning of our new Hamilton bakery – all well executed on time and on budget.

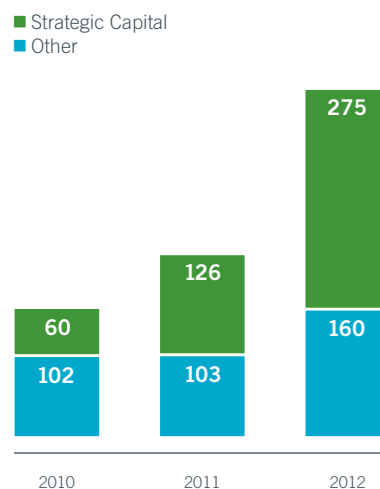
Over the next three years, we will be significantly increasing our capital investments, especially in our prepared meats business, to establish scale efficiencies and deliver margin growth. We expect to spend approximately \$435 million in 2012, primarily to support the expansion of three facilities and commence construction of our new prepared meats facility in Hamilton. The other significant expense is continuing with our SAP implementation. Base capital spending is expected to be approximately \$160 million in 2012.

We have rigorous financial disciplines, reflected in a strong balance sheet and lending agreements. In May, the Company entered into a new four-year \$800.0 million committed revolving credit facility with a syndicate of Canadian, U.S. and international institutions to replace an \$870.0 million revolving credit facility that was due to mature. The new facility is unsecured and bears interest based on short-term interest rates. The financing, which matures on May 16, 2015, results in a weighted average term of the Company's debt of 4.9 years.

Phasing of Capital

(In millions of Canadian dollars)

Significant capital investment in 2012 will support facility expansion, construction and consolidation, as well as SAP implementation.



MAJOR MILESTONES ACHIEVED IN 2011

- Expanded margins in our Meat Products Group
- Commissioned our new scale fresh bakery on time and on budget
- Launched a detailed plan to achieve scale efficiencies in our prepared meats network
- Executed the early closure of two prepared meats plants
- Improved results in our U.K. bakery business
- Reduced costs by standardizing over 1,000 prepared meats products
- Successfully completed 19 SAP implementations
- Increased prepared meats market share through new product innovation
- Gained market share in both the Maple Leaf® and Schneiders® brands

We are committed to maintaining a strong balance through this period of major capital investment. These costs will be funded through existing cash flow with no new equity required. Management's target is to maintain a debt to EBITDA ratio of 3.0x or lower. As at December 31, 2011 this ratio was 2.5x.

While top-line growth is not factored into our near- and long-term margin targets, it is the foundation for the healthy long-term growth of our Company. We need to drive higher levels of organic growth, and that means placing greater emphasis on strengthening our sales organization and investing in our brands, marketing and store displays and superb product innovation.

DELIVERING A STRONGER RETURN TO SHAREHOLDERS

Delivering higher levels of profitability is directly tied to establishing a highly efficient, low cost supply chain. We are targeting a reduction in costs in our prepared meats business of 15% to 25% over the next three years. Therein lies the key to significant wealth generation and sustainable competitive advantage. We expect increased manufacturing and distribution efficiencies and other strategic initiatives to increase our EBITDA margins to 9.5% by 2012 and 12.5% by 2015. These targets are consistent with our large North American peers, who typically deliver EBITDA margins in the 10% to 15% range.

The path to achieve these goals is clear, and we are well along with execution. The immediate results are evident – reflected in our earnings improvement over the past three years.

Our people have worked tirelessly, with tenacity and conviction, to deliver extraordinary results. The fact that many plants will close to achieve what is necessary has been accepted with grace and professionalism. We are humbled by the pride and integrity that our people have in producing great food for their families and communities.

Our entire Management team is committed to achieving our value creation plan. In 2012, we further aligned our interests with shareholders by making incentive compensation for senior leaders 100% tied to delivering financial targets. That means delivering 75% margin growth by 2015.

LOOKING FORWARD

Maple Leaf has all the ingredients to be a GREAT food company. We have strong brands and market shares – we are the market leader in virtually all of our businesses. These are foundational elements for any great food company and the basis for our long-term growth.

We are very confident in our ability to create significant value for shareholders. We have a clear, achievable plan that is delivering and will continue to deliver results. The culmination of our efforts will be a significantly more profitable and competitive company.

Our Management team collectively owns over 34% of the shares of Maple Leaf – a big stake in this Company. Our interest, like yours, is to see this confidence rewarded in the near and longer term.

Sincerely,



MICHAEL H. MCCAIN
President and Chief Executive Officer



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



RICHARD A. LAN
Chief Operating Officer Food Group



J. SCOTT MCCAIN
President and Chief Operating Officer Agribusiness Group

2011 Business Review

Our adjusted operating earnings increased 21%, despite the challenges of food inflation and rising input costs.

MEATS

In our Meat Products Group, fresh pork operations had an exceptional year, benefiting from strong export markets, increased value-added domestic retail sales, and lower production costs. With scale, technology and a focused business model, our pork operations have realized a remarkable turnaround since 2007.

Strong pork results were more than offset by weak results in our poultry business, reflecting record-high live bird costs related to high feed costs. Performance improved considerably in our prepared meats business, driven by price increases and great new product innovation that grew margins and category sales. Our new Maple Leaf® Natural Selections® products substantially grew both the entire sliced meats category and our market share in 2011. We've removed synthetically produced ingredients and replaced them with natural ingredients like sea salt, lemon juice and cultured celery extract. In April we built on this success by launching a full line of Schneiders® Country Naturals™ ham, bacon, wieners and sliced meats. In our chicken business we developed Maple Leaf Prime Naturally Portions™ – four individually sealed boneless chicken breasts in a convenient no-mess packaging format.

BAKERY

In our Bakery Products Group, we passed through a price increase in our fresh bakery business earlier in the year, which partially offset the impact of higher flour prices and other inflationary cost increases. This business was also affected by duplicative overhead costs related to the commissioning of the new Hamilton bakery, which together with higher input costs resulted in some margin decline. Profit growth in our North American frozen bakery operations was also impacted by high wheat costs, which outpaced price increases.

Our U.K. bakery operations showed improved results, benefiting from a very successful re-launch of bagels under the New York Bakery Co.® brand, which resulted in significant sales growth. To keep pace with demand we are moving ahead with an expansion of our Rotherham, England bagel plant, which will increase production capacity by an additional 30,000 bagels per hour. We are consolidating production into three bakeries in the U.K., and we are benefiting from more focus and efficiencies in our core categories.

Product innovation was an important area of focus in our bakery business in 2011. We launched Dempster's Wholegrains™ Canadian Century Grains bread, made with 100% Canadian wheat as well as heritage varieties with roots tracing back over a century. We reduced sodium content across all major product lines, and we ran a second highly successful marketing promotion featuring hockey legend Sidney Crosby. Our Olivieri® pasta business grew volumes in 2011 based on great innovations, such as wholegrain pasta, new advertising and packaging design. We also expanded our popular Tenderflake® line with the launch of Tenderflake® Easy Pie!, which includes everything but the filling.

AGRIBUSINESS

Our Agribusiness Group had a very strong year, benefiting from high commodity grain prices that increased the selling value of rendered materials and bio-diesel. In times of rapid commodity inflation, this business provides an important partial offset to our Meat Products Group, which can be negatively impacted by rising feed and meat costs. Our hog production operations, which provide a dedicated supply into our Brandon pork plant, also increased profitability as a result of higher hog prices and lower feed costs.

SINCE 2008 WE HAVE INCREASED ADJUSTED OPERATING EARNINGS BY 102% AND ADJUSTED EARNINGS PER SHARE BY 250%.

Total Protein Group

(In millions of Canadian dollars)

	2011	2010	2009 ⁽ⁱ⁾	2008 ⁽ⁱ⁾	2007 ⁽ⁱ⁾
Sales	\$ 3,299.1	\$ 3,380.6	\$ 3,516.5	\$ 3,536.7	\$ 3,699.0
Adjusted operating earnings	177.9	131.8	103.4	59.6	87.5
Total assets	1,688.6	1,752.8	1,940.4	1,976.7	1,863.2

Total Bakery Products Group

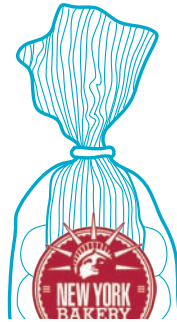
(In millions of Canadian dollars)

	2011	2010	2009 ⁽ⁱ⁾	2008 ⁽ⁱ⁾	2007 ⁽ⁱ⁾
Sales	\$ 1,594.5	\$ 1,587.5	\$ 1,705.1	\$ 1,705.9	\$ 1,510.6
Adjusted operating earnings	86.3	94.4	102.2	83.0	119.3
Total assets	937.3	836.4	955.5	1,003.7	823.1

⁽ⁱ⁾ 2007, 2008 and 2009 figures are in accordance with Canadian GAAP, effective on or before January 1, 2010.



100% Canadian. Our launch of Dempster's Wholegrains™ Canadian Century Grains put Canadian wheat at the top of the ingredient list.



Re-launching and reformulating our U.K. bagels under the New York Bakery Co.® brand resulted in significant market share growth.



Innovation in our Maple Leaf® Natural Selections® line drove growth in our market share and the total category.

Progress on Our Value Creation Plan

In 2011, we made significant progress on the implementation of our value creation plan. Some of these initiatives delivered early contributions to earnings, most notably two plant closures in prepared meats and ongoing changes to simplify our prepared meats portfolio of products, which in turn reduced manufacturing costs.

Expanding Prepared Meats Margins –

This was achieved through both pricing and improvements in our product mix. In 2011, we implemented price increases across our product portfolio to manage the impact of higher raw material costs, and we improved the effectiveness of trade spending. We also benefited from very successful innovation that increased our market shares, driven by products that are branded and result in a higher margin mix.

Commissioning a World-Class Bakery –

A large contributor to lowering overhead costs and achieving margin targets is the closure of three sub-scale bakeries and consolidation of production into our new scale bakery in Hamilton, Ontario. The new bakery was commissioned on time and on budget in 2011. Two of the smaller bakeries closed in the first quarter of 2012, with the third scheduled for closure in early 2013. While this project resulted in approximately \$6.1 million in duplicative overhead costs in 2011, these costs will decline in 2012.

Achieving Scale Efficiencies in Prepared Meats –

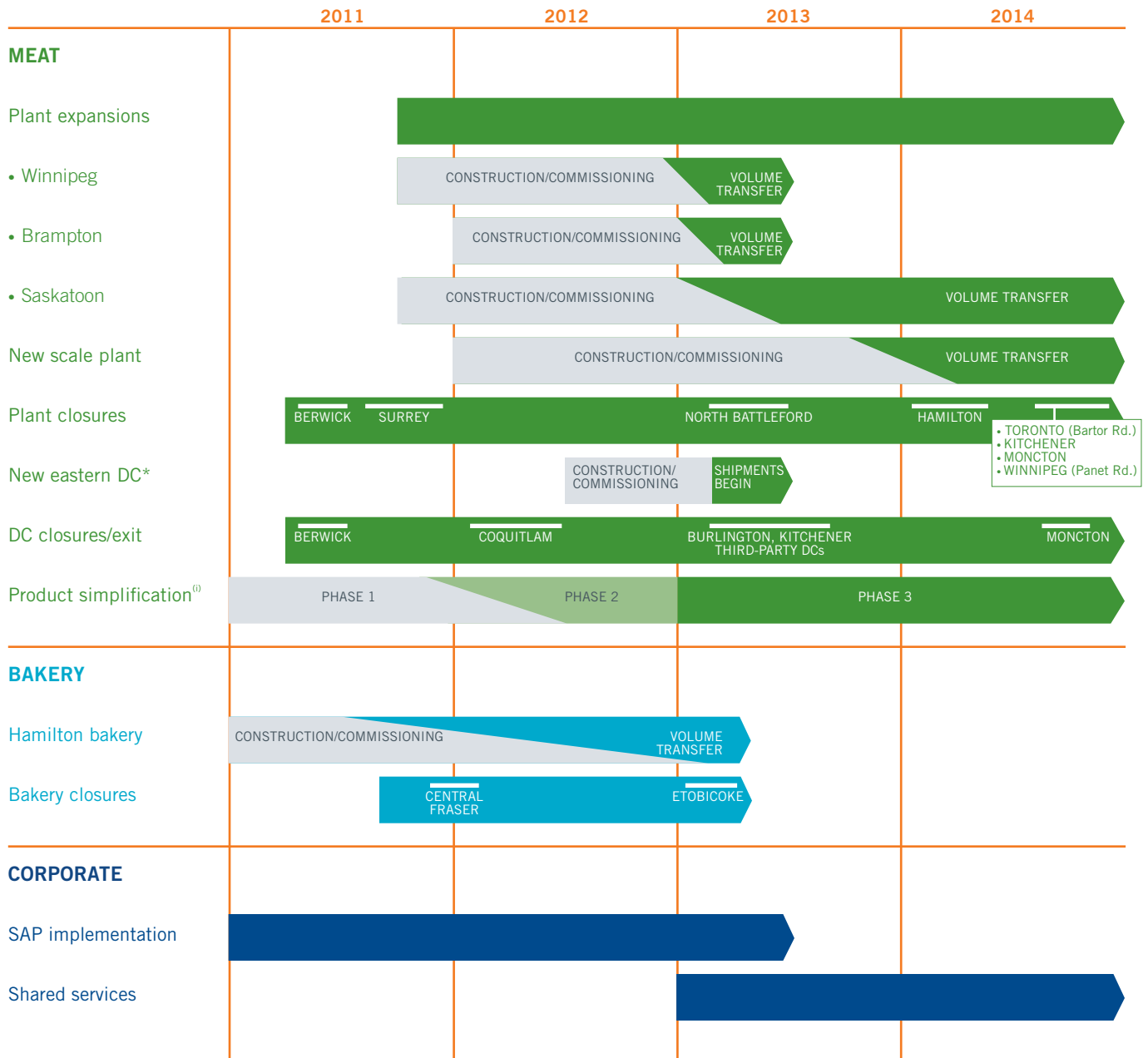
The consolidation of our prepared meats network is the single largest contributor to our margin and profit growth. Last year involved extensive planning to support the detailed costing and phasing of the network transformation. The result was Board approval of \$560 million in strategic capital to expand three facilities and construct a new state-of-the-art prepared meats facility. We got an early start on these changes with the closure of two plants – one in the east and one in the west – which contributed to our financial results in 2011. By the end of 2014, a further six plants and four distribution facilities will close, with production and distribution consolidated into four scale manufacturing facilities and two distribution centres.



OUR NEW SCALE BAKERY IN HAMILTON, ONTARIO WAS COMMISSIONED ON TIME AND ON BUDGET IN 2011. CONSOLIDATING PRODUCTION INTO THIS STATE-OF-THE-ART FACILITY WILL LOWER OVERHEAD COSTS AND DRIVE EBITDA MARGIN IMPROVEMENT.

Value Creation Initiatives

Transformation Complete by End of 2014



⁽ⁱ⁾ Phase 1 of Simplify focused on wieners, deli/sliced, sausage and ham categories. Phase 2 of Simplify will focus on bacon and further processed chicken. Phase 3 of Simplify continues through 2014, further simplifying categories from Phases 1 and 2, and extending effort to other categories.

* Distribution centre

Additional details regarding our value creation plan can be found at www.mapleleaffoods.com

DELIVERING HIGHER LEVELS OF PROFITABILITY IS DIRECTLY TIED TO ESTABLISHING A HIGHLY EFFICIENT, LOW COST SUPPLY CHAIN. WE WILL REALIZE SAVINGS FROM MULTIPLE SOURCES EVERY YEAR UNTIL THESE IMPROVEMENTS ARE COMPLETED BY 2015.

Completing Our Fresh Pork Restructuring –

We completed the restructuring of this business with the sale of our pork processing facility in Ontario. This reduced the number of hogs we process annually by approximately two million, with processing now concentrated in our world-class facility in Brandon. This new business model has made our fresh pork operations consistently more profitable and competitive on a North American scale.

Simplifying Our Prepared Meats Product Mix –

In 2010, we had thousands of unique products (SKUs) in our prepared meats business, many with imperceptible differences. In 2011, we focused on streamlining our bacon, wieners and sliced meat categories and eliminated or standardized over 1,000 SKUs. This first phase of “Simplify” contributed materially to our operating earnings. We are seeing longer runs and fewer changeovers in our plant processes as well as lower raw material and packaging costs. Our customers and consumers also benefit from better category management and simpler, more organized and attractive product displays. We will continue this initiative through 2012 and 2013.

Implementing SAP – We are over 60% through consolidating more than 40 legacy systems and disparate business processes into one integrated operating platform and plan to be completed in 2013. In 2011, we completed 19 “go-lives”. In 2012, the primary focus is on implementing SAP in our prepared meats, fresh prepared foods and rendering operations. We are also beginning to mine the business intelligence provided by this integrated, real-time system to enhance how we manage our businesses. The major tangible cost reduction opportunity with an integrated systems platform is the transition to a shared services organization, enabling the consolidation of disparate back-office centres into one central organization beginning in 2013.

Our value creation plan has been developed to vastly increase productivity in our supply chain – taking out costs and increasing efficiency, all of which is within our control. It requires closing a further six sub-scale plants and four distribution centres and consolidating production into larger, modern facilities where we can realize the benefits of scale and world-class technologies. We expect production volume per plant to increase by over 2.5 times and production per employee to increase over 1.6 times.

60%

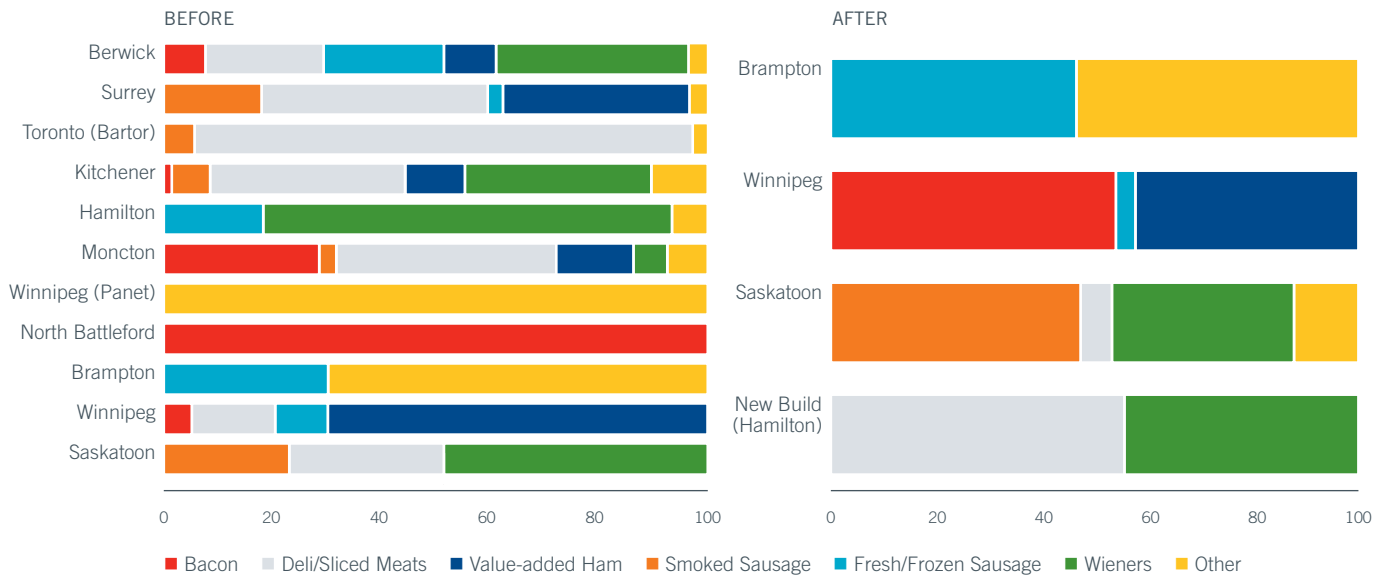
through implementing SAP

>1,000
products

standardized or rationalized
in our prepared meats business,
reducing costs and complexity

Volumes Aggregated into Centres of Excellence

The consolidation of our prepared meats manufacturing will reduce complexity. Longer runs and fewer changeovers will significantly improve productivity and efficiency. With production in large volume categories concentrated in four facilities, our overhead, transportation and warehousing costs will be reduced and the entire business will operate with a streamlined supply chain and lower cost structure.



We will realize savings from multiple sources every year until our supply chain improvements are completed in 2015. We expect 60% of the savings to come from the following areas:

- Enhanced throughput and productivity from scale and technologies
- Improved product yield, waste reduction and packaging
- Lower total overhead, including labour, overhead and shipping costs

The balance of the improvements will come from reduced packaging and raw material costs, increased distribution and storage efficiencies and lower sales, general and administrative (SG&A) expenses.

We are confident that the improved productivity and lower costs resulting from our plan initiatives will drive increased earnings.

Productivity

We expect production volume per plant to increase by >2.5x and production per employee to increase by >1.6x.

Corporate Social Responsibility – Doing What’s Right

Meeting and exceeding consumer needs for high-quality, nutritious and innovative food products also means doing what’s right for our employees, our environment and our communities.

FOOD SAFETY

We are making excellent progress on the journey to becoming a global leader in food safety, starting with the standardization of Maple Leaf’s Food Safety Quality Management Systems in all of our food manufacturing plants. We achieved this through the Global Food Safety Initiative (“GFSI”) benchmarked British Retail Consortium certification, with consistent high standards of quality, safety, and operational criteria. We are working with our co-manufacturers to ensure they achieve equivalent certification. In 2011, we also launched an internal audit program to ensure we consistently meet our own strict standards.

In collaboration with the University of Guelph and the Canadian Research Institute for Food Safety, we have delivered a unique *Food Safety Foundations* education program to over 1,250 Maple Leaf employees. We have also launched an on-line training platform in our manufacturing facilities for plant employees, and established a robust 14-step food safety risk assessment process that is now an integral part of all new product development at Maple Leaf Foods.

Becoming a leader in food safety requires staying current on global best practices, technologies and emerging food safety risks. We continued to work with our Food Safety Advisory Council, which is composed of external global food safety experts. We also brought industry, scientists and government together at our third annual Food Safety Symposium to debate how the food industry, government, academia and consumers could collaborate more effectively toward the goal of eradicating foodborne illness.

WORKPLACE SAFETY

2011 marked our 10th consecutive year of continuous improvement in reportable injury frequency. Across all Maple Leaf operations, we achieved a 12.7% improvement in our Occupational Health & Safety reportable frequency compared to 2010, an achievement that is among the best in the food industry.

We track and communicate our workplace safety record each month across all facilities and take the results extremely seriously. Workplace safety and well-run facilities go hand in hand. We are proud of our track record and the safety culture that is entrenched at all of our facilities.

COMMUNITY OUTREACH

As one of Canada’s leading food companies, we have a responsibility to give back to our communities and to work with others to enhance food security and sustainability. In 2011, we raised and donated well over \$1.5 million to support community organizations that help disadvantaged citizens, which included donations of meat and bakery products to food banks and organizations across Canada and in the U.S. and the U.K. We expanded our Community Outreach Policy, and our employees embraced a campaign with UNICEF to raise \$100,000 for famine relief in the Horn of Africa. Maple Leaf has enshrined the importance of employee volunteerism, providing our people with paid days off and the opportunity to participate in sabbaticals to lend their time and talents to make a difference in local and global communities.

ENVIRONMENTAL PERFORMANCE

We’ve continued to make progress to reduce the impact on the environment from our operations. Given the urgency of issues related to environmental degradation, we recognize that more needs to and will be done.

Maple Leaf has invested over \$85 million in environmental control systems and \$10 million annually to manage our environmental programs.

- In 2011, we reduced energy intensity by 0.48% compared to the prior year. We also reduced our absolute greenhouse gas generation by 1.2%
- The majority of our raw materials and ingredients come from Canadian sources
- On average, over 90% of our manufacturing waste is diverted from landfills and beneficially reused or recycled
- Our new bakery in Hamilton, Ontario was constructed to Leadership in Energy and Environmental Design (LEED®) Silver standards and is currently in the verification stage prior to certification
- Our newest office in Mississauga, Ontario, which houses our ThinkFOOD! product innovation centre, was built to LEED® Gold standards for the building core and shell
- We sold over 45 million litres of bio-diesel fuel, produced from waste fats and recycled grease and cooking oils



AS ONE OF CANADA'S LEADING FOOD COMPANIES, WE HAVE A RESPONSIBILITY TO GIVE BACK TO OUR COMMUNITIES AND TO WORK WITH OTHERS TO ENHANCE FOOD SECURITY AND SUSTAINABILITY.

ANIMAL WELFARE

Respect for the well-being, proper handling and humane slaughter of all animals within our care is a social and ethical responsibility. It requires maintaining respect for the animals while providing consumers with high-quality, wholesome and affordable food. Strict adherence to our animal welfare policy is monitored and enforced. Maple Leaf retains humane handling experts to inspect our hog and poultry primary processing facilities, which are also regularly monitored by the Canadian Food Inspection Agency and veterinarians.

We support our commitment to animal welfare by:

- Providing employees with knowledge and skills in proper animal handling and welfare practices
- Enforcing a ZERO tolerance policy for abuse of animals within our care
- Routinely testing the effectiveness of our practices and procedures based on quantifiable animal well-being guidelines
- Working with producers and transportation companies who share our commitment to upholding high standards of animal welfare

A HIGH-IMPACT CULTURE

Maple Leaf has a deeply rooted values-based culture that defines what we hold important and what we expect of each other. These values represent our compass and underpin all aspects of our organization: the people we attract, how we act, the decisions we make and our business success.

Do what's right... by always acting with integrity, which is fundamental to respecting where we work and who we work with, and having our customers, suppliers, communities and other stakeholders respect us.

Deliver winning results... by expecting to win, by owning personal and collective accountability to deliver, and by taking appropriate risks without fear of failure, while challenging for constant improvement.

Build collaborative teams... by attracting only the best people, by serving, recognizing and rewarding their development and success, and by fostering a collaborative and open environment with the freedom to disagree, but always making timely decisions and aligning behind them.

Get things done in a fact-based, disciplined way... by seizing the initiative with the highest level of urgency and energy and by meeting all commitments responsibly while being objective, analytical and using effective processes.

Learn and grow, inwardly and outwardly...

by being introspective personally and organizationally, by freely admitting mistakes or development needs, and by deeply understanding and connecting with consumers and stakeholders globally as primary sources of learning and growth.

Dare to be transparent, passionate and humble... by having a culture where people are encouraged to speak openly, act with passion, and value collective success over personal success.

Our deep commitment to a strong values-based culture resulted in the Company being recognized again this year as one of Canada's Top Corporate Cultures by Waterstone Capital.

>\$1.5 million
raised and donated to support
community organizations

\$10 million
spent each year since 2000 to
manage our environmental programs

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 and the individual committees are clearly delineated. Together with the Chairman and the Corporate Governance Committee, the Board assesses its processes and practices regularly to ensure its governance objectives are met.

COMPOSITION OF THE BOARD OF DIRECTORS

The Board is composed of experienced directors with a diversity of relevant skills and competencies. The Board of Directors has assessed each of the Company's 11 non-management directors to be independent.

A more comprehensive analysis of the Company's approach to corporate governance matters is included in the Management Proxy Circular for the May 2, 2012 annual meeting of shareholders.

BOARD OF DIRECTORS

W. GEOFFREY BEATTIE

*President and Chief Executive Officer,
The Woodbridge Company
(Investment company)*

GREGORY A. BOLAND

*President and Chief Executive Officer,
West Face Capital Inc. (Investment manager)*

JOHN L. BRAGG, O.C.

*Chairman, President and
Co-Chief Executive Officer,
Oxford Frozen Foods (Food manufacturing)*

PURDY CRAWFORD, C.C.

*Counsel, Osler, Hoskin & Harcourt
(Law firm)*

JEFFREY GANDZ

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

JAMES F. HANKINSON

Corporate Director

CHAVIVA M. HOŠEK, O.C.

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

CLAUDE R. LAMOUREUX, O.C.

Corporate Director

J. SCOTT McCAIN

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

MICHAEL H. McCAIN

*President and Chief Executive Officer,
Maple Leaf Foods Inc.*

DIANE E. McGARRY

Corporate Director

JAMES P. OLSON

Corporate Director

GORDON RITCHIE

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

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
J.P. OLSON

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
J.P. OLSON
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

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 KUHN
Senior Vice-President, Communications

EXECUTIVE COUNCIL

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

PETER BAKER
President, Maple Leaf Bakery U.K.

KENNETH G. CAMPBELL
Senior Vice-President, Manufacturing

MARYANNE D. CHANTLER
Senior Vice-President, Six Sigma

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
Senior Vice-President, Logistics

GARY MAKSYMETZ
President, Maple Leaf Consumer Foods

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

BARRY McLEAN
President, Canada Bread Fresh Bakery

RÉAL MÉNARD
President, Canada Bread Frozen Bakery

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, Investor Relations

CATHERINE BRENNAN
Vice-President and Treasurer

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

DIANNE SINGER
Assistant Corporate Secretary



Financial Review 2011

FEBRUARY 27, 2012

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.

FINANCIAL TABLE OF CONTENTS

Management's discussion and analysis	1
Independent auditors' report	47
Consolidated balance sheets	48
Consolidated statements of earnings	49
Consolidated statements of comprehensive loss	50
Consolidated statements of changes in total equity	51
Consolidated statements of cash flows	52
Notes to the consolidated financial statements	53

management's discussion and analysis

February 27, 2012

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 19,500 people at its operations across Canada and in the United States, Europe and Asia.

OPERATING SEGMENTS

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

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

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

The combination of the Company's Meat Products Group and Agribusiness Group comprises the Protein Group, which includes the production and marketing of fresh and prepared meats and by-product recycling.

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

FINANCIAL OVERVIEW

In 2011, sales decreased 1.5% to \$4,893.6 million compared to \$4,968.1 million last year. After adjusting for the impact of divestitures and a stronger Canadian dollar, sales increased by 4.7% primarily as a result of higher selling prices.

Adjusted Operating Earnings⁽¹⁾ increased 20.8% to \$259.0 million in 2011 compared to \$214.5 million last year, driven by strong performance in the Protein Group. Adjusted Earnings per Share⁽²⁾ increased to \$1.01 in 2011, including \$12.2 million (\$0.09 per share) related to tax adjustments associated with a prior acquisition, compared to \$0.73 in the prior year.

Net earnings increased to \$87.3 million (\$0.59 basic earnings per share) in 2011 compared to \$35.6 million (\$0.22 basic earnings per share) last year. Net earnings included the impact of \$79.8 million (\$0.41 per share) of pre-tax costs related to restructuring activities (2010: \$81.1 million).

Several items are excluded from the discussions of underlying earnings performance. These include restructuring charges, mark-to-market adjustments on hedging contracts that are not designated in a hedging relationship and mark-to-market adjustments related to biological assets. Restructuring charges are excluded as they do not reflect the continuing earnings performance of the business. Mark-to-market adjustments do not reflect the economic effect of the hedging transactions and are excluded from earnings discussions until the underlying asset is sold or transferred. Refer to the section entitled Non-IFRS Financial Measures at the end of this Management Discussion and Analysis on page 41 for a description and reconciliation of all non-IFRS financial measures.

Notes:

- (1) *Adjusted Operating Earnings measures are defined as earnings from operations before restructuring and other related costs and associated gains, other income and the impact of the change in fair value of non-designated interest rate swaps, unrealized (gains) losses on commodity futures contracts and the change in fair value of biological assets.*
- (2) *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 associated gains, the impact of the change in fair value of non-designated interest rate swaps, unrealized (gains) losses on commodity futures contracts and the change in fair value of biological assets, net of tax and non-controlling interest.*

Please refer to the section entitled Non-IFRS Financial Measures starting on page 41 of this Management's Discussion and Analysis for description and reconciliation of all non-IFRS financial measures.

management's discussion and analysis

SELECTED FINANCIAL INFORMATION

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

<i>(\$ millions except earnings per share ("EPS") figures)</i>	2011	2010	2009 ⁽ⁱⁱ⁾
Sales	\$ 4,893.6	\$ 4,968.1	\$ 5,221.6
Adjusted Operating Earnings ⁽ⁱ⁾	\$ 259.0	\$ 214.5	\$ 196.1
EBITDA ⁽ⁱ⁾	\$ 391.2	\$ 357.9	\$ 349.2
EBITDA % ⁽ⁱ⁾	8.0%	7.2%	6.7%
Net earnings	\$ 87.3	\$ 35.6	\$ 52.1
Adjusted Earnings per Share ⁽ⁱ⁾	\$ 1.01	\$ 0.73	\$ 0.57
Basic EPS	\$ 0.59	\$ 0.22	\$ 0.40
Diluted EPS	\$ 0.58	\$ 0.21	\$ 0.39
Total assets	\$ 2,940.5	\$ 2,834.9	\$ 3,057.5
Net Debt ⁽ⁱ⁾	\$ 984.0	\$ 901.8	\$ 1,015.6
Total long-term liabilities	\$ 1,421.6	\$ 756.2	\$ 1,049.9
Return on Net Assets ("RONA") ⁽ⁱ⁾	10.0%	8.6%	5.9%
Cash provided by operating activities	\$ 244.8	\$ 285.2	\$ 89.2
Cash dividends per share	\$ 0.16	\$ 0.16	\$ 0.16

(i) Refer to the section entitled *Non-IFRS Financial Measures* starting on page 41 of this document.

(ii) 2009 figures are in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"), effective on or before January 1, 2010.

DISCUSSION OF FACTORS IMPACTING THE COMPANY'S OPERATIONS AND RESULTS

Fluctuating Input Prices

In 2011, prices of many commodities that influence cost of production in the Company's business continued to increase, which pressured margins for Maple Leaf Foods and the food industry. Commodities or products used by the Company that increased in price included live hogs, live chicken, fresh pork, wheat, corn and crude oil. To manage the impact of these higher costs, Management implemented price increases across the majority of the Company's products, although at times these increases were outpaced by the rise in raw material costs. In addition, the Company implemented several cost containment and operational improvement initiatives, and in certain instances purchased commodities on a forward fixed price basis to manage fluctuations in commodity prices.

management's discussion and analysis

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

	<i>As at December 31,</i>		<i>Annual averages</i>		
	2011⁽ⁱ⁾	2011	2010	Change	2009
Pork cutout (USD per cwt) ⁽ⁱⁱ⁾	\$ 86.85	\$ 93.65	\$ 81.10	15.5%	\$ 58.04
Composite primal values (USD per cwt) ⁽ⁱⁱ⁾					
Belly	\$ 108.30	\$ 122.77	\$ 106.38	15.4%	\$ 76.61
Ham	\$ 70.06	\$ 77.48	\$ 73.00	6.1%	\$ 46.28
Trim	\$ 76.84	\$ 87.57	\$ 77.94	12.4%	\$ 42.61
Market price per hog (CAD per hog) ⁽ⁱⁱⁱ⁾	\$ 158.62	\$ 164.88	\$ 140.36	17.5%	\$ 119.58
Market price per hog (USD per hog) ⁽ⁱⁱⁱ⁾	\$ 155.25	\$ 166.76	\$ 136.27	22.4%	\$ 104.42
Poultry meat market price (CAD per kg) ⁽ⁱⁱⁱ⁾	\$ 3.33	\$ 3.31	\$ 3.32	(0.3)%	\$ 3.28
Poultry live bird cost (CAD per kg) ⁽ⁱⁱⁱ⁾	\$ 1.65	\$ 1.60	\$ 1.39	15.1%	\$ 1.45
Wheat (USD per bushel) ^(iv)	\$ 8.50	\$ 9.07	\$ 6.23	45.6%	\$ 6.06
Corn (USD per bushel) ^(iv)	\$ 6.47	\$ 6.80	\$ 4.27	59.3%	\$ 3.76
Soybeans (USD per bushel) ^(iv)	\$ 11.99	\$ 13.17	\$ 12.87	2.3%	\$ 10.20
Oil (USD per barrel) ^(iv)	\$ 98.83	\$ 94.88	\$ 79.48	19.4%	\$ 61.95

(i) Spot prices for the week ended December 31, 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)

During 2011, the Company's fresh poultry processing margins were significantly pressured as live bird costs increased over 15%, while market prices for fresh meat were consistent with last year. Higher live bird costs, which peaked during the fourth quarter, were driven by higher feed costs.

Increases in fresh meat prices, most notably pork and beef, placed pressure on margins in the prepared meats business. The increases were also sustained, and in certain times in the year rose more quickly than the pricing cycle for the respective products. By the fourth quarter, pricing levels had mostly offset cost increases experienced earlier in the year. However, earnings during the year were impacted by the lag between the effective date of the price increases and the rise in raw material costs. In the fourth quarter, a period when prices are seasonally reduced, fresh meat input costs continued to be unexpectedly high, which impacted margins. As a result, Management intends to implement further price increases in 2012.

Pork processing margins were also impacted during the year by increases in live hog costs which outpaced higher fresh pork values. The reduction in pork processing margins was most notable when compared with unusually high margins during the fourth quarter of 2010. However the Company was able to offset these weaker markets with efficiency improvements and improved sales mix, resulting in stronger earnings for the full year in its primary pork processing operations.

Hog producers in North America benefited from higher market prices in 2011. However, this was partly offset by higher feed costs and a stronger Canadian dollar, which reduced the value of Canadian hogs.

management's discussion and analysis

Wheat, dairy and fuel constitute significant input costs to the Company's bakery operations. Wheat prices, which had begun rising in the last six months of 2010, were more than 75% higher in the first six months of 2011 compared to the same period in 2010 and, despite some moderate declines in the second half of the year, remained at fairly high levels for the remainder of 2011. Dairy costs, in particular, butter and cheese, also increased significantly in 2011.

The pace of wheat price increases in late 2010 and early 2011, together with increases in other commodities such as fuel and dairy, led to margin compression in the Company's bakery operations, particularly during the first half of the year. Price increases were implemented across all bakery operations throughout 2011 and forward contracts were utilized to provide some protection against the effects of higher wheat costs; however, the Company was not able to fully recover all cost increases during the year. The stronger Canadian dollar in 2011 partly offset the effect of higher wheat prices in the Canadian operations.

Impact of Currency

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

	<i>As at December 31,</i>		<i>Annual averages</i>			
	2011	2011	2011	2010	Change	2009
U.S. dollar / Canadian dollar ⁽ⁱ⁾	\$ 0.98	\$ 1.01	\$ 0.97		4.3%	\$ 0.88
Japanese yen / Canadian dollar ⁽ⁱ⁾	\$ 75.70	\$ 80.68	\$ 85.24		(5.3)%	\$ 82.24

⁽ⁱ⁾ Source: Bank of Canada daily closing rates

The Canadian dollar strengthened 4.3% on average in 2011 relative to the U.S. dollar. In general, a stronger Canadian dollar compresses margins in the Company's primary pork processing operations, and to a lesser extent in the rendering operations, as sales values for export products are reduced. Conversely, a stronger Canadian dollar decreases the cost of raw materials and ingredients in the domestic prepared meats and fresh bakery businesses. The branded packaged goods businesses are able over time to react to changes in input costs through pricing, cost reduction or investment in value-added products. However, over the longer term, a stronger Canadian dollar also reduces the relative competitiveness of the domestic Canadian packaged goods operation, as imports of goods from the U.S. become more competitive. The Company is implementing a strategy to reduce costs and improve productivity in order to compete more effectively with large U.S. food companies.

Overall for 2011, currency rate changes did not have a material net impact on earnings.

The stronger Canadian dollar in 2011 reduced earnings from the Company's fresh pork export sales. With the completion of the sale of the primary processing facility in Burlington, Ontario, which processed approximately two million hogs annually, the Company's exposure to currency-affected exports has been significantly but not fully reduced.

Hog production operations are exposed to changes in currency, as the sales value of hogs is pegged to the U.S. dollar. A stronger Canadian dollar in 2011 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.

The stronger Canadian dollar provided some benefit to the Company's domestic bakery businesses, as it partially reduced the cost of wheat and other ingredients priced in U.S. dollars. However, this was insufficient to offset the significant increase in input costs.

management's discussion and analysis

Value Creation Plan

Maple Leaf Foods has completed a detailed analysis of costs within its businesses to determine opportunities to increase efficiencies and margins. The Company has also done extensive research to benchmark its costs against large North American food companies with whom it competes. The result of this research and analysis has identified a significant opportunity to increase profitability and margins through changes in its supply chain, systems and pricing strategies, what the Company describes as its Value Creation Plan ("Plan").

Maple Leaf Foods is implementing this Plan in order to significantly increase margins, now and in each year through 2015. The Plan focuses largely on reducing costs in its prepared meats business through reducing product complexity, closing plants and consolidating production and distribution into scale facilities or "centres of excellence". The Plan also includes cost reductions related to the new scale fresh bakery in Hamilton, Ontario, the implementation of SAP, and more effective pricing strategies. These and other initiatives are expected to deliver earnings before interest, tax, depreciation and amortization ("EBITDA") margins of 9.5% in 2012 and 12.5% in 2015.

The Value Creation Plan encompasses the key categories in prepared meats which are bacon, deli and sliced meats, value-added ham, smoked sausage, wieners, and fresh and frozen sausage. Categories that are out of scope include primary pork and chicken, value-added chicken, Italian specialty, canned meats, lunch kits, roasts and meal solutions, and potato and pastry products.

Near-Term Value Creation Initiatives – 2011 Progress

Complexity Reduction

In 2011, the Company benefited from cost reduction initiatives by standardizing product formulations, sizes and specifications, and eliminating non value-added product lines in prepared meats. These complexity reduction initiatives generated immediate financial returns by creating longer, more efficient production runs, while also facilitating the shift of production to larger, scale facilities. The first phase of complexity reduction initiatives, which focuses on the categories of wieners, deli and sliced meats, sausage and value-added ham, is well underway. The next phase is expected to begin in 2012.

Early Closure of Prepared Meats Plants

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

New Ontario Fresh Bakery Plant

In 2011, the Company commissioned a new state-of-the-art fresh bakery in Hamilton, Ontario. The cost of this facility is estimated to be approximately \$100 million, of which \$71.2 million was spent in 2011. The facility started shipping product in July and now has four of a total of eight lines operating. Three bakeries in the Greater Toronto Area are being closed to consolidate production into the Hamilton facility. Two of them were closed in the first quarter of 2012, and the remaining bakery is expected to close in early 2013.

Optimizing Pricing and Promotions

Maple Leaf Foods is supporting margin growth in its consumer facing businesses through increasing the effectiveness of its pricing, promotions and category management strategies. This includes managing inflationary costs through appropriate price increases; reducing the percentage of products sold on promotion; increasing the impact of its in-store promotional activities; and continuing to increase the value of its selling mix through innovation, brand building and effective category management. Supported by these initiatives, the Company realized strong margin growth in its prepared meats business in 2011.

management’s discussion and analysis

SAP Implementation

As of the end of 2011 the Company had successfully completed 54 SAP go-lives, with 19 of them taking place during the year. As a result, some 60% of the Company’s businesses now operate on SAP, with increased controls and capabilities. The implementations for all fresh meats plants, U.K. bakery business and many of the North American bakery operations are now complete. The Company is on track to complete the SAP initiative in 2013.

Longer-Term Initiatives – 2011 Progress

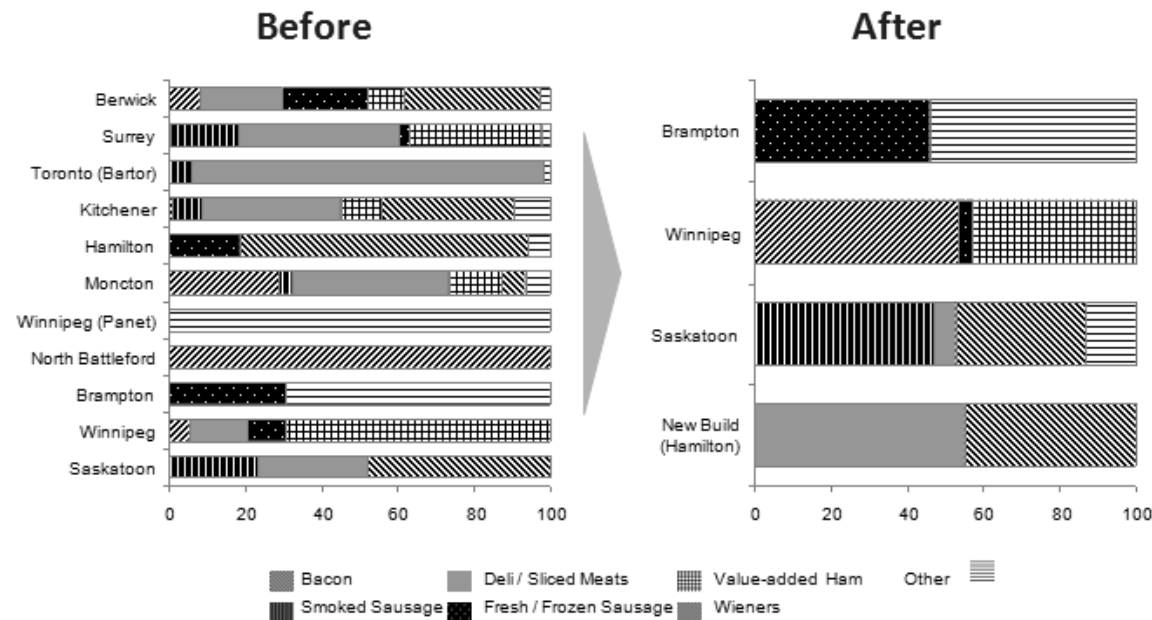
Since the approval of the Value Creation Plan by the Board of Directors in the fall of 2010, the Company has made substantial progress in its execution. In October of 2011, the Company announced that its Board approved to invest approximately \$560 million to support the next phase of its Value Creation Plan, including establishing a scale, low cost prepared meats network. When complete by 2015, the Company believes that it will be a more competitive and significantly more profitable business, with an excellent platform for growth.

Rationalizing Prepared Meats Network

The Company’s prepared meats network is the legacy of numerous acquisitions, resulting in many regional, sub-scale facilities. By 2014 the Company expects to consolidate prepared meats production from eight smaller facilities to three existing plants and one new facility in Hamilton, Ontario. Of these eight smaller plants, two, Berwick, Nova Scotia and Surrey, British Columbia, were closed during 2011. The remaining six plants in Kitchener, Hamilton, North Battleford, Moncton, Toronto and one small facility in Winnipeg, are expected to be closed by 2014.

The new facility in Hamilton, Ontario, will require an investment of approximately \$395 million and will focus on high efficiency production of wieners and deli meats, consolidating production from five existing plants.

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



management's discussion and analysis

Investing in Leading Edge Technologies

As part of the transition to a more efficient scale network, the Company intends to implement proven technologies to reach world-class levels in product preparation, cooking, and packaging to enhance productivity and overall product quality, and further increase food safety levels.

Increasing Productivity and Distribution Efficiencies

The rationalization of sub-scale plants and the investments in new technologies are expected to enable Maple Leaf Foods to significantly increase plant productivity. Changes in the distribution network are also being made to reduce costs and improve efficiencies, involving the consolidation of operations from five distribution centres into two scale distribution centres by the end of 2014. The Company's existing distribution centre located in Saskatoon, Saskatchewan, will serve as the western hub, while a new facility will be constructed in Ontario to establish the eastern hub. Maple Leaf Foods intends to outsource operation of the Ontario distribution centre to a third party which specializes in logistics and warehousing. The facility is expected to be commissioned in 2013.

A Simpler, Scale Prepared Meats Supply Network

In all, Maple Leaf Foods is reducing its prepared meats manufacturing and distribution network by 10 facilities, including two plants and one distribution centre already closed during 2011. The network redesign is expected to result in a net loss of approximately 1,550 positions, largely to occur in 2014.

The Company expects to realize savings from multiple sources across the organization well before the execution plan is complete in 2014. Simplification efforts are already showing results, derived from longer runs and fewer changeovers in the plants, as well as lower raw material and packaging costs. Throughout the life of the Value Creation Plan, 60% of the savings are expected to come from:

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

The benefits of this strategy are expected to allow Maple Leaf Foods to achieve EBITDA margins of 12.5% by 2015 in both its Protein and Bakery businesses, comparable to those of its U.S.-based competitors. For 2012, the Company expects to achieve combined EBITDA margins of 9.5%: 8.5% in Protein and 11.5% in Bakery.

EBITDA Margin	2010	2011	2012	2015
Protein EBITDA	6.6%	7.8%	8.5%	12.5%
Bakery EBITDA	9.3%	8.7%	11.5%	12.5%
Total EBITDA	7.2%	8.0%	9.5%	12.5%

management's discussion and analysis

Capital Investment Plan and Leverage Ratio

By 2013, the Company expects to invest approximately \$750 million to execute this Value Creation Plan, with \$560 million supporting its prepared meats network transformation, \$100 million associated with the new fresh bakery in Hamilton, Ontario, and \$90 million for the implementation of SAP. The Company expects to incur approximately \$170 million (\$120 million cash cost) in restructuring charges in relation to these activities. Despite these higher investment levels Net-Debt-to-EBITDA leverage ratio is expected to remain below 3x during this period, largely driven by significant margin improvements. Moreover, debt maturities have been extended beyond peak-spending periods, with the first significant component coming due for refinancing at the end of 2014.

In the second quarter of 2011, the Company had revised its estimate for capital expenditures for 2011 to be between \$270 million and \$290 million. Capital expenditures for 2011 were \$229.2 million. While the level of investment in strategic projects was on track, capital investments in base business operations was lower than previously estimated due to changes in the timing of several smaller projects and increased focus on strategic capital projects.

Systems Conversion

In January 2009, the Company began an initiative to consolidate all of its information technology systems onto a single platform, in order to standardize processes, reduce costs and enable a transition to shared services structure. Management selected SAP software as its new platform and has since taken a rapid, carefully designed approach to implementation. The many successful implementations since the beginning of this initiative in 2009 have been enabled by changing existing business practices to standardized SAP processes, significantly limiting software modifications and rigorously controlling master data. SAP has brought new capabilities to some 60% of the Company's operations, setting a strong foundation for better analytics and further efficiency gains. While Management is pleased with progress to date, the Company did experience some challenges with the implementation of SAP in its fresh bakery Western Canada operations during the fourth quarter of 2011. Despite these challenges, the project is on track to be completed in 2013.

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	■	■	■														
North American Frozen Bakery			■	■	■	■											
Fresh Bakery					■	■	■	■	■	■	■	■	■	■	■	■	■
Meat Products Group					■	■	■	■	■	■	■	■	■	■	■	■	■
Agribusiness													■	■			
U.K. Frozen Bakery											■	■					

management's discussion and analysis

OPERATING REVIEW

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

(\$ millions)	2011	2010	Change	2009 ⁽ⁱ⁾
Meat Products Group	\$ 3,039.5	\$ 3,181.1	(4.5)%	\$ 3,310.4
Agribusiness Group	259.6	199.5	30.1%	206.1
Protein Group	\$ 3,299.1	\$ 3,380.6	(2.4)%	\$ 3,516.5
Bakery Products Group	1,594.5	1,587.5	0.4%	1,705.1
Total Sales	\$ 4,893.6	\$ 4,968.1	(1.5)%	\$ 5,221.6

(i) 2009 figures are in accordance with Canadian GAAP, effective on or before January 1, 2010.

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

(\$ millions)	2011	2010	Change	2009 ⁽ⁱⁱ⁾
Meat Products Group	\$ 96.0	\$ 81.3	18.1%	\$ 55.4
Agribusiness Group	81.9	50.5	62.2%	48.0
Protein Group	\$ 177.9	\$ 131.8	35.0%	\$ 103.4
Bakery Products Group	86.3	94.4	(8.6)%	102.2
Non-allocated Costs in Adjusted Operating Earnings⁽ⁱ⁾	(5.2)	(11.7)	(55.9)%	(9.5)
Adjusted Operating Earnings	\$ 259.0	\$ 214.5	20.8%	\$ 196.1

(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 operating results.

(ii) 2009 figures are in accordance with Canadian GAAP, effective on or before January 1, 2010.

Meat Products Group

Includes value-added prepared meats 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.

Sales decreased 4.5% to \$3,039.5 million from \$3,181.1 million in the prior year. Adjusting for the divestiture of the Company's Burlington, Ontario, primary pork processing operation in November 2010, and the impact of a stronger Canadian dollar, which reduced the sales value of pork exports, sales increased by 3.8%. The increase was primarily due to higher market prices in fresh pork, price increases in prepared meats and value-added poultry, and improved sales mix in the prepared meats business. These benefits were partly offset by lower sales volumes in prepared meats, primarily during the first half of the year as consumers adjusted to higher prices. By the fourth quarter, volumes were comparable to the prior period.

Adjusted Operating Earnings in 2011 increased 18.1% to \$96.0 million compared to \$81.3 million last year, as margin expansion in prepared meats and primary pork processing were partly offset by weaker poultry processing markets.

management's discussion and analysis

Earnings improved in prepared meats, as the business benefited from better product sales mix and early benefits from the Value Creation Plan, that were able to more than offset the net impact of significant raw material increases and volume declines. Price increases implemented during the first half of 2011 resulted in the Company recovering the impact of higher raw material costs during most of the year; however, they were insufficient to offset the unexpectedly strong input costs during the fourth quarter. In the first quarter of 2012, Management intends to implement price increases to address higher raw material costs. During the majority of the year, prepared meats volumes were lower than the prior year, as consumers adjusted to higher prices across the industry.

Earnings in primary pork processing operations increased as a result of strong exports and improved product sales mix, despite lower industry primary pork processor margins in North America, particularly during the fourth quarter compared to very significant levels in the same period in 2010, and the unfavourable impact of a stronger Canadian dollar.

Earnings in poultry processing operations declined significantly due to continued increases in live bird costs that peaked during the fourth quarter of 2011, which were not supported by a commensurate increase in meat costs.

Agribusiness Group

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

Sales increased 30.1% to \$259.6 million in 2011 from \$199.5 million in 2010. This sales growth was due to higher selling prices driven by strong market values for both bio-diesel and rendered by-products for the full year, although markets were relatively weaker in the fourth quarter. Higher volumes in rendered by-products also contributed to higher sales.

Adjusted Operating Earnings increased 62.2% to \$81.9 million compared to \$50.5 million last year, reflecting the benefit of strong prices for recycled by-products.

Earnings in by-products recycling operations benefited from higher selling prices due to strong market values for both bio-diesel and rendered products that exceeded the impact of higher raw material costs. Earnings improved in hog production as a result of higher hog prices that were only partly offset by higher feed costs and the unfavourable impact of a stronger Canadian dollar.

Bakery Products Group

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

Sales of \$1,594.5 million in 2011 were consistent with \$1,587.5 million in the prior year. After adjusting for the sale of the Company's fresh sandwich product line in February 2011 and currency translation on sales in the U.S. and U.K., sales increased 3.4%, primarily due to price increases implemented earlier in 2011. This benefit was slightly offset by lower sales volumes in the fresh bakery and North American frozen bakery businesses.

Adjusted Operating Earnings for 2011 declined 8.6% to \$86.3 million compared to \$94.4 million last year. Margins were compressed as the price increases implemented earlier in 2011 were not sufficient to fully recover increased raw material and other inflationary costs. Although earnings benefited from operations efficiencies from network optimization initiatives in the Company's frozen bakery business and reduced selling, general and administrative expenses, they were also impacted by approximately \$6.1 million in duplicative overhead costs associated with the transition to the Company's new fresh bakery in Hamilton, Ontario, and by approximately \$2.5 million in costs due to supply chain disruptions related to the installation of SAP in the fresh bakery Western Canada operations during the fourth quarter. The sale of the Company's fresh sandwich product line in the first quarter of 2011 also contributed to earnings improvements, as this business incurred losses in 2010.

During most of the year, the Company continued to operate three smaller bakeries in the Greater Toronto Area as it gradually consolidates production to its new fresh bakery in Hamilton, Ontario. During this period the Company is incurring incremental overhead costs, which will be eliminated once all three bakeries are closed. Two of these plants were closed in the first quarter of 2012, and the remaining bakery is expected to close in early 2013. The concurrent operation of the new and existing bakeries during this transition period will result in further duplicative overhead costs in 2012, but to a lesser degree than in 2011. The duplicative costs are consistent with expectations.

management's discussion and analysis

The incremental costs related to the SAP implementation primarily affected the fourth quarter as they were specific to disruptions related to installation of the system in Western Canada, and are not expected to materially impact 2012.

During the year, as part of the network optimization initiatives, the Company closed its frozen bakery in Laval, Quebec, and fresh bakery in Delta, British Columbia, and transferred production to its other facilities. Similarly, in the U.K., the Company is consolidating production from several smaller plants to reduce costs and gain scale efficiencies. In the fourth quarter, the Company decided that it will close its bakery in Walsall, U.K., in early 2012 as part of the transition to optimize the manufacturing of morning goods and specialty bakery products, and expects to incur approximately \$12.7 million in pre-tax restructuring and other related costs, \$6.8 million of which will be cash expenses.

Non-allocated Costs in Adjusted Operating Earnings

Total costs that are not allocated to segmented adjusted operating earnings of \$5.2 million for the year (2010: \$11.7 million) comprise \$4.3 million (2010: \$5.9 million) related to the implementation of SAP, \$0.9 million (2010: \$3.0 million) of consulting fees relating to the Company's Board renewal program, and \$nil (2010: \$2.8 million) related to research and benchmarking studies that formed the basis of the Company's Value Creation Plan. These costs are included in Adjusted Operating Earnings.

GROSS MARGIN

Gross margin in 2011 was \$767.2 million (15.7% of sales) compared to \$748.9 million (15.1% of sales) last year. The increase in gross margin was due to margin expansion within the Protein Group, reflecting margin expansion in the prepared meats business as a result of improved product sales mix driven by innovation, operation efficiency gains, and strong results in the Company's by-products recycling operations reflecting higher market prices for rendered and bio-diesel products. In the Bakery Products Group, gross margins declined mostly due to higher raw material costs and overall inflation that were not fully recovered through pricing during the year. Margins were further impacted in the fresh bakery business as result of duplicative overhead costs as the Company transfers production from three sub-scale facilities to its new bakery in Hamilton, Ontario, and costs due to supply chain disruptions related to the installation of SAP in the fresh bakery Western Canada operations.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses decreased by 3.7% to \$504.2 million in 2011 compared to \$523.5 million last year, representing 10.3% and 10.5% of sales respectively. This decrease resulted from overhead cost reductions implemented earlier in the year in the Bakery Products Group, which helped compensate for margin compression as a result of higher raw material costs. In addition, advertising and promotional costs declined by \$1.5 million due to timing of marketing and new product promotions. These promotional cost reductions were partly offset by higher investments in the U.K. to support the re-launch of the Company's New York Bakery bagels during the first half of the year. Selling, general and administrative expenses were consistent with those of last year in the Protein Group, as reductions in general and administrative expenses were offset by higher selling costs and promotional expenses to support new product innovation, including Natural Selections and Schneider's Country Naturals. General non-allocated costs associated with consulting fees for the Company's board renewal efforts as well as research and benchmarking studies were also lower in 2011.

OTHER INCOME

Other income for 2011 was \$10.3 million compared to \$0.2 million last year. In 2011, \$7.0 million related to gains on the sale of property and equipment, and \$1.7 million of insurance receipts related to a fire at the Company's ham processing operations in Winnipeg, Manitoba.

management's discussion and analysis

RESTRUCTURING AND OTHER RELATED COSTS

During the year ended December 31, 2011, the Company recorded restructuring and other related costs of \$79.8 million (\$59.9 million after-tax).

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

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

The Company also recorded \$2.3 million in restructuring costs for initiatives across the Company related to changes in management structure and related severances.

During the year ended December 31, 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 was incurred in connection with the ongoing restructuring initiatives of the Company.

management's discussion and analysis

The following table provides a summary of costs recognized and cash payments made in respect of the above-mentioned restructuring and other related costs as at December 31, 2011 and December 31, 2010, all on a pre-tax basis:

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

	Severance	Site closing	Asset impairment and accelerated depreciation	Retention	Pension	Total
Balance at January 1, 2010	\$ 11,414	\$ 9,113	\$ -	\$ 85	\$ -	\$ 20,612
Charges	26,306	8,543	45,575	384	300	81,108
Cash payments	(10,462)	(9,799)	-	(24)	-	(20,285)
Non-cash items	(498)	-	(45,575)	-	(300)	(46,373)
Balance at December 31, 2010	\$ 26,760	\$ 7,857	\$ -	\$ 445	\$ -	\$ 35,062

INTEREST EXPENSE

Interest expense for the year was \$70.7 million compared to \$64.9 million last year. The impact of higher interest rates was partially offset by lower average debt balances and increased capitalization of borrowing costs. The Company's average borrowing rate for 2011 was 6.0% (2010: 4.8%). As at December 31, 2011, 87.4% of indebtedness was fixed and not exposed to interest rate fluctuations, compared to 89.0% in the previous year.

INCOME TAXES

The Company's income tax expense was comprised of tax on earnings from operations before restructuring charges and other related costs at a rate of 23.1% (2010: 28.7%) and taxes recoverable on restructuring and other related costs at a rate of 24.9% (2010: 24.6%). The lower tax rate on operating earnings was a result of the Company recording income tax reductions aggregating \$12.2 million for the year, primarily comprised of adjustments arising from a prior acquisition in its fresh bakery business. The Company's effective tax rate for the year before these adjustments was 29.5%.

management's discussion and analysis

TRANSACTIONS WITH RELATED PARTIES

The Company has control over one publicly traded subsidiary that is consolidated into the Company's results, Canada Bread Company, Limited. ("Canada Bread"), of which it owns 90.0%. Transactions between the Company and its consolidated entities have been eliminated on consolidation.

McCain Foods Limited was partly owned by McCain Capital Corporation ("MCC"), which was a 31.3% shareholder, of the Company until December 2, 2011. On December 2, 2011, MCC reorganized their shareholdings such that they are no longer a related party of the Company. As a result of this, the Company is no longer a related party with McCain Foods Limited. For the period of the year that McCain Foods Limited was a related party, the Company recorded sales to McCain Foods Limited of \$2.9 million (2010: \$3.6 million) in the normal course of business and at market prices. Trade receivables from McCain Foods Limited as at December 31, 2010 were \$0.1 million and as at January 1, 2010 were \$0.3 million.

Day & Ross Transportation Group, a subsidiary of McCain Foods Limited, was a related party to the Company until December 2, 2011. For the period of the year that Day & Ross Transportation Group was a related party, the Company paid Day & Ross Transportation Group \$6.2 million (2010: \$4.9 million) for services in the normal course of business and at market prices. Trade payables to Day & Ross Transportation Group as at December 31, 2010 were \$0.4 million and as at January 1, 2010 were \$0.2 million.

The Company sponsors a number of defined benefit and defined contribution plans as described in Note 9 in the consolidated financial statements. During 2011, the Company received \$1.5 million (2010: \$1.7 million) from the defined benefit pension plans for the reimbursement of expenses incurred by the Company to provide services to these plans. In 2011, the Company's contributions to these plans were \$33.3 million in 2011 (2010: \$31.2 million).

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

Remuneration of key management of the Company was comprised of the following expenses:

<i>(\$ thousands)</i>	2011	2010
Short-term employee benefits		
Salaries, bonuses and fees	\$ 18,589	\$ 17,923
Company car allowance	417	362
Other benefits	193	171
Total short-term employee benefits	\$ 19,199	\$ 18,456
Post-employment benefits	817	735
Share-based benefits	13,941	11,305
Total remuneration	\$ 33,957	\$ 30,496

During 2011, key management did not exercise any share options granted under the Company's share incentive and option plans (2010: 280,800 options were exercised with total exercise price of \$2.9 million).

management's discussion and analysis

GOVERNMENT INCENTIVES

During 2011, the Company recorded incentives from the Canadian government of \$8.2 million (2010: \$7.3 million) resulting from government support for the development of renewable energies. Also during 2011, the Company recorded incentives of \$2.6 million from the Province of Ontario to purchase equipment required by the Canadian Food Inspection Agency, and \$1.5 million in AgriStability benefits. During the year, the Company also recorded other incentives totalling \$0.1 million (2010: \$0.4 million). In 2010, the Company recorded incentives of \$2.7 million from the Canadian government as part of its policy to compensate hog producers for losses in prior periods. These incentives were recorded as reductions of cost of goods sold in the consolidated statements of earnings. Furthermore, in 2010, 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

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

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

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

On February 18, 2011, the Company completed the sale of substantially all of the remaining assets that comprise its sandwich product line to Premium Brands Inc., a Canadian manufacturer of food products, for \$8.0 million. The transaction resulted in total restructuring costs of \$2.9 million, of which \$0.6 million were cash costs, and a gain on sale of \$0.9 million. As part of the conversion to International Financial Reporting Standards ("IFRS"), on January 1, 2010 the Company recognized a goodwill impairment adjustment of \$31.0 million.

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.

INVESTMENT IN CANADA BREAD COMPANY, LIMITED

During the year, there was no change in the Company's investment in Canada Bread.

During the second quarter of 2010, the Company purchased 56,700 shares of 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 \$1.4 million of the purchase price to the net identifiable assets of Canada Bread at the acquisition date by reducing its non-controlling interest in the subsidiary. The remaining \$1.3 million of consideration paid was recognized as a reduction to equity.

CAPITAL RESOURCES

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

management's discussion and analysis

The Company had \$267.7 million of debt which matured in 2011, including related cross-currency swaps. The maturity related to a bond repayment due in December 2011, which the Company funded by drawing on its credit facility.

On May 16, 2011, the Company entered into a new four-year \$800.0 million committed revolving credit facility with a syndicate of Canadian, U.S. and international institutions. The new credit facility replaced the Company's \$870.0 million revolving credit facility that was due to mature on May 31, 2011. The new facility is unsecured and bears interest based on short-term interest rates. The credit facility matures on May 16, 2015. The facility is intended to be used to meet the Company's funding requirements for general corporate purposes, and to provide appropriate levels of liquidity. The lending covenants in the new facility are largely consistent with the Company's existing credit arrangements. The transaction is explained more fully in Note 13 in the consolidated financial statements.

During 2010, the Company completed an agreement with a syndicate of banks, including the majority of the banks in its then currently existing revolving credit facility, to augment the Company's primary revolving credit facility with a \$250.0 million short-term bank lending facility that was due to mature on May 31, 2011. The Company remained undrawn on the facility throughout its duration. In the first quarter of 2011, the Company terminated the facility.

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

<i>(\$ millions)</i>	2011	2010
Credit facilities		
Maple Leaf Foods Inc.	\$ 1,640.5	\$ 1,702.9
Subsidiaries	93.1	78.6
Total available	\$ 1,733.6	\$ 1,781.5
Drawn amount		
Maple Leaf Foods Inc.	\$ 1,129.6	\$ 903.4
Subsidiaries	57.1	48.6
Letters of credit	141.3	124.9
Total drawn	\$ 1,328.0	\$ 1,076.9
% drawn	76.6%	60.4%

To access competitively priced financing, and to further diversify its funding sources, the Company entered into two three-year committed accounts receivable securitization facilities in October 2010. These programs replaced the existing accounts receivable financing facilities. Under the new facilities, the Company sells certain accounts receivable, with very 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 the end 2011, the Company had \$254.3 million (2010: \$265.2 million) of trade accounts receivable serviced under these facilities. In return for the sale of its trade receivables, the Company received cash of \$155.8 million (2010: \$156.2 million) and notes receivable in the amount of \$98.5 million (2010: \$109.0 million). The maximum cash borrowings available to the Company under these programs is \$170.0 million.

These securitization facilities are subject to certain restrictions and require the maintenance of certain covenants. The Company was in compliance with all of the requirements of the facilities during the year. These facilities were accounted for as an off-balance sheet transaction under Canadian GAAP and continue to be accounted for in the same manner under IFRS effective January 1, 2011.

The weighted average term of the Company's debt is 4.9 years.

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

management's discussion and analysis

CAPITAL EXPENDITURES

Capital expenditures for 2011 were \$229.2 million compared to \$162.3 million in 2010 driven by higher investments related to the Company's Value Creation Plan.

The increase in capital expenditures reflects strategic investments related to the Company's Value Creation Plan, including investments in the new fresh bakery in Hamilton, Ontario, the continued implementation of a new SAP information system, which is replacing and harmonizing the Company's systems across all its businesses, and investments related to network consolidation initiatives in the prepared meats business.

As the Company focuses on its transformation agenda, capital expenditures in base business operations were lower than last year. The Company currently estimates its capital expenditures for the full year of 2012 to be approximately \$435 million. The level of investment in strategic projects was on track to plan; however, Management now anticipates that capital investments in base business operations will be lower than previously estimated.

CASH FLOW AND FINANCING

Total debt, net of cash balances, was \$984.0 million at the end of the year, compared to \$901.8 million as at December 31, 2010. The increase in debt for the year is largely due to cash flow from operations, offset by investment in property and equipment and settlement of cross-currency swaps related to U.S. dollar-denominated bond repayments in 2011.

Cash Flow from Operating Activities

Cash flow from continuing operations for the year was \$244.8 million compared to \$285.2 million last year. The decrease is mainly due to higher working capital levels in 2011 and higher cash tax payments, offset by an increase in earnings.

Cash Flow from Financing Activities

Cash flow from financing activities was an outflow of \$56.0 million for the year compared to an outflow of \$164.5 million last year. The change is mainly due to the repayment of maturing debt in 2010 that was refinanced in December 2010 with the majority of the funding occurring in January 2011.

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 2011. As at December 31, 2011, net debt to EBITDA excluding the change in fair value of non-designated interest rate swaps was 2.5x (2010: 2.5x) and net debt to EBITDA including the change in fair value of non-designated interest rate swaps was 2.6x (2010: 2.7x).

Cash Flow from Investing Activities

Cash flow from investing activities was an outflow of \$209.4 million for the year compared to an outflow of \$161.6 million last year, due to higher capital expenditures, partly offset by proceeds from the disposal of the prepared meats facility in Surrey, British Columbia.

Capital expenditures on property and equipment for the year were \$229.2 million compared to \$162.3 million last year, primarily due to investments related to network consolidation initiatives in the prepared meats business and the new fresh bakery facility in Hamilton, Ontario.

management's discussion and analysis

CONTRACTUAL OBLIGATIONS

The following table provides information about certain of the Company's significant contractual obligations as at December 31, 2011:

Payments due by fiscal year:

<i>(\$ millions)</i>	Total	2012	2013	2014	2015	2016	Thereafter
Long-term debt ⁽ⁱ⁾	\$ 947.6	\$ 5.6	\$ 6.1	\$ 210.3	\$ 343.0	\$ 35.6	\$ 347.0
Cross-currency swaps related to long-term debt	34.9	-	-	36.3	-	-	(1.4)
	\$ 982.5	\$ 5.6	\$ 6.1	\$ 246.6	\$ 343.0	\$ 35.6	\$ 345.6
Contractual obligations including leases	334.8	65.2	55.8	43.9	34.9	29.0	106.0
	\$ 1,317.3	\$ 70.8	\$ 61.9	\$ 290.5	\$ 377.9	\$ 64.6	\$ 451.6

(i) Does not include contractual interest payments.

As at December 31, 2011 the Company had entered into construction contracts of \$109.9 million relating to the new bakery in Hamilton, Ontario, and the prepared meats network transformation project.

Management is of the opinion that its cash flow and sources of financing provide the Company with sufficient resources to finance ongoing business requirements and its planned capital expenditure program for at least the next 12 months. Additional details concerning financing are set out in Notes 13 and 22 in the consolidated financial statements.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT ACTIVITIES

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

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

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

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

Capital

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

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

management's discussion and analysis

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

The Company has maintained a stable dividend distribution that is based on the sustainable net earnings base. From time to time, the Company has purchased shares for cancellation pursuant to normal course issuer bids and to satisfy awards under its Restricted Share Unit plan, an equity compensation program established in 2006. The Company purchased 2.5 million shares in 2011 in respect of awards under the equity compensation program (2010: nil shares).

For the year ended December 31, 2011, total equity decreased by \$56.7 million to \$930.1 million. During the same period, total debt net of cash and cash equivalents increased by \$82.2 million to \$984.0 million.

Credit Risk

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

In the normal course of business, the Company is exposed to credit risk from its customers, substantially all of which are in the grocery and foodservice sectors. The Company performs ongoing credit evaluations of new and existing customers' financial condition and reviews the collectibility of its trade accounts receivable and other receivables in order to mitigate any possible credit losses. As at December 31, 2011 approximately \$0.8 million (2010: \$0.8 million) of the Company's accounts receivable were greater than 60 days past due, primarily due to timing issues related to a process change. 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 individual exposures and a provision based on historical trends of collections. As at December 31, 2011, the Company has recorded an allowance for doubtful accounts of \$5.8 million (2010: \$6.8 million). There are no significant impaired accounts receivable that have not been provided for in the allowance for doubtful accounts. The Company believes that the allowance for uncollectible accounts sufficiently covers any credit risk related to past due or impaired accounts receivable balances.

Management believes concentrations of credit risk with respect to accounts receivable is limited due to the generally high credit quality of the Company's major customers, as well as the large number and geographic dispersion of smaller customers. The Company does, however, conduct a significant amount of business with a small number of large grocery retailers. The Company's five largest customers comprise approximately 42.6% (2010: 39.8%) of consolidated pre-securitized accounts receivable at December 31, 2011 and the two largest customers comprise approximately 19.8% (2010: 20.4%) 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.

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, 2011, the Company had available undrawn committed credit of \$379.5 million under the terms of its principal banking arrangements. These banking arrangements, which mature in 2015, are subject to certain covenants and other restrictions.

management's discussion and analysis

Market Risk

Interest Rate Risk

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

The Company's interest rate risk arises from long-term borrowings issued at fixed rates that create fair value interest rate risk, and variable rate borrowings that create cash flow interest rate risk. In addition, the Company's cash balances are typically invested in short-term interest bearing assets. The Company actively monitors the market to ensure that the desired overall funding rate, as well as the targeted proportionate fixed to variable debt mix is achieved.

As at December 31, 2011, 87% of the Company's outstanding debt was not exposed to interest rate movements (2010: 89%).

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, the British pound, and Japanese yen.

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

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

Commodity Price Risk

The Company is directly exposed to price fluctuations in commodities such as wheat, live hogs, and fuel costs, and the purchase of other agricultural commodities used as raw materials, such as feed grains 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.

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

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

For a comprehensive discussion on the Company's risk management practices and derivative exposures, please refer to Note 16 in the consolidated financial statements.

management's discussion and analysis

CHANGE IN FAIR VALUE OF NON-DESIGNATED INTEREST RATE SWAPS

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

During 2010, the Company recorded a loss of \$24.9 million (\$17.6 million after-tax) due to changes in the fair value of interest rate swaps.

During the second quarter of 2010, the Company entered into \$590.0 million of interest rate swaps. Swaps totalling \$330.0 million started on April 28, 2010 and have an expiry date of April 28, 2015 with an average interest rate of 3.34%. 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 effectively fix the interest rates until 2015 at an average rate of 3.71% on \$590.0 million of the Company's outstanding debt. Management considers these swaps to be economically hedging future interest, but the structure of the Company's outstanding debt does not allow for these swaps to be accounted for using hedge accounting; as such, 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 through 2015. 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.

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

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

<i>(\$ thousands)</i>	50 bps Increase	50 bps Decrease
Change in fair value	\$ 4,770	\$ (4,865)

SHARE CAPITAL AND DIVIDENDS

As at December 31, 2011, there were 140,044,089 voting common shares issued and outstanding (2010: 140,044,089).

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. Following the exercise of warrants in the fourth quarter of 2010, there are no further warrants outstanding.

In each of the quarters of 2011, the Company declared and paid cash dividends of \$0.04 per voting common share, representing a total annual dividend of \$0.16 per voting common share and aggregate dividend payments of \$22.4 million (2010: \$21.7 million).

OTHER MATTERS

On February 27, 2012, Maple Leaf Foods declared a dividend of \$0.04 per share payable March 30, 2012 to shareholders of record at the close of business March 12, 2012. Unless indicated otherwise by the Company in writing on or before the time the dividend is paid, the dividend will be considered an Eligible Dividend for the purposes of the "Enhanced Dividend Tax Credit System".

management's discussion and analysis

SHAREHOLDER RIGHTS PLAN

On July 28, 2011, The Company announced a Shareholder Rights Plan (the "Rights Plan"). It follows a previous plan that was allowed to expire on December 29, 2010. The Rights Plan was not adopted in response to any actual or anticipated transaction, but rather to allow the Board of Directors of Maple Leaf Foods and its shareholders sufficient time to consider fully any transaction involving the acquisition or proposed acquisition of 20% or more of the outstanding common shares of the Company. The Rights Plan allows the Board of Directors time to consider all alternatives and to ensure the fair treatment of shareholders should any such transaction be initiated. One right has been issued with respect to each common share of Maple Leaf Foods issued and outstanding as of the close of business on July 27, 2011. Should such an acquisition occur or be announced, each right would, upon exercise, entitle a rights holder, other than the acquiring person and related persons, to purchase common shares of Maple Leaf Foods at a 50% discount to the market price at the time. The Rights Plan was approved by shareholders at a special meeting of the shareholders on December 14, 2011.

EMPLOYEE BENEFIT PLANS

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

During 2011, due to a decrease in both discount rates and actual asset return rates, employee benefit assets and liabilities reflected on the Company's balance sheet were re-valued. This, combined with a gain on asset ceiling and minimum funding requirement, resulted in a decrease in employee benefit assets of \$9.5 million, and an increase in employee benefit liabilities of \$144.2 million. The net cumulative effect of these adjustments was recorded by a \$153.7 million (\$114.7 million after-tax) increase in other comprehensive loss. The adjustment further resulted in the creation of a net deferred tax asset of \$39.0 million and a \$116.2 million decrease in retained earnings net of minority interest.

During 2010, due to a decrease in both discount rates and actual asset return rates, employee benefit assets and liabilities reflected on the Company's balance sheet were re-valued. This, combined with a gain on asset ceiling and minimum funding requirement, resulted in a decrease in employee benefit assets of \$16.8 million, and an increase in employee benefit liabilities of \$28.5 million. The net cumulative effect of this adjustment was recorded by a \$45.3 million (\$32.8 million after-tax) increase in other comprehensive loss. The adjustment further resulted in the creation of a net deferred tax asset of \$12.5 million and a \$33.7 million decrease in retained earnings net of minority interest.

Management considers that these adjustments, that were required to be made immediately under IFRS, as opposed to deferred and amortized under previous Canadian GAAP, were the result of significant market volatility changes that affected the valuation of plan assets and liabilities, and do not represent a permanent change in the long-term funded status of the Company's pension plans.

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 2011, the Company's defined benefit pension plans averaged a gain of approximately 0.5% compared to 9.9% in 2010. 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 2011 were \$14.3 million (2010: \$12.3 million).

The Company plans to contribute \$46.1 million to the pension plans in 2012, inclusive of defined contribution and the multi-employer plans.

management's discussion and analysis

SUBSEQUENT EVENTS

On February 1, 2012, the Company purchased the operations of a poultry farm in Alberta that included a poultry quota. The total purchase price was \$31.1 million paid in cash, which will be accounted for as a business combination in accordance with IFRS 3 *Business Combinations*, in the first quarter of 2012. The Company has not yet finalized the allocation of this purchase price.

On February 7, 2012, the Company announced that it will consolidate its further processed poultry operations, closing a facility in Ontario in May 2012, and transferring production to two other Ontario-based facilities. Investments totalling approximately \$6.5 million will be made to support the production transfers. In addition, the Company will incur approximately \$5.6 million before taxes in restructuring costs, of which approximately \$4.2 million are cash costs.

SUMMARY OF QUARTERLY RESULTS

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

		First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Sales⁽ⁱ⁾	2011	\$ 1,147,942	\$1,238,201	\$ 1,262,153	\$ 1,245,328	\$ 4,893,624
	2010	1,191,507	1,271,366	1,293,211	1,212,035	4,968,119
	2009	1,279,299	1,320,803	1,296,597	1,324,903	5,221,602
Net earnings (loss)⁽ⁱ⁾	2011	\$ 10,547	\$ 24,582	\$ 43,007	\$ 9,195	\$ 87,331
	2010	19,892	4,934	(19,856)	30,643	35,613
	2009	2,871	4,899	22,457	21,920	52,147
Earnings per share						
Basic ^{(i) (ii)}	2011	\$ 0.08	\$ 0.17	\$ 0.29	\$ 0.06	\$ 0.59
	2010	0.14	0.02	(0.16)	0.21	0.22
	2009	0.02	0.04	0.17	0.16	0.40
Diluted ^{(i) (iii)}	2011	\$ 0.07	\$ 0.16	\$ 0.28	\$ 0.06	\$ 0.58
	2010	0.13	0.02	(0.16)	0.21	0.21
	2009	0.02	0.04	0.17	0.16	0.39
Adjusted EPS ^{(i) (iii)}	2011	\$ 0.18	\$ 0.30	\$ 0.34	\$ 0.21	\$ 1.01
	2010	0.07	0.16	0.22	0.27	0.73
	2009	0.05	0.12	0.21	0.19	0.57

(i) The 2011 and 2010 figures are in accordance with IFRS and the net earnings, earnings per share, and adjusted earnings per share are based on amounts attributable to common shareholders. 2009 figures are in accordance with Canadian GAAP, effective on or before January 1, 2010.

(ii) May not add due to rounding.

(iii) Refer to Non-IFRS Financial Measures starting on page 41.

management's discussion and analysis

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

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

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

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

Quarterly sales in 2010 were affected by the following significant items:

- the appreciation of the Canadian dollar relative to the U.S. dollar and the British pound which reduced the sales value of fresh pork and frozen bakery products sold in the U.S. and U.K.
- lower 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 U.K.

management's discussion and analysis

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

- higher market prices and improved operations, which resulted in better poultry results, although market impacts were less favourable in the fourth quarter
- stronger hog market prices and better feed costs
- a stronger Canadian dollar and weaker export markets resulted in lower earnings in primary pork processing operations
- the appreciation of the Canadian dollar relative to the U.S. dollar, which reduced the cost of U.S. dollar priced ingredients and, to a lesser extent, lowered ingredient costs
- changes in fair value of non-designated interest rate swaps, biological assets and (gains) losses on commodity futures contracts
- restructuring and other related costs, with the majority of these costs related to the write down of the Burlington, Ontario, 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.

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

SUMMARY OF 2011 FOURTH QUARTER RESULTS

The following is a summary of sales by business segment:

(\$ thousands)	Fourth Quarter	
	2011	2010
Meats Products Group	\$ 781,813	\$ 762,561
Agribusiness Group	63,499	56,167
Protein Group	\$ 845,312	\$ 818,728
Bakery Products Group	400,016	393,307
Sales	\$ 1,245,328	\$ 1,212,035

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

(\$ thousands)	Fourth Quarter	
	2011	2010
Meats Products Group	\$ 27,472	\$ 37,707
Agribusiness Group	14,744	14,896
Protein Group	\$ 42,216	\$ 52,603
Bakery Products Group	16,129	22,416
Non-allocated Costs ⁽ⁱ⁾	(898)	(5,096)
Adjusted Operating Earnings ⁽ⁱⁱ⁾	\$ 57,447	\$ 69,923

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

(ii) Please refer to the section entitled Reconciliation of Non-IFRS Financial Measures in the press release dated February 28, 2012 concerning the Company's financial results for the fourth quarter of 2011 for a description and reconciliation.

management's discussion and analysis

Sales for the fourth quarter of 2011 increased 2.7% to \$1,245.3 million compared to \$1,212.0 million last year. After adjusting for the impacts of the divestitures of the Burlington pork facility, the Company's fresh sandwich product line, and foreign exchange, sales increased by approximately 5.0%, primarily as a result of higher selling prices.

Adjusted Operating Earnings for the fourth quarter of 2011 were \$57.4 million compared to \$69.9 million last year, as weaker pork and poultry primary processing margins and an unexpected increase in raw material costs during the quarter led to lower earnings in the Protein Group. Performance in the Bakery Products Group declined compared to last year, while the earnings in the Agribusiness Group were consistent with the prior year.

Lower earnings in poultry processing operations due to higher live bird costs, as well as margin compression relative to the unusually high packer margins in the fourth quarter of 2010 in primary pork processing operations contributed to the decline in earnings of the Meat Products Group. Margins in the prepared meats business continued to be pressured by further increases in raw material meat costs; however, net pricing and improved product mix, as well as early benefits from the Company's Value Creation Plan helped mitigate this impact.

Earnings in the Bakery Products Group for the fourth quarter declined as margins were compressed, as price increases implemented earlier in 2011 were not sufficient to fully offset higher raw material and other inflationary costs, primarily in the frozen bakery business. Earnings were also impacted by duplicative overhead costs associated with the transition to the Company's new fresh bakery in Hamilton, Ontario, and by costs due to supply chain disruptions related to the installation of SAP in the fresh bakery operations in Western Canada. These additional costs were partly offset by efficiency gains related to network optimization initiatives in the frozen bakery operations, and overall lower selling, general and administrative expenses due to cost reduction initiatives implemented earlier in 2011. The sale of the fresh sandwich product line in the first quarter of 2011 was accretive to earnings.

Net earnings decreased to \$9.2 million or \$0.06 basic earnings per share in the fourth quarter of 2011 compared to net earnings of \$30.6 million or \$0.21 basic earnings per share last year.

SEASONALITY

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

ENVIRONMENT

Maple Leaf Foods is committed to maintaining high standards of environmental responsibility and positive relationships in the communities where it operates. Each of its businesses operates within the framework of an environmental policy entitled "Our Environmental Commitment" that is approved by the Board of Directors' Environment, Health and Safety Committee. The Company's environmental program is monitored on a regular basis by the Committee, including compliance with regulatory requirements, the use of internal environmental specialists and independent, external environmental experts. In 2011, the Company established all the environmental criteria for its Transformation agenda to ensure that environmental protection measures are built into the various projects. It also designed and initiated a detailed community relations plan associated with the construction of its new meat processing plant in Hamilton, Ontario. 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 and track greenhouse gas emissions and the mileage it takes to produce and deliver food products. Increasingly, sound environmental practices are becoming a key component of maintaining a competitive advantage.

As part of its sustainability initiatives, the Company achieved LEED® Gold certification at its new office and product development centre in Mississauga. LEED® stands for Leadership in Energy and Environmental Design and is widely recognized as a green building standard. The Company is in the final verification stages for LEED® certification at its new bakery in Hamilton, Ontario, which opened in 2011. The Company also intends to pursue LEED® certification for its new meat processing plant in Hamilton, Ontario. Construction for this plant is expected to begin in 2012, and is expected to be fully commissioned in 2014, at which time the LEED® verification process is expected to begin.

RISK FACTORS

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

Risks Related to the Business of Maple Leaf Foods

Implementing the Company's Comprehensive Value Creation Plan

The Company's Value Creation Plan announced in October 2010 is complex, lengthy and transformational. Although the Company has experience implementing complex projects and plans, there can be no assurance that the Company will be successful in executing the 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 substantially complete. The construction and start-up of new plants presents a number of risks including: errors in the assessment of labour rates and other operating costs, failure to achieve operating cost efficiencies, cost overruns in construction, delays in completion of the project, disruptions to service levels during the construction period, loss of reputation with customers and adverse impacts on the quality of the Company's products, loss of volumes in realignment of product lines, and competitive pressures resulting in loss of sales during transition periods. As a result of 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 \$560 million between 2012 and 2013 inclusive. While the pace of spending is expected to be balanced with margin improvement, with interim margin targets achieved before committing to new levels of capital investment, and while the Company believes it has the underlying cash flow and balance sheet strength required to support the capital investments with no incremental requirement for new capital from shareholders, there can be no assurance that the capital required to implement the plan will be available as and when required or on commercially reasonable or acceptable terms.

management's discussion and analysis

Systems Conversion and Standardization

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

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. There is also a risk that not all of the product subject to the recall will be properly identified, or that the recall will not be successful or not effected in a timely manner. Any product contamination could subject the Company to product liability claims, adverse publicity and government scrutiny, investigation or intervention, resulting in increased costs and decreased sales. Any of these events could have a material adverse impact on the Company's financial condition and results of operations.

Leverage and Availability of Capital

The ability of the Company to secure short and long-term financing on terms acceptable to the Company is critical to grow and fund its business and manage its liquidity. In particular, at various stages in the implementation of the 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 been 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 the rate of return on acquisitions or investments, inaccurate estimates of fair value made in the accounting for acquisitions and amortization of acquired intangible assets, which would reduce future reported earnings, potential loss of customers or key employees of acquired businesses, and indemnities and potential disputes with the buyers or sellers. Any of these items could materially adversely affect the Company's financial condition and results of operations.

management's discussion and analysis

Pension Plan Assets and Liabilities

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

Hog and Pork Market Cyclicalities

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

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

management's discussion and analysis

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, U.K. pounds, and Japanese yen). In periods when the Canadian dollar has appreciated both rapidly and materially against these foreign currencies, revenues linked to U.S. dollars or Japanese yen are immediately reduced while the Company's ability to change prices or realize natural hedges may lag the immediate currency change. The effect of such sudden changes in exchange rates can have a significant immediate impact on the Company's earnings. Due to the diversity of the Company's operations, normal fluctuations in other currencies do not generally have a material impact on the Company's profitability in the short term due to either natural hedges and offsetting currency exposures (for example, when revenues and costs are both linked to other currencies) or the ability in the near term to change prices of its products to offset adverse currency movements. However, as the Company competes in international markets, and faces competition in its domestic markets from U.S. competitors, significant changes in the Canadian to U.S. dollar exchange rate can have, and have had, significant effects on the Company's relative competitiveness in its domestic and international markets, which can have, and have had, significant effects on the Company's financial condition and results of operations. Financial results from operations in the 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. Accordingly, these exchange rate fluctuations could have a material adverse effect on the Company's financial condition and results of operations.

Commodities

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

International Trade

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

management's discussion and analysis

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, has all necessary permits and licenses and will be able to comply with such laws and regulations, permits and licenses in the future. Failure by the Company to comply with applicable laws and regulations and permits and licenses could subject the Company to civil remedies, including fines, injunctions, recalls or seizures, as well as potential criminal sanctions, which could have a material adverse effect on the Company's financial condition and results of operations. Various governments throughout the world are considering regulatory proposals relating to genetically modified organisms, drug residues in food ingredients, food safety, and market and environmental regulation that, if adopted, may increase the Company's costs. There can be no assurance that additional regulation will not be enacted. In fact, new regulations and standards were enacted to address the risks associated with certain pathogens in response to the Company's August 2008 recall of ready-to-eat meat products. If any of these or other proposals or regulations are enacted, the Company could experience a disruption in the supply or distribution of its products, increased operating costs and significant additional cost for capital improvements. The Company may be unable to pass on the cost increases associated with such increased regulatory burden to its customers without incurring volume loss as a result of higher prices. Any of these events could have a material adverse effect on the Company's financial condition and results of operations.

Legal Matters

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

Consumer Trends

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

Environmental Regulation

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

management's discussion and analysis

Consolidating Customer Environment

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

Competitive Industry Environment

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

Employment Matters

The Company and its subsidiaries have approximately 19,500 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. The Company's success is also dependent on its ability to recruit and retain qualified personnel. The loss of one or more key personnel could have a material adverse effect on the Company's financial condition and results of operations.

Direct Store Delivery Disruptions

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

Product Pricing

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

Supply Chain Management

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

management's discussion and analysis

Strategic Risk Management

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

CRITICAL ACCOUNTING ESTIMATES

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

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

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have significant effects on the amounts recognized in the consolidated financial statements are outlined below:

Goodwill and Intangible Assets Valuation

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

The Company assesses impairment by comparing the recoverable amount of an intangible asset or goodwill with its carrying value. The recoverable amount is defined as the higher of: (i) value in use; or (ii) fair value less cost to sell. The determination of the recoverable amount involves Management judgement and estimation.

Allowance for Bad Debts

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 changes in individual customer financial conditions. To the extent that actual losses on uncollectible accounts differ from those estimated in the Company's provision, both accounts receivable and net earnings will be affected.

Provisions for Inventory

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

Biological Assets

Biological assets are measured, at each reporting date, at fair value less cost to sell, except when fair value cannot be reliably measured. If fair value cannot be reliably measured, biological assets are measured at cost minus depreciation and impairment losses. Although a reliable measure of fair value may not be available at the point of initial recognition, it may subsequently become available. In such circumstances, biological assets are measured at fair value less cost to sell from the point at which the reliable measure of fair value becomes available. Gains and losses that arise on measuring biological assets at fair value less cost to sell are recognized in the statement of earnings in the period in which they arise. Costs to sell include all costs that would be necessary to sell the biological assets, including costs necessary to get the biological assets to market.

management's discussion and analysis

Trade Merchandise Allowances and Other Trade Discounts

The Company provides for estimated payments to customers based on various trade programs and contracts that often include payments that are contingent upon attainment of specified sales volumes. Significant estimates used to determine these liabilities include the projected level of sales volume for the relevant period and the historical promotional expenditure rate compared to contracted rates. These arrangements are complex and there are a significant number of customers and products affected. Management has systems and processes in place to estimate and value these obligations. To the extent that payments on trade discounts differ from estimates of the related liability, both accrued liabilities and net earnings will be affected.

Employee Benefit Plans

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

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

	2011	2010
Weighted average discount rate used to calculate net benefit plan expense	5.00%	5.75%
Weighted average discount rate used to calculate year end benefit obligation	4.50%	5.00%
Expected long-term rate of return on plan assets	7.25%	7.25%
Rate of compensation increase	3.50%	3.50%
Medical cost trend rates	6.50%	7.00%

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:

<i>(\$ thousands)</i>	1% increase	1% decrease
End-of-year obligation	\$ 3,787	\$ (4,170)
Aggregate of 2011 current service cost and interest cost	203	(227)

Income Taxes

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

management's discussion and analysis

Provisions

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

Stock-based Compensation

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

Depreciation and Amortization

The Company's property and equipment and definite life intangible assets are depreciated and amortized on a straight-line basis, taking into account the expected useful lives of the assets and residual values. Changes to these estimates may affect both the carrying value of these assets and net earnings.

RECENT ACCOUNTING PRONOUNCEMENTS

Financial Instruments - Recognition and Measurement

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

Financial Instruments – Disclosures

In October 2010, the IASB issued amendments to IFRS 7 *Disclosures – Transfers of Financial Assets*. This amendment requires disclosure of information that enables users of financial statements to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and to evaluate the nature of, and risks associated with, the Company's continuing involvement in derecognized financial assets. This amendment is effective for annual periods beginning on or after January 1, 2012 and therefore the Company will apply the amendment in the first quarter of 2012. When applied, it is expected that the amendment to IFRS 7 will increase the current level of disclosure of transfers of financial assets.

Financial Assets and Liabilities

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

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

management's discussion and analysis

Consolidated Financial Statements

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

Joint Arrangements

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

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

Disclosure of Interests in Other Entities

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

IFRS 10, IFRS 11 and IFRS 12, and the amendments to IAS 27 and IAS 28 are all effective for annual periods beginning on or after January 1, 2013. Early adoption is permitted, so long as IFRS 10, IFRS 11 and IFRS 12, and the amendments to IAS 27 and IAS 28 are adopted at the same time. However, entities are permitted to incorporate any of the disclosure requirements in IFRS 12 into their financial statements without early adopting IFRS 10, IFRS 11, amendments to IAS 27 and IAS 28. The Company intends to adopt IFRS 10, IFRS 11 and IFRS 12 and the amendments to IAS 27 and IAS 28 in its consolidated financial statements for the annual period beginning on January 1, 2013. The extent of the impact of adoption of IFRS 10, IFRS 11 and IFRS 12 and the amendments to IAS 27 and IAS 28 has not yet been determined.

Fair Value Measurement

In May 2011, the IASB published IFRS 13 *Fair Value Measurement*, which is effective prospectively for annual periods beginning on or after January 1, 2013. IFRS 13 replaces the fair value measurement guidance contained in individual IFRS standards with a single source of fair value measurement guidance. The standard also establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. The Company intends to adopt IFRS 13 prospectively in its financial statements for the annual period beginning on January 1, 2013. The extent of the impact of adoption of IFRS 13 has not yet been determined.

Presentation of Financial Statements

In June 2011, the IASB published amendments to IAS 1 *Presentation of Financial Statements*, which are effective for annual periods beginning on or after July 1, 2012 and are to be applied retrospectively. Early adoption is permitted. These amendments require that a company present separately the items of other comprehensive income that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. The Company intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2013. The extent of the impact of adoption of these amendments has not yet been determined.

management's discussion and analysis

Employee Benefits

In June 2011, the IASB published an amended version of IAS 19 *Employee Benefits*. Adoption of the amendment is required for annual periods beginning on or after January 1, 2013, with early adoption permitted. The amendment is generally applied retrospectively with certain exceptions. The amendment will require the calculation of expected return on plan assets to be based on the rate used to discount the defined benefit obligation. The amendment also requires other additional disclosures. The Company intends to adopt the amendment in its financial statements for the annual period beginning on January 1, 2013. Where required, the Company will apply this amendment retrospectively. The extent of the impact of adoption of the amendment has not yet been determined.

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, is also responsible for establishing and maintaining internal control over financial reporting. These controls are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

The Company's Chief Executive Officer and Chief Financial Officer have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Company's internal control over financial reporting and disclosure controls and procedures as at December 31, 2011 and have concluded that such controls and procedures are effective.

In addition, there have been no changes in the Company's internal control over financial reporting that occurred during the period beginning January 1, 2011 and ended on December 31, 2011 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

These are the first audited annual consolidated financial statements that comply with IFRS. The accounting policies set out in Note 3 of the consolidated financial statements have been applied in preparing the consolidated financial statements for the year ended December 31, 2011, the comparative information presented in these consolidated financial statements for the year ended December 31, 2010, and in the preparation of the opening consolidated balance sheets at January 1, 2010.

First-time adopters of IFRS must apply the provisions of IFRS 1. IFRS 1 requires adopters to retrospectively apply all effective IFRS standards as of the reporting date (December 31, 2011) with certain optional exemptions and certain mandatory exceptions. The IFRS 1 optional exemptions and mandatory exceptions applied in the conversion from previous Canadian GAAP to IFRS are outlined below.

An explanation of how the transition from Canadian GAAP to IFRS has affected the Company's financial position and financial performance, and cash flows, is set out in the following reconciliations and the explanatory notes that accompany the reconciliations. Reconciliations of the consolidated statements of earnings, comprehensive income and shareholders' equity for the respective periods are below. Changes to the cash flows were not material as a result of the conversion to IFRS.

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 ("transition date") in accordance with IFRS 3 *Business Combinations*. The retrospective basis would require restatement of all business combinations that occurred prior to the transition date. The Company elected not to retrospectively apply IFRS 3 to business combinations that occurred prior to the transition date and such business combinations have not been restated. Any goodwill arising on such business combinations prior to the transition date has not been adjusted from the carrying value previously determined under Canadian GAAP.

management's discussion and analysis

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 and equipment at the transition date. The Company elected to retrospectively apply the historical cost model for property and equipment on the transition date.

Employee Benefits

IFRS 1 provides the option to retrospectively apply the “corridor approach” under IAS 19 *Employee Benefits*, for the recognition of actuarial gains and losses, or to recognize all cumulative gains and losses deferred under previous Canadian GAAP in opening retained earnings at the transition date. The Company elected to recognize all cumulative actuarial gains and losses that existed on the transition date in opening retained earnings for all of its employee benefit plans.

Cumulative Currency 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 differences retrospectively and to reset cumulative translation gains and losses to zero at the transition date. The Company elected to reset all cumulative translation gains and losses that existed in the cumulative transition adjustment (“CTA”) balance to zero in opening retained earnings at the transition date. The CTA balance as of January 1, 2010 of \$48.1 million was recorded as an adjustment to retained earnings, with an offset to accumulated other comprehensive income resulting in no impact on total equity.

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. The Company elected to apply this exemption. There are several differences between IFRS 2 and Canadian GAAP. For example, when a share-based award vests in instalments over the vesting period (graded vesting), IFRS 2 requires each instalment to be accounted for as a separate arrangement. Canadian GAAP as applied by the Company in prior periods 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. This difference resulted in an increase in contributed surplus of \$4.1 million and a decrease in retained earnings of \$4.1 million as at the transition date, with no impact on total equity.

Decommissioning Liabilities Included in the Cost of Property and Equipment

IFRS 1 allows an entity to elect not to retrospectively apply the requirements of International Financial Reporting Interpretations Committee (“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 chose the transition date as the date to commence the capitalization of borrowing costs to all qualifying assets.

IFRS 1 Mandatory Exceptions

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 as of the transition date.

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.

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.

Reconciliations of Canadian GAAP to IFRS

In preparing its opening IFRS consolidated financial statements, the Company has adjusted amounts reported previously in financial statements prepared in accordance with Canadian GAAP. A summary of how the transition from Canadian GAAP to IFRS has affected the Company's financial position and financial performance is set out below. For further detail on the transitional adjustments from Canadian GAAP to IFRS see Note 27 in the consolidated financial statements for the year ended December 31, 2011.

Reconciliation of Shareholders' Equity as Reported under Canadian GAAP to Total Equity under IFRS

The following is a reconciliation of the Company's shareholders' equity reported in accordance with Canadian GAAP to its total equity in accordance with IFRS:

<i>(\$ thousands)</i>	<i>December 31, 2010</i>	<i>January 1, 2010</i>
Shareholders' equity under Canadian GAAP	\$ 1,217,377	\$ 1,189,050
Reclassification of non-controlling interest to total equity under IFRS	84,836	81,070
Differences increasing (decreasing) reported total equity:		
Property and equipment	(13,493)	(12,261)
Biological assets	1,820	(9,021)
Impairment of goodwill	(96,300)	(102,219)
Employee benefits	(260,046)	(218,270)
Capitalization of borrowing costs	1,512	-
Deferred income taxes	52,237	53,454
Increase in subsidiary interest	(1,171)	-
Total equity under IFRS	\$ 986,772	\$ 981,803

management's discussion and analysis

Reconciliation of Net Earnings as Reported under Canadian GAAP to IFRS

Year ended December 31

(\$ thousands)

2010

Net earnings under Canadian GAAP	\$	25,822
Add back: non-controlling interest		6,193
Differences increasing (decreasing) reported amount:		
Depreciation of asset components		(1,116)
Depreciation of leasehold improvements		(310)
Revaluation of biological assets		10,841
Share-based compensation		1,789
Capitalization of borrowing costs		1,512
Employee benefits		(8,083)
Hedge accounting		276
Income taxes		(1,311)
Net earnings under IFRS	\$	35,613

Reconciliation of Comprehensive Income (Loss) as Reported under Canadian GAAP to IFRS

Year ended December 31

(\$ thousands)

2010

Comprehensive income under Canadian GAAP	\$	1,486
Differences increasing (decreasing) reported amount:		
Differences in net earnings		3,598
Non-controlling interest		6,193
Hedge accounting		(182)
Change in accumulated foreign currency translation adjustment related to impairment of goodwill		5,919
Change in accumulated foreign currency translation adjustment related to leasehold improvements		194
Employee benefits		(33,693)
Comprehensive loss under IFRS	\$	(16,485)

management's discussion and analysis

NON-IFRS FINANCIAL MEASURES

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

Adjusted Operating Earnings

The following table reconciles earnings from operations before restructuring and other related costs and associated gains, other income (expense) and the impact of the change in fair value of non-designated interest rate swaps, unrealized (gains) losses on commodity futures contracts and the change in fair value of biological assets to net earnings as reported under IFRS in the audited consolidated statements of earnings for the years ended as indicated below. Management believes that this is the most appropriate basis on 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, unrealized (gains) losses on commodity futures contracts and the change in fair value of biological assets net of tax and non-controlling interest, are not representative of operational results.

Total costs that are not allocated to segmented operating earnings of \$1.2 million for the year (2010: \$0.8 million) comprise \$4.3 million (2010: \$5.9 million) of expenses related to the implementation of SAP, \$0.9 million (2010: \$3.1 million) of consulting fees relating to the Company's Board renewal program and the change in its shareholder base, and \$nil (2010: \$2.8 million) related to research and benchmarking studies that formed the basis of the Company's Value Creation Plan. These costs are included in Adjusted Operating Earnings.

Also included in non-allocated costs is a gain of \$4.0 million (2010: \$10.9 million) related to the net effect of a \$1.0 million loss (2010: \$10.8 million gain) due to changes in fair value of biological assets and a \$5.0 million unrealized gain (2010: \$0.1 million) on commodity futures contracts. These have been excluded from Adjusted Operating Earnings to provide a more comparable assessment of the Company's operating results, as these amounts are not reflective of the operating earnings of the Company during the year.

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

management's discussion and analysis

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

(\$ thousands)	December 31, 2009 ⁽ⁱ⁾				Consolidated
	Meat Products Group	Agribusiness Group	Bakery Products Group	Unallocated costs	
Net earnings					\$ 60,049
Income taxes					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					-
Other income	(69)	(894)	(2,152)	(498)	(3,613)
Restructuring and other related costs	22,298	2,026	4,908	1,913	31,145
Adjusted Operating Earnings	\$ 55,388	\$ 48,023	\$ 102,155	\$ (9,455)	\$ 196,111

(i) 2009 figures are in accordance with Canadian GAAP, effective on or before January 1, 2010.

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 IFRS in the audited consolidated statements of earnings for the years ended as indicated below. Management believes this is the most appropriate basis on which to evaluate financial results as restructuring and other related costs and associated gains, the impact of the change in fair value of non-designated interest rate swaps, unrealized (gains) losses on commodity futures contracts and the change in fair value of biological assets net of tax and non-controlling interest are not representative of operational results.

(\$ per share)	December 31,		
	2011	2010	2009 ^(v)
Basic earnings per share	\$ 0.59	\$ 0.22	\$ 0.40
Restructuring and other related costs ⁽ⁱ⁾	0.41	0.44	0.17
Gains associated with restructuring and other related activities ⁽ⁱⁱ⁾	(0.02)	-	-
Change in the fair value of non-designated interest rate swaps ⁽ⁱⁱⁱ⁾	0.06	0.13	-
Change in the fair value of unrealized (gains) losses on commodity futures contracts ⁽ⁱⁱⁱ⁾	(0.03)	-	-
Change in the fair value of biological assets ⁽ⁱⁱⁱ⁾	0.01	(0.06)	-
Adjusted Earnings per Share ^(iv)	\$ 1.01	\$ 0.73	\$ 0.57

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

(ii) Gains associated with restructuring and other related activities are net of tax.

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

(iv) May not add due to rounding.

(v) 2009 figures are in accordance with Canadian GAAP, effective on or before January 1, 2010.

management's discussion and analysis

Earnings before Interest, Tax, Depreciation and Amortization

The following table reconciles earnings from operations before restructuring and other related costs and associated gains, change in the fair value of non-designated interest rate swaps, unrealized (gains) losses on commodity futures contracts and the change in fair value of biological assets, interest, income taxes and depreciation and intangible asset amortization to net earnings as reported under IFRS 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)	December 31,		
	2011	2010	2009 ⁽ⁱ⁾
Net earnings	\$ 87,331	\$ 35,613	\$ 60,049
Income taxes	24,469	19,077	27,296
Earnings from operations before income taxes	\$ 111,800	\$ 54,690	\$ 87,345
Interest expense	70,747	64,874	81,234
Restructuring and other related costs	79,795	81,108	31,145
Gains associated with restructuring and other related activities	(4,129)	-	-
Change in the fair value of non-designated swaps, biological assets and unrealized (gains) losses on commodity futures contracts	7,006	13,969	-
Depreciation and amortization	125,990	143,211	149,489
EBITDA	\$ 391,209	\$ 357,852	\$ 349,213

(i) 2009 figures are in accordance with Canadian GAAP, effective on or before January 1, 2010.

Net Debt

The following table reconciles Net Debt used in net debt to EBITDA ratios reflected on page 17 to amounts reported under IFRS in the audited consolidated balance sheets as at the years ended as indicated below.

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

(\$ thousands)	December 31,		
	2011	2010	2009 ⁽ⁱ⁾
Bank indebtedness	\$ 36,404	\$ 15,858	\$ 4,247
Current portion of long-term debt	5,618	496,835	206,147
Long-term debt	941,956	389,078	834,557
Sub-total	\$ 983,978	\$ 901,771	\$ 1,044,951
Cash and cash equivalents	-	-	(29,316)
Net Debt	\$ 983,978	\$ 901,771	\$ 1,015,635

(i) 2009 figures are in accordance with Canadian GAAP, effective on or before January 1, 2010.

management's discussion and analysis

Return on Net Assets

Return on Net Assets 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 information" within the meaning of applicable securities law. These statements are based on current expectations, estimates, forecasts and projections about the industries in which the Company operates and beliefs and assumptions made by the Management of the Company. Such statements include, but are not limited to, statements with respect to objectives and goals, as well as statements with respect to beliefs, plans, objectives, expectations, anticipations, estimates and intentions. Specific forward-looking information in this document includes, but is not limited to, statements with respect to the anticipated benefits, timing, actions, costs and investments associated with the Company's Value Creation Plan, expectations regarding improving business trends, expectations regarding actions to reduce costs, restore and/or promote volumes and/or increase prices, improve efficiencies, expected duplicative overhead costs incurred due to the concurrent operation of the new Hamilton fresh bakery and existing bakeries, the expected use of cash balances, source of funds for ongoing business requirements, capital investments and debt repayment, and expectations regarding sufficiency of the allowance for uncollectible accounts and expectations regarding the timing of plant closures and LEED® certification. Words such as "expect", "anticipate", "intend", "attempt", "may", "will", "plan", "believe", "seek", "estimate", and variations of such words and similar expressions are intended to identify such forward-looking information. These statements are not guarantees of future performance and involve assumptions and risks and uncertainties that are difficult to predict.

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

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

- the risks associated with implementing and executing the Company's Value Creation Plan
- the risks associated with changes in the Company's 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 risks associated with acquisitions and capital expansion projects
- the impact on pension expense and funding requirements of fluctuations in the market prices of fixed income and equity securities and changes in interest rates
- the cyclical nature of the cost and supply of hogs and the competitive nature of the pork market generally
- the risks related to the health status of livestock
- the impact of a pandemic on the Company's operations
- the Company's exposure to currency exchange risks

management's discussion and analysis

- the ability of the Company to hedge against the effect of commodity price changes through the use of commodity futures and options
- the impact of changes in the market value of the biological assets and hedging instruments
- the impact of international events on commodity prices and the free flow of goods
- the risks posed by compliance with extensive government regulation
- the risks posed by litigation
- the impact of changes in consumer tastes and buying patterns
- the impact of extensive environmental regulation and potential environmental liabilities
- the risks associated with a consolidating retail environment
- the risks posed by competition
- the risks associated with complying with differing employment laws and practices globally, the potential for work stoppages due to non-renewal of collective agreements, and recruiting and retaining qualified personnel
- the risks associated with the Company's independent distributors
- the risks associated with pricing the Company's products
- the risks associated with managing the Company's supply chain
- the risks associated with failing to identify and manage the strategic risks facing the Company.

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

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

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

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

Maple Leaf Foods Inc. is a leading Canadian value-added meat, meals and bakery company committed to delivering quality food products to consumers around the world. Headquartered in Toronto, Canada, the Company employs approximately 19,500 people at its operations across Canada and in the United States, Europe and Asia.

independent auditors' report

To the Shareholders of Maple Leaf Foods Inc.

We have audited the accompanying consolidated financial statements of Maple Leaf Foods Inc., which comprise the consolidated balance sheets as at December 31, 2011, December 31, 2010 and January 1, 2010, the consolidated statements of earnings, comprehensive loss, changes in total equity and cash flows for the years ended December 31, 2011 and December 31, 2010, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Maple Leaf Foods Inc. as at December 31, 2011, December 31, 2010 and January 1, 2010, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.



Chartered Accountants, Licensed Public Accountants
Toronto, Canada

February 27, 2012

consolidated balance sheets

<i>(In thousands of Canadian dollars)</i>	As at December 31, 2011	As at December 31, 2010	As at January 1, 2010
		(See Note 27)	(See Note 27)
ASSETS			
Current assets			
Cash and cash equivalents	\$ -	\$ -	\$ 29,316
Accounts receivable (Note 4)	133,504	108,739	372,330
Notes receivable (Note 4)	98,545	109,012	-
Inventories (Note 5)	293,231	275,643	298,320
Biological assets (Note 6)	49,265	45,440	42,568
Income and other taxes recoverable	43,789	29,957	18,067
Prepaid expenses and other assets	24,688	14,766	15,328
	\$ 643,022	\$ 583,557	\$ 775,929
Property and equipment (Note 7)	1,067,246	1,042,886	1,102,032
Investment property (Note 8)	11,232	6,832	6,646
Employee benefits (Note 9)	133,942	173,243	206,584
Other long-term assets	11,926	9,455	8,220
Deferred tax asset (Note 19)	127,456	101,848	83,330
Goodwill (Note 10)	753,739	752,911	755,059
Intangible assets (Note 11)	191,896	164,178	137,239
Total assets	\$ 2,940,459	\$ 2,834,910	\$ 3,075,039
LIABILITIES AND EQUITY			
Current liabilities			
Bank indebtedness (Note 13)	\$ 36,404	\$ 15,858	\$ 4,247
Accounts payable and accruals	482,059	475,980	633,247
Provisions (Note 12)	44,255	39,822	25,511
Current portion of long-term debt (Note 13)	5,618	496,835	206,147
Other current liabilities	20,409	63,465	37,837
	\$ 588,745	\$ 1,091,960	\$ 906,989
Long-term debt (Note 13)	941,956	389,078	834,557
Employee benefits (Note 9)	350,853	224,407	203,577
Provisions (Note 12)	28,936	26,452	27,022
Other long-term liabilities (Note 14)	88,153	89,839	89,781
Deferred tax liability (Note 19)	11,703	26,402	31,310
Total liabilities	\$ 2,010,346	\$ 1,848,138	\$ 2,093,236
Shareholders' equity			
Share capital (Note 15)	\$ 902,810	\$ 902,810	\$ 869,353
Retained earnings (deficit)	(78,674)	(5,267)	24,076
Contributed surplus	64,327	59,002	57,486
Accumulated other comprehensive loss (Note 15)	(17,042)	(22,585)	(5,055)
Treasury stock	(6,347)	(10,078)	(24,499)
Total shareholders' equity	\$ 865,074	\$ 923,882	\$ 921,361
Non-controlling interest	65,039	62,890	60,442
Total equity	\$ 930,113	\$ 986,772	\$ 981,803
Total liabilities and equity	\$ 2,940,459	\$ 2,834,910	\$ 3,075,039

Commitments and contingencies (Note 22)

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)

	2011	2010
Sales	\$ 4,893,624	\$ 4,968,119
Cost of goods sold	4,126,460	4,219,237
Gross margin	\$ 767,164	\$ 748,882
Selling, general and administrative expenses	504,194	523,450
Earnings before the following:	\$ 262,970	\$ 225,432
Restructuring and other related costs (Note 12)	(79,795)	(81,108)
Change in fair value of non-designated interest rate swaps (Note 16)	(10,960)	(24,922)
Other income (Note 17)	10,332	162
Earnings before interest and income taxes	\$ 182,547	\$ 119,564
Interest expense (Note 18)	70,747	64,874
Earnings before income taxes	\$ 111,800	\$ 54,690
Income taxes (Note 19)	24,469	19,077
Net earnings	\$ 87,331	\$ 35,613
Attributed to:		
Common shareholders	\$ 82,134	\$ 29,310
Non-controlling interest	5,197	6,303
	\$ 87,331	\$ 35,613
Earnings per share attributable to common shareholders (Note 20)		
Basic earnings per share	\$ 0.59	\$ 0.22
Diluted earnings per share	\$ 0.58	\$ 0.21
Weighted average number of shares (millions)	138.7	135.6

See accompanying Notes to the Consolidated Financial Statements

consolidated statements of comprehensive loss

Years ended December 31			
<i>(In thousands of Canadian dollars)</i>		2011	2010
Net earnings	\$	87,331	\$ 35,613
Other comprehensive (loss) income			
Change in accumulated foreign currency translation adjustment	\$	5,651	\$ (14,197)
Change in unrealized gains and losses on cash flow hedges		282	(4,208)
Change in asset ceiling and minimum funding requirements		12,680	29,832
Change in actuarial gains and losses		(128,832)	(63,525)
	\$	(110,219)	\$ (52,098)
Comprehensive loss	\$	(22,888)	\$ (16,485)
Attributed to:			
Common shareholders	\$	(26,979)	\$ (21,031)
Non-controlling interest		4,091	4,546

See accompanying Notes to the Consolidated Financial Statements

consolidated statements of changes in total equity

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

<i>(In thousands of Canadian dollars)</i>	<i>Attributable to common shareholders</i>							Total equity
	Share capital	Retained earnings	Contributed surplus	Total accumulated other comprehensive loss	Treasury stock	Non-controlling interest		
Balance at January 1, 2010	\$ 869,353	\$ 24,076	\$ 57,486	\$ (5,055)	\$ (24,499)	\$ 60,442	\$ 981,803	
Net earnings	-	29,310	-	-	-	6,303	35,613	
Other comprehensive loss	-	(32,811)	-	(17,530)	-	(1,757)	(52,098)	
Dividends declared (\$0.16 per share)	-	(21,677)	-	-	-	(747)	(22,424)	
Stock-based compensation expense	-	-	15,936	-	-	-	15,936	
Share options exercised	3,288	-	-	-	-	-	3,288	
Subscription receipts and warrants	30,156	-	(2,157)	-	-	-	27,999	
Shares issued from treasury	13	-	(13)	-	-	-	-	
Premium on shares issued from Restricted Share Unit Trust	-	(2,665)	(12,250)	-	14,915	-	-	
Re-purchase of treasury stock	-	-	-	-	(494)	-	(494)	
Increase in subsidiary interest	-	(1,500)	-	-	-	(1,351)	(2,851)	
Balance at December 31, 2010	\$ 902,810	\$ (5,267)	\$ 59,002	\$ (22,585)	\$ (10,078)	\$ 62,890	\$ 986,772	

See accompanying Notes to the Consolidated Financial Statements

consolidated statements of cash flows

Years ended December 31

(In thousands of Canadian dollars)

	2011	2010
CASH PROVIDED BY (USED IN):		
Operating activities		
Net earnings	\$ 87,331	\$ 35,613
Add (deduct) items not affecting cash:		
Change in fair value of biological assets	1,027	(10,841)
Depreciation and amortization	125,990	143,211
Stock-based compensation	19,393	15,936
Deferred income taxes	5,896	(10,953)
Income tax current	18,573	30,030
Interest expense	70,747	64,874
Gain on sale of property and equipment	(6,987)	(217)
Change in fair value of non-designated interest rate swaps	10,959	24,922
Change in fair value of derivative financial instruments	(3,924)	1,096
Decrease in pension asset	10,364	7,006
Net income taxes paid	(17,703)	(39,298)
Interest paid	(57,969)	(60,812)
Change in provision for restructuring and other related costs	43,563	60,823
Other	(6,540)	(2,729)
Change in non-cash operating working capital	(55,886)	26,519
Cash provided by operating activities	\$ 244,834	\$ 285,180
Financing activities		
Dividends paid	\$ (22,386)	\$ (21,677)
Dividends paid to non-controlling interest	(1,830)	(747)
Net increase (decrease) in long-term debt	5,195	(168,764)
Increase in share capital	-	31,287
Increase in financing costs	(6,610)	(2,656)
Purchase of treasury stock	(28,836)	(494)
Other	(1,512)	(1,439)
Cash used in financing activities	\$ (55,979)	\$ (164,490)
Investing activities		
Additions to long-term assets	\$ (229,171)	\$ (162,304)
Capitalization of interest expense	(5,600)	(1,512)
Purchase of subsidiary shares	-	(2,690)
Proceeds from sale of long-term assets	24,267	4,610
Other	1,103	279
Cash used in investing activities	\$ (209,401)	\$ (161,617)
Decrease in cash and cash equivalents	\$ (20,546)	\$ (40,927)
Net cash and cash equivalents, beginning of period	(15,858)	25,069
Net cash and cash equivalents, end of period	\$ (36,404)	\$ (15,858)
Net cash and cash equivalents is comprised of:		
Cash and cash equivalents	\$ -	\$ -
Bank indebtedness	(36,404)	(15,858)
Net cash and cash equivalents, end of period	\$ (36,404)	\$ (15,858)

See accompanying Notes to the Consolidated Financial Statements

notes to the consolidated financial statements

(Tabular amounts in thousands of Canadian dollars, unless otherwise indicated)

Years ended December 31, 2011 and 2010

1. THE COMPANY

Maple Leaf Foods Inc. (“Maple Leaf Foods” or the “Company”) is a leading Canadian-based value-added meat, meals and bakery company, serving wholesale, retail and foodservice customers across North America and internationally. The address of the Company’s registered office is Suite 1500, 30 St. Clair Avenue West, Toronto, Ontario, M4V 3A2, Canada. The consolidated financial statements of the Company as at and for the year ended December 31, 2011 include the accounts of the Company and its subsidiaries. The Company’s results are organized into three segments: Meat Products Group, Agribusiness Group and Bakery Products Group.

2. BASIS OF PREPARATION

(a) Statement of Compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and using the accounting policies described herein. These are the Company’s first annual consolidated financial statements prepared in accordance with IFRS and therefore the Company has applied IFRS 1 *First-time adoption of International Financial Reporting Standards*. An explanation of how the transition from Canadian Generally Accepted Accounting Principles (“GAAP”) to IFRS as at January 1, 2010 (“transition date”) has affected the reported financial position, financial performance and cash flows of the Company, including the mandatory exceptions and optional exemptions under IFRS 1 is provided in Note 27 of these financial statements.

The consolidated financial statements were authorized for issue by the Board of Directors on February 27, 2012.

(b) Basis of Measurement

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

(c) Functional and Presentation Currency

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

(d) Use of Estimates and Judgements

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

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

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effects on the amounts recognized in the consolidated financial statements are included in the following notes:

Goodwill and Intangible Assets Valuation

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

The Company assesses impairment by comparing the recoverable amount of an intangible asset or goodwill with its carrying value. The recoverable amount is defined as the higher of: (i) value in use; or (ii) fair value less cost to sell. The determination of the recoverable amount involves Management judgement and estimation.

notes to the consolidated financial statements

Allowance for Bad Debts

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 changes in individual customer financial conditions. To the extent that actual losses on uncollectible accounts differ from those estimated in the Company's provision, both accounts receivable and net earnings will be affected.

Provisions for Inventory

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

Biological Assets

Biological assets are measured at each reporting date, at fair value less costs to sell, except when fair value cannot be reliably measured. If fair value cannot be reliably measured, biological assets are measured at cost minus depreciation and impairment losses. Although a reliable measure of fair value may not be available at the point of initial recognition, it may subsequently become available. In such circumstances, biological assets are measured at fair value less costs to sell from the point at which the reliable measure of fair value becomes available. Gains and losses that arise on measuring biological assets at fair value less costs to sell are recognized in the statement of earnings in the period in which they arise. Costs to sell include all costs that would be necessary to sell the biological assets, including costs necessary to get the biological assets to market.

Trade Merchandise Allowances and Other Trade Discounts

The Company provides for estimated payments to customers based on various trade programs and contracts that often include payments that are contingent upon attainment of specified sales volumes. Significant estimates used to determine these liabilities include the projected level of sales volume for the relevant period and the historical promotional expenditure rate compared to contracted rates. These arrangements are complex and there are a significant number of customers and products affected. Management has systems and processes in place to estimate and value these obligations. To the extent that payments on trade discounts differ from estimates of the related liability, both accrued liabilities and net earnings will be affected.

Employee Benefit Plans

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

Income Taxes

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

notes to the consolidated financial statements

Provisions

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

Stock-based Compensation

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

Depreciation and Amortization

The Company's property and equipment and definite life intangible assets are depreciated and amortized on a straight-line basis, taking into account the expected useful lives of the assets and residual values. Changes to these estimates may affect both the carrying value of these assets and net earnings.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing the opening IFRS consolidated balance sheet at January 1, 2010 for the purposes of the transition to IFRS, unless otherwise indicated.

(a) Principles of Consolidation

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

All intercompany accounts and transactions have been eliminated on consolidation.

(b) Translation of Foreign Currencies

The accounts of the Company are presented in Canadian dollars. Transactions in foreign currencies are translated at the actual rates of exchange. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the Canadian dollar at the exchange rate at that date. Foreign exchange differences arising on translation are recognized in net earnings except for financial assets and liabilities designated as hedges of the net investment in foreign operations or qualifying cash flow hedges, which are recognized in other comprehensive income. Non-monetary assets and liabilities that are measured at historical cost are translated using the exchange rate at the date of the transaction.

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

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

notes to the consolidated financial statements

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

(c) Financial Instruments

The Company's financial assets and financial liabilities upon initial recognition are measured at fair value and are classified as held-for-trading, loans and receivables, or other financial liabilities. The classification depends on the purpose for which the financial instruments were acquired and their characteristics. Held-for-trading is the required classification for all derivative financial instruments unless they are specifically designated within an effective hedge relationship. Held-for-trading financial instruments are measured at fair value with changes in fair value recognized in consolidated statements of earnings in the period in which such changes arise. Loans and receivables and other financial liabilities are initially recorded at fair value and are subsequently measured at amortized cost.

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

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

(d) Hedge Accounting

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

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

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

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

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

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

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

notes to the consolidated financial statements

(e) Cash and Cash Equivalents

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

(f) Inventories

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

(g) Biological Assets

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

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

(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 intangible assets subject to amortization, for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Asset groups referred to as Cash Generating Units (“CGUs”) include an allocation of Corporate assets and are reviewed at their lowest level for which identifiable cash inflows are largely independent of cash inflows of other assets or groups of assets. The recoverable amount is the greater of its value in use and its fair value less cost to sell.

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

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

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

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

notes to the consolidated financial statements

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

(i) Property and Equipment

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

Buildings, including other components	15-40 years
Machinery and equipment	3-10 years

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

(j) Investment Property

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

Investment properties are recorded at cost less accumulated depreciation and any accumulated impairment losses, with the exception of land which is recorded at cost less any accumulated impairment losses. The depreciation policies for investment properties are consistent with those of property and equipment.

(k) Goodwill and Intangible Assets

Goodwill

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 group of CGUs that are expected to benefit from the synergies of the business combination, but no lower than the level in the Company at which goodwill is monitored for internal management purposes.

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

notes to the consolidated financial statements

Intangible Assets

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

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

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

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

(I) Employee Benefit Plans

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

Defined Benefit Plans

The Company accrues obligations and costs in respect of employee defined benefit plans. The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected unit credit method prorated on service and Management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees, mortality rates and expected health care costs. Changes in these assumptions could affect future pension expense. The fair value of plan assets is used as the basis of calculating the expected return on plan assets. The discount rate used to value the defined benefit obligation is based on high-quality corporate bonds, in the same currency in which the benefits are expected to be paid and with terms to maturity that, on average, match the terms of the defined benefit obligations. Past service costs arising from plan amendments are amortized on a straight-line basis over the expected remaining vesting period. To the extent that the benefits vest immediately, the expense is recognized in net earnings.

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

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

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

Defined Contribution Plans

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

notes to the consolidated financial statements

Multi-employer Plans

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

(m) Stock-Based Compensation

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

(n) Provisions

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

(o) Revenue Recognition

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

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

(p) Borrowing Costs

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

notes to the consolidated financial statements

(q) Income Taxes

Income tax expense comprises current and deferred tax. Income tax is recognized in the consolidated statement of earnings except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

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

The Company uses the asset and liability method of accounting for income taxes. Accordingly, deferred tax assets and liabilities are recognized for the deferred tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. In addition, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in both net earnings and comprehensive income in the period in which the enactment or substantive enactment takes place. A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable income will be available to utilize such amounts. Deferred tax assets are reviewed at each reporting date and are adjusted to the extent that it is no longer probable that the related tax benefits will be realized.

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

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

(r) Recent Accounting Pronouncements

Financial Instruments – Recognition and Measurement

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

Financial Instruments – Disclosures

In October 2010, the IASB issued amendments to IFRS 7 *Financial Instruments: Disclosures*. These amendments require disclosure of information that enables users of financial statements to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and to evaluate the nature of, and risks associated with, the Company's continuing involvement in derecognized financial assets. The amendments are effective for annual periods beginning on or after January 1, 2012 and therefore the Company will apply the amendments in the first quarter of 2012. When applied, it is expected that the amendments to IFRS 7 will increase the current level of disclosure of transfers of financial assets.

Financial Assets and Liabilities

In December 2011 the IASB published amendments to International Accounting Standard ("IAS") 32 *Financial Instruments: Presentation* and issued new disclosure requirements in IFRS 7 *Financial Instruments: Disclosures*. The effective date for the amendments to

IAS 32 is annual periods beginning on or after January 1, 2014. The effective date for the amendments to IFRS 7 is annual periods beginning on or after January 1, 2013. These amendments are to be applied retrospectively.

The amendments to IAS 32 clarify when an entity has a legally enforceable right to off-set as well as clarify, when a settlement mechanism provides for net settlement, or gross settlement that is equivalent to net settlement. The amendments to IFRS 7 contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting arrangements or similar arrangements. The Company intends to adopt the amendments to IFRS 7 in its financial statements for the annual period beginning on January 1,

notes to the consolidated financial statements

2013, and the amendments to IAS 32 in its financial statements for the annual period beginning January 1, 2014. The extent of the impact of adoption of the amendments has not yet been determined.

Consolidated Financial Statements

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

Joint Arrangements

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

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

Disclosure of Interests in Other Entities

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

IFRS 10, IFRS 11 and IFRS 12, and the amendments to IAS 27 and IAS 28 are all effective for annual periods beginning on or after January 1, 2013. Early adoption is permitted, so long as IFRS 10, IFRS 11 and IFRS 12, and the amendments to IAS 27 and IAS 28 are adopted at the same time. However, entities are permitted to incorporate any of the disclosure requirements in IFRS 12 into their financial statements without early adopting IFRS 10, IFRS 11, the amendments to IAS 27 and IAS 28. The Company intends to adopt IFRS 10, IFRS 11 and IFRS 12 and the amendments to IAS 27 and IAS 28 in its consolidated financial statements for the annual period beginning on January 1, 2013. The extent of the impact of adoption of IFRS 10, IFRS 11 and IFRS 12 and the amendments to IAS 27 and IAS 28 has not yet been determined.

Fair Value Measurement

In May 2011, the IASB published IFRS 13 *Fair Value Measurement*, which is effective prospectively for annual periods beginning on or after January 1, 2013. IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. The standard also establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. The Company intends to adopt IFRS 13 prospectively in its financial statements for the annual period beginning on January 1, 2013. The extent of the impact of adoption of IFRS 13 has not yet been determined.

Presentation of Financial Statements

In June 2011, the IASB published amendments to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income*, which are effective for annual periods beginning on or after July 1, 2012 and are to be applied retrospectively. Early adoption is permitted. These amendments require that a company present separately the items of other comprehensive income that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. The Company intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2013. The extent of the impact of adoption of these amendments has not yet been determined.

Employee Benefits

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

notes to the consolidated financial statements

period beginning on January 1, 2013. Where required, the Company will apply this amendment retrospectively. The extent of the impact of adoption of the amendment has not yet been determined.

4. ACCOUNTS RECEIVABLE AND NOTES RECEIVABLE

Under revolving securitization programs, the Company has sold certain of its trade accounts receivable to an entity owned by a financial institution. The Company retains servicing responsibilities and retains a very limited recourse obligation for delinquent receivables. At December 31, 2011, trade accounts receivable being serviced under these programs amounted to \$254.3 million (December 31, 2010: \$265.2 million). In return for the sale of its trade receivables, the Company received cash of \$155.8 million (December 31, 2010: \$156.2 million) and notes receivable in the amount of \$98.5 million (December 31, 2010: \$109.0 million). The notes receivable are non-interest bearing and are due on the settlement dates of the securitized accounts receivable.

In October 2010, the Company finalized new trade accounts receivable securitization agreements that require the sale of trade accounts receivable to be treated as a sale from an accounting perspective and as a result, trade accounts receivable balances sold under these programs are derecognized in the consolidated balance sheets as at December 31, 2010 and December 31, 2011. The agreements expire in October 2013.

The Company recorded \$27.7 million of notes receivable on December 31, 2010, which should have been recorded as accounts receivable in an equivalent amount. These balances have been re-classified in the December 31, 2010 comparative figures. The Company has determined that these amounts were not material to its consolidated financial statements for any prior interim or annual periods.

Components of accounts receivable are as follows:

	As at December 31, 2011	As at December 31, 2010	As at January 1, 2010
Trade receivables	\$ 81,477	\$ 65,084	\$ 352,344
Less: Allowance for doubtful accounts	(5,789)	(6,764)	(10,204)
Net trade receivables	75,688	58,320	342,140
Other receivables:			
Commodity taxes receivable	26,141	19,643	13,095
Interest rate swap receivable	8,204	1,686	2,214
Receivable from divested business	-	16,898	-
Government and insurance receivables	7,454	2,354	8,365
Other	16,017	9,838	6,516
	\$ 133,504	\$ 108,739	\$ 372,330

The aging of trade receivables is as follows:

	As at December 31, 2011	As at December 31, 2010	As at January 1, 2010
Current	\$ 72,232	\$ 58,876	\$ 250,631
Past due 0-30 days	7,938	4,640	81,015
Past due 31-60 days	534	788	8,242
Past due 61-90 days	434	281	2,963
Past due > 90 days	339	499	9,493
	\$ 81,477	\$ 65,084	\$ 352,344

notes to the consolidated financial statements

The Company maintains an allowance for doubtful accounts that represents its estimate of the uncollectible amounts. The components of this allowance include a provision related to specific losses estimated on individual exposures and a provision based on historical trends of collections.

5. INVENTORIES

	As at December 31, 2011	As at December 31, 2010	As at January 1, 2010
Raw materials	\$ 46,247	\$ 36,076	\$ 39,374
Work in process	16,805	16,838	12,845
Finished goods	166,251	158,073	182,687
Packaging	24,580	25,381	25,697
Spare parts	39,348	39,275	37,717
	\$ 293,231	\$ 275,643	\$ 298,320

During the year, inventory in the amount of \$3,459.0 million (2010: \$3,649.7 million) was expensed through cost of goods sold. There were no reversals of previous write downs recognized.

6. BIOLOGICAL ASSETS

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

	Hog stock		Poultry stock		Total
	Commercial	Parent	Commercial	Parent	
Balance at January 1, 2010	\$ 24,321	\$ 8,615	\$ 5,343	\$ 4,289	\$ 42,568
Additions and purchases	135,910	2,974	79,916	6,308	225,108
Depreciation	-	(3,667)	-	(5,804)	(9,471)
Change in fair value	5,291	-	(79)	-	5,212
Further processing and sales	(135,659)	-	(80,097)	-	(215,756)
Foreign currency translation	(2,221)	-	-	-	(2,221)
Balance at December 31, 2010	\$ 27,642	\$ 7,922	\$ 5,083	\$ 4,793	\$ 45,440

Hog stock comprised approximately 0.3 million animals as of December 31, 2011 (December 31, 2010: 0.4 million; January 1, 2010: 0.4 million). During the year, substantially all hog stock was transferred to the Company's primary processing operations.

notes to the consolidated financial statements

Poultry stock comprised approximately 6.2 million eggs and 0.5 million birds as of December 31, 2011 (December 31, 2010: 6.2 million eggs and 0.5 million birds; January 1, 2010: 6.5 million eggs and 0.4 million birds). During the year, substantially all poultry stock was transferred to the Company's primary processing operations.

Transfers from biological assets to inventory at point of delivery for the year were \$230.4 million (December 31, 2010: \$215.8 million).

The change in fair value of commercial hog and poultry stock for the year was a loss of \$1.0 million as at December 31, 2011 (December 31, 2010: gain of \$10.8 million) and was recorded in cost of goods sold.

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

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

7. PROPERTY AND EQUIPMENT

Cost	Land	Buildings	Machinery and equipment	Under construction	Total
Balance at January 1, 2011	\$ 70,828	\$ 716,296	\$ 1,584,434	\$ 94,531	\$ 2,466,089
Additions	-	41,030	73,981	67,195	182,206
Disposals and write downs					
due to restructuring	(3,673)	(38,514)	(88,427)	-	(130,614)
Other	(76)	(111)	512	-	325
Interest capitalized	92	838	1,742	-	2,672
Foreign currency translation	(27)	(410)	(1,058)	(166)	(1,661)
Balance at December 31, 2011	\$ 67,144	\$ 719,129	\$ 1,571,184	\$ 161,560	\$ 2,519,017
Accumulated depreciation					
Balance at January 1, 2011	\$ -	\$ 317,693	\$1,098,680	\$ -	\$ 1,416,373
Additions	-	29,089	92,047	-	121,136
Disposals and					
restructuring charges	-	(29,771)	(64,899)	-	(94,670)
Other	-	(49)	(682)	-	(731)
Foreign currency translation	-	(153)	(1,416)	-	(1,569)
Balance at December 31, 2011	\$ -	\$ 316,809	\$1,123,730	\$ -	\$ 1,440,539
Carrying amounts					
At December 31, 2011	\$ 67,144	\$ 402,320	\$ 447,454	\$ 161,560	\$ 1,078,478
Transferred to investment property					(11,232)
Total property and equipment					\$ 1,067,246

notes to the consolidated financial statements

Cost	Land	Buildings	Machinery and equipment	Under construction	Total
Balance at January 1, 2010	\$ 77,875	\$ 743,810	\$ 1,603,653	\$ 94,740	\$ 2,520,078
Additions	–	19,253	120,034	(23)	139,264
Disposals and write downs					
due to restructuring	(7,002)	(43,495)	(128,532)	(133)	(179,162)
Other	84	277	542	169	1,072
Interest capitalized	58	77	620	–	755
Foreign currency translation	(187)	(3,626)	(11,883)	(222)	(15,918)
Balance at December 31, 2010	\$ 70,828	\$ 716,296	\$ 1,584,434	\$ 94,531	\$ 2,466,089
Accumulated depreciation					
Balance at January 1, 2010	\$ –	\$ 317,299	\$ 1,094,101	\$ –	\$ 1,411,400
Additions	–	28,330	112,453	–	140,783
Disposals and restructuring charges	–	(29,166)	(101,492)	–	(130,658)
Other	–	2,028	399	–	2,427
Foreign currency translation	–	(798)	(6,781)	–	(7,579)
Balance at December 31, 2010	\$ –	\$ 317,693	\$ 1,098,680	\$ –	\$ 1,416,373
Carrying amounts					
At December 31, 2010	\$ 70,828	\$ 398,603	\$ 485,754	\$ 94,531	\$ 1,049,716
Transferred to investment property					(6,832)
Total property and equipment					\$ 1,042,884

As at January 1, 2010 amounts transferred to investment properties were \$6.6 million.

Impairment

During the year the Company recorded \$14.4 million (2010: \$44.0 million) of impairment through restructuring and other related costs. The Company recognized reversals of impairments of \$0.7 million (2010: \$nil) also through restructuring and other related costs.

Property and Equipment under Construction

At the end of the year the Company had property and equipment under construction of \$161.6 million. The construction relates to the prepared meats network transformation project and the new bakery in Hamilton, Ontario. As at December 31, 2011 the Company had entered into construction contracts of \$109.9 million relating to these projects.

Borrowing Costs

During the year, borrowing costs of \$2.7 million were capitalized (2010: \$0.8 million), using an average capitalization rate of 6.8% (2010: 4.8%).

notes to the consolidated financial statements

8. INVESTMENT PROPERTY

Investment property comprised surplus land and buildings primarily resulting from restructuring activities. The fair value of the Company's investment properties was \$27.6 million at December 31, 2011 (2010: \$20.9 million). An external independent valuation company provided appraisals for a total of \$20.0 million of the Company's investment properties, \$14.0 million of which were valued in 2011. For the other investment properties, the Company determined the fair value based on comparable market information. Any impairment losses or reversals of impairment losses on investment property would be recorded through other income. No impairment losses or reversals of impairment losses were recorded in either of 2011 or 2010.

During the year, the Company earned \$0.3 million (2010: \$0.3 million) of rental revenue from investment properties and recorded operating costs related to investment properties of \$0.8 million (2010: \$0.7 million). Rental revenue and related operating costs are recorded in other income unless these amounts were anticipated under a restructuring plan in which case they would be recorded against the restructuring provision, to the extent that it exists, with any excess then recorded in other income.

The continuity of investment property for the years ended December 31, 2011 and 2010 is as follows:

Cost	2011	2010
Opening balance	\$ 16,134	\$ 15,918
Transfers from property and equipment	11,706	473
Foreign currency translation	(55)	(257)
Closing balance	\$ 27,785	\$ 16,134
Depreciation		
Opening balance	\$ 9,302	\$ 9,272
Transfers from property and equipment	7,251	30
Closing balance	\$ 16,553	\$ 9,302
Carrying amounts	\$ 11,232	\$ 6,832

notes to the consolidated financial statements

9. EMPLOYEE BENEFITS

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

	Other post- retirement benefits	Total pension	2011 Total	Other post- retirement benefits	Total pension	2010 Total
Accrued benefit obligation:						
Balance, beginning of year	\$ 74,018	\$ 1,139,451	\$ 1,213,469	\$ 76,310	\$ 1,023,068	\$ 1,099,378
Current service cost	558	20,160	20,718	664	17,809	18,473
Interest cost	3,645	53,907	57,552	4,321	57,794	62,115
Benefits paid	(3,164)	(74,503)	(77,667)	(3,347)	(71,589)	(74,936)
Actuarial (gains) losses	4,221	83,090	87,311	(3,930)	106,152	102,222
Employee contributions	-	4,534	4,534	-	4,184	4,184
Past service cost	-	-	-	-	1,733	1,733
Special termination benefits	-	3,890	3,890	-	350	350
Curtailements	(1,000)	6,470	5,470	-	(50)	(50)
Balance, end of year	\$ 78,278	\$ 1,236,999	\$ 1,315,277	\$ 74,018	\$ 1,139,451	\$ 1,213,469
Unfunded	\$ 78,278	\$ 31,184	\$ 109,462	\$ 74,018	\$ 28,633	\$ 102,651
Funded ⁽ⁱ⁾	-	1,205,815	1,205,815	-	1,110,818	1,110,818
Total obligation	\$ 78,278	\$ 1,236,999	\$ 1,315,277	\$ 74,018	\$ 1,139,451	\$ 1,213,469
<i>(i) Includes wholly and partially funded plans.</i>						
Plan assets						
Fair value, beginning of year	\$ -	\$ 1,180,634	\$ 1,180,634	\$ -	\$ 1,159,656	\$ 1,159,656
Expected return on plan assets	-	80,221	80,221	-	80,882	80,882
Actuarial gains (losses)	-	(83,506)	(83,506)	-	16,864	16,864
Employer contributions	3,164	11,097	14,261	3,347	8,999	12,346
Employee contributions	-	4,534	4,534	-	4,184	4,184
Benefits paid	(3,164)	(74,503)	(77,667)	(3,347)	(71,589)	(74,936)
Assets transferred to Company defined contribution plan	-	(18,484)	(18,484)	-	(18,362)	(18,362)
Fair value, end of year	\$ -	\$ 1,099,993	\$ 1,099,993	\$ -	\$ 1,180,634	\$ 1,180,634
Assets not recognized due to asset ceiling	\$ -	\$ -	\$ -	\$ -	\$ (15,590)	\$ (15,590)
Additional liability due to minimum funding requirement	-	-	-	-	(1,498)	(1,498)
Other	-	(1,627)	(1,627)	-	(1,241)	(1,241)
Accrued benefit asset (liability), end of year	\$ (78,278)	\$ (138,633)	\$ (216,911)	\$ (74,018)	\$ 22,854	\$ (51,164)

notes to the consolidated financial statements

Amounts recognized in the consolidated balance sheet consist of:

	As at December 31, 2011	As at December 31, 2010	As at January 1, 2010
Employee benefit assets	\$ 133,942	\$ 173,243	\$ 206,584
Employee benefit liabilities	350,853	224,407	203,577
	\$ (216,911)	\$ (51,164)	\$ 3,007

The January 1, 2010 balance included the fair value of plan assets of \$1,159.7 million, offset by the fair value of plan obligation of \$1,099.4 million, assets not recognized due to the asset ceiling of \$25.7 million, additional liability from minimum funding requirement of \$31.5 million, and other items of \$0.1 million.

Pension benefit expense recognized in net earnings:

	2011	2010
Current service cost – defined benefit	\$ 20,160	\$ 17,809
Current service cost – defined contribution and multi-employer plans	24,849	27,275
Interest cost	53,907	57,794
Expected return on plan assets	(80,221)	(80,882)
Past service cost	–	1,733
Curtailed (gain) loss ⁽ⁱ⁾	6,470	(50)
Contractual termination benefits ⁽ⁱ⁾	3,890	350
Net benefit plan expense	\$ 29,055	\$ 24,029

(i) Included in restructuring and other related costs.

During the year, the Company expensed salaries of \$1,018.8 million (2010: \$1,077.5 million) and benefits of \$101.2 million (2010: \$98.3 million) excluding pension and other post-retirement benefits.

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

	2011	2010
Actuarial losses	\$ (170,817)	\$ (85,360)
Impact of asset ceiling and minimum funding requirement	17,089	40,067
	\$ (153,728)	\$ (45,293)

The expected long-term rate of return on plan assets was determined based on the plans' investment mix, the current rate of inflation and historical equity returns. Actual return on plan assets for the year ended December 31, 2011 was a loss of \$3.3 million (2010: gain of \$97.7 million).

notes to the consolidated financial statements

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

	2011	2010
Weighted average discount rate used to calculate the net benefit plan expense	5.00%	5.75%
Weighted average discount rate used to calculate year end benefit obligation	4.50%	5.00%
Expected long-term rate of return on plan assets	7.25%	7.25%
Rate of compensation increase	3.50%	3.50%
Medical cost trend rates	6.50%	7.00%

Plan assets comprised of:

	As at December 31, 2011	As at December 31, 2010	As at January 1, 2010
Equity securities	59%	59%	56%
Debt securities	38%	35%	44%
Other investments and cash	3%	6%	0%
	100%	100%	100%

Other post-retirement benefits expense:

	2011	2010
Current service cost	\$ 558	\$ 664
Curtailment gain ⁽ⁱ⁾	(1,000)	-
Interest cost	3,645	4,321
	\$ 3,203	\$ 4,985

(i) Included in restructuring and other related costs.

Impact of 1% change in health care cost trend:

	1% Increase	1% Decrease
Effect on end-of-year obligation	\$ 3,787	\$ (4,170)
Aggregate of 2011 current service cost and interest cost	203	(227)

Measurement dates:

2011 expense	December 31, 2010
Balance sheet	December 31, 2011

notes to the consolidated financial statements

The Company plans to contribute \$46.1 million to the pension plans in 2012, inclusive of defined contribution plans and the multi-employer plans.

Multi-employer Plans

The Company contributes to both the Canadian Commercial Workers Industry Pension Plan and the Bakery and Confectionery Union and Industry Canadian Pension Fund, which are multi-employer defined benefit plans for employees who are members of the United Food and Commercial Workers union and the Canadian Bakery and Confectionery union, respectively. These are large-scale plans for union workers of multiple companies across Canada. Adequate information to account for these contributions as a defined benefit plan in the Company's statements is not available due to the size and number of contributing employers in the plan. Included in the current service cost – defined contribution and multi-employer plan expense of \$24.8 million (2010: \$27.3 million) was \$5.4 million (2010: \$6.3 million) related to payments into this plan. The Company expects to make contributions of \$5.4 million into this plan for the 2012 year.

10. GOODWILL

	December 31, 2011	December 31, 2010	January 1, 2010
Cost			
Opening balance	\$ 849,211	\$ 857,278	\$ 857,278
Adjustment and disposals	(94)	252	–
Foreign currency translation	1,805	(8,319)	–
Balance	\$ 850,922	\$ 849,211	\$ 857,278
Impairment losses			
Opening balance	\$ (96,300)	\$ (102,219)	\$ (102,219)
Foreign currency translations	(883)	5,919	–
Balance	\$ (97,183)	\$ (96,300)	\$ (102,219)
Carrying amounts	\$ 753,739	\$ 752,911	\$ 755,059

For the purposes of annual impairment testing, goodwill is allocated to the following groups of Cash Generating Units (“CGUs”), being the groups expected to benefit from the synergies of the business combinations in which the goodwill arose.

	As at December 31, 2011	As at December 31, 2010	As at January 1, 2010
CGU Groups			
Meat products	\$ 442,336	\$ 442,336	\$ 443,150
By-product recycling	13,845	13,939	13,939
Canadian fresh bakery	173,839	173,839	172,774
North American frozen bakery	118,249	117,327	119,726
Fresh pasta	5,470	5,470	5,470
	\$ 753,739	\$ 752,911	\$ 755,059

notes to the consolidated financial statements

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

- Cash flows were projected based on the five-year business plan in both 2010 and 2011. Cash flows for a further perpetual period were extrapolated using the growth rate listed below. These rates do not exceed the long-term average growth rate for the countries that the segments operate in.
- The five-year business plan includes forecasts up to, and including, the year 2016 and was based on past experience of actual operating results in conjuncture with anticipated future growth opportunities. While the forecast does assume some base business expansion, largely related to innovation, the primary engine of growth is strategic in nature and is consistent with the projects and expectations as articulated in the Company's strategic plan.
- Discount rates as shown in the table below were applied in determining the recoverable amount of each CGU group. The discount rate was estimated based on past experience and the weighted average cost of capital of the Company and other competitors in the industry.

CGU group	Discount Rate		Growth Rate	
	2011	2010	2011	2010
Meat products	13.2%	13.1%	2.5%	2.6%
By-product recycling	9.7%	9.7%	2.5%	2.6%
Canadian fresh bakery	13.2%	10.7%	2.5%	2.6%
North American frozen bakery	10.9%	11.5%	2.8%	2.8%
Fresh pasta	10.6%	10.4%	2.5%	2.6%

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

notes to the consolidated financial statements

11. INTANGIBLE ASSETS

	As at December 31, 2011	As at December 31, 2010	As at January 1, 2010
Indefinite life	\$ 81,569	\$ 82,046	\$ 82,175
Definite life	110,327	82,132	55,064
Total Intangible assets	\$ 191,896	\$ 164,178	\$ 137,239

Cost	Definite life				Total
	Software in use	Software in process	Trademarks	Customer relationships	
Balance at January 1, 2011	\$ 22,027	\$ 49,350	\$ 7,932	\$ 13,366	\$ 92,675
Additions	18,932	11,319	281	275	30,807
Capitalization of interest	-	2,928	-	-	2,928
Disposals	-	-	-	(830)	(830)
Effect of movement in exchange rates	-	-	7	137	144
Balance at December 31, 2011	\$ 40,959	\$ 63,597	\$ 8,220	\$ 12,948	\$ 125,724

Amortization and impairment losses

Balance at January 1, 2011	\$ 1,860	\$ -	\$ 6,125	\$ 2,558	\$ 10,543
Amortization	3,729	-	652	473	4,854
Balance at December 31, 2011	\$ 5,589	\$ -	\$ 6,777	\$ 3,031	\$ 15,397

Carrying amounts

At December 31, 2011	\$ 35,370	\$ 63,597	\$ 1,443	\$ 9,917	\$ 110,327
----------------------	-----------	-----------	----------	----------	------------

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

notes to the consolidated financial statements

Cost	Definite life				Total
	Software in use	Software in process	Trademarks	Customer relationships	
Balance at January 1, 2010	\$ 11,116	\$ 29,114	\$ 7,994	\$ 14,440	\$ 62,664
Additions	10,911	19,478	-	-	30,389
Capitalization of interest	-	758	-	-	758
Effect of movement in exchange rates	-	-	(62)	(1,074)	(1,136)
Balance at December 31, 2010	\$ 22,027	\$ 49,350	\$ 7,932	\$ 13,366	\$ 92,675

Amortization and impairment losses

Balance at January 1, 2010	\$ 704	\$ -	\$ 5,400	\$ 1,496	\$ 7,600
Amortization	1,156	-	727	545	2,428
Impairment loss	-	-	-	623	623
Effect of movement in exchange rates	-	-	(2)	(106)	(108)
Balance at December 31, 2010	\$ 1,860	\$ -	\$ 6,125	\$ 2,558	\$ 10,543

Carrying amounts

At December 31, 2010	\$ 20,167	\$ 49,350	\$ 1,807	\$ 10,808	\$ 82,132
----------------------	-----------	-----------	----------	-----------	-----------

Carrying amount	Indefinite life			Total
	Trademarks	Delivery routes	Quota	
Balance at January 1, 2010	\$ 52,282	\$ 715	\$ 29,178	\$ 82,175
Disposals	-	(129)	-	(129)
Balance at December 31, 2010	\$ 52,282	\$ 586	\$ 29,178	\$ 82,046

Amortization

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

Borrowing costs

During the year borrowing costs of \$2.9 million (2010: \$0.8 million) were capitalized using an average capitalization rate of 6.8% (2010: 4.8%).

notes to the consolidated financial statements

Indefinite Life Intangibles

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

	As at December 31, 2011	As at December 31, 2010	As at January 1, 2010
CGU groups			
Meat products	\$ 75,063	\$ 75,878	\$ 75,878
Fresh bakery	6,506	6,168	6,297
	\$ 81,569	\$ 82,046	\$ 82,175

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

Trademarks

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

	2011	2010
Royalty rate range	0.5–2.0%	0.5–2.0%
Growth rate range	1.0–6.0%	1.0–6.0%
Discount rate	10.0%	10.0%

Quotas

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

Delivery Routes

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

notes to the consolidated financial statements

12. PROVISIONS

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

	Legal	Environ- mental	Lease make-good	Restructuring ⁽ⁱ⁾	Total
Balance at January 1, 2010⁽ⁱⁱ⁾	\$ 1,374	\$ 22,986	\$ 7,561	\$ 20,612	\$ 52,533
Charges	-	-	-	81,108	81,108
Cash payments	-	-	-	(20,285)	(20,285)
Non-cash items	(72)	(160)	(477)	(46,373)	(47,082)
Balance at December 31, 2010	\$ 1,302	\$ 22,826	\$ 7,084	\$ 35,062	\$ 66,274
Current					\$ 39,822
Non-current					26,452
Total at December 31, 2010					\$ 66,274

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

(ii) Balance at January 1, 2010 includes current portion of \$25.5 million and non-current portion of \$27.0 million.

Restructuring and Other Related Costs

During the year ended December 31, 2011, the Company recorded restructuring and other related costs of \$79.8 million (\$59.9 million after-tax).

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

notes to the consolidated financial statements

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

The Company also recorded \$2.3 million in restructuring costs for initiatives across the Company related to changes in management structure and related severances.

During the year ended December 31, 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 was incurred in connection with the ongoing restructuring initiatives of the Company.

The following table provides a summary of costs recognized and cash payments made in respect of the above-mentioned restructuring and other related costs as at December 31, 2011 and December 31, 2010, all on a pre-tax basis:

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

	Severance	Site closing	Asset impairment and accelerated depreciation	Retention	Pension	Total
Balance at January 1, 2010	\$ 11,414	\$ 9,113	\$ -	\$ 85	\$ -	\$ 20,612
Charges	26,306	8,543	45,575	384	300	81,108
Cash payments	(10,462)	(9,799)	-	(24)	-	(20,285)
Non-cash items	(498)	-	(45,575)	-	(300)	(46,373)
Balance at December 31, 2010	\$ 26,760	\$ 7,857	\$ -	\$ 445	\$ -	\$ 35,062

notes to the consolidated financial statements

13. BANK INDEBTEDNESS AND LONG-TERM DEBT

	December 31, 2011	December 31, 2010	January 1, 2010
Bank indebtedness (e), (g)	\$ 36,404	\$ 15,858	\$ 4,247
Notes payable:			
due 2010 (US\$75.0 million and CAD\$115.0 million)	\$ -	\$ -	\$ 193,810
due 2010 (CAD\$2.6 million)	-	-	2,704
due 2011 (US\$207.0 million) (a)	-	205,892	216,775
due 2011 to 2016 (CAD\$30.0 million) (b)	32,029	37,684	43,078
due 2014 (US\$98.0 million and CAD\$105.0 million) (a)	203,883	201,549	206,610
due 2015 (CAD\$90.0 million) (c)	89,270	89,067	-
due 2015 (CAD\$7.0 million) (d)	7,000	7,000	-
due 2016 (US\$7.0 million and CAD\$20.0 million) (a)	26,942	26,775	27,122
due 2020 (CAD\$30.0 million) (d)	29,777	29,823	-
due 2021 (US\$213.0 million and CAD\$102.5 million) (d)	316,868	-	-
Revolving term facility (e)	240,000	285,000	345,000
Other (h)	1,805	3,123	5,605
	947,574	885,913	1,040,704
Less: Current portion	5,618	496,835	206,147
Long-term debt	\$ 941,956	\$ 389,078	\$ 834,557

The notes payable and the revolving term facility require the maintenance of certain covenants. As at December 31, 2011, December 31, 2010 and January 1, 2010 the Company was in compliance with all of these covenants.

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

In December 2011, the Company repaid US\$207.0 million of notes payable, bearing interest at 5.2% per annum. Through the use of cross-currency interest rate swaps, the Company effectively converted US\$177.0 million of these notes payable into Canadian dollar-denominated debt bearing interest at an annual fixed rate of 5.4%. The cross-currency swaps were settled in December 2011; the fair value of the swap liability was \$54.7 million at December 31, 2010.

Details of the remaining four tranches are as follows:

Principal	Maturity date	Annual coupon
US\$98.0 million	2014	5.6%
CAD\$105.0 million	2014	6.1%
US\$7.0 million	2016	5.8%
CAD\$20.0 million	2016	6.2%

Interest is payable semi-annually. Through the use of cross-currency interest rate swaps, the Company hedged US\$98.0 million of debt maturing in 2014 into Canadian dollar-denominated debt bearing interest at an annual fixed rate of 6.0%, and US\$2.0 million of debt maturing in 2016 into Canadian dollar-denominated debt bearing interest at an annual fixed rate of 6.1%. At December 31, 2011, the fair value of the swap liabilities were \$38.6 million based on year end exchange rates (2010: \$39.9 million).

notes to the consolidated financial statements

- (b) In April 2004 as part of the acquisition of Schneider Corporation, the Company assumed liabilities outstanding in respect of debentures previously issued by the Schneider Corporation. The debentures provided for principal payments 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 and 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, 2011, the remaining book value for the 2016 debenture was \$32.0 million (December 31, 2010: \$37.7 million, January 1, 2010: \$43.1 million) and the remaining principal payments outstanding were \$30.0 million (December 31, 2010: \$34.8 million, January 1, 2010: \$39.3 million).
- (c) In April 2010 and May 2010, the Company issued CAD\$75.0 million of notes payable, bearing interest at 6.08% per annum and CAD\$15.0 million of notes payable, bearing interest at 5.76% per annum, respectively. The notes payable have a maturity date of April 2015.
- (d) In December 2010, the Company issued notes payable in tranches of U.S. and Canadian dollar denominations, with maturity dates from 2015 to 2021 and bearing interest at fixed annual coupon rates. The Company received proceeds of CAD\$37.0 million in December 2010 and US\$213.0 million and CAD\$102.5 million in January 2011.

Details of the four tranches are as follows:

Principal	Maturity date	Annual coupon
CAD\$7.0 million	2015	4.9%
CAD\$30.0 million	2020	5.9%
CAD\$102.5 million	2021	5.9%
US\$213.0 million	2021	5.2%

Interest is payable semi-annually. Through the use of cross-currency interest rate swaps, the Company hedged US\$213.0 million of debt maturing in 2021 into Canadian dollar-denominated debt bearing interest at an annual fixed rate of 6.1%. At December 31, 2011, the fair value of the swap liabilities were \$8.9 million based on year-end exchange rates (2010: \$12.2 million).

- (e) On May 16, 2011, the Company entered into a new four-year \$800.0 million committed revolving credit facility with a syndicate of Canadian, U.S. and international institutions. The new credit facility replaced the Company's \$870.0 million revolving credit facility that was due to mature on May 31, 2011. The facility can be drawn in Canadian or U.S. dollars and bears interest payable monthly, based on Banker's Acceptance rates for Canadian dollar loans and LIBOR for U.S. dollar loans. As at December 31, 2011, prime loans of \$240.0 million (December 31, 2010: \$285.0 million, January 1, 2010: \$345.0 million) were drawn. In addition, within the facility, is a \$70.0 million available swing-line payable immediately at the option of the Company. As at December 31, 2011, overdraft loans were drawn on the swing-line of \$49.0 million, classified as bank indebtedness (December 31, 2010: \$35.5 million, January 1, 2010: \$nil), and letters of credit of \$131.5 million (December 31, 2010: \$115.8 million, January 1, 2010: \$131.6 million) were outstanding. Total utilization under the facility at December 31, 2011 was \$420.5 million (December 31, 2010: \$436.3 million; January 1, 2010: \$476.6 million). The facility will be used to meet the Company's funding requirements for general corporate purposes, and to provide appropriate levels of liquidity. The lending covenants in the new facility are largely consistent with the Company's existing credit arrangements.
- (f) During 2010, the Company completed an agreement with a syndicate of banks, including the majority of the banks in its then currently existing revolving credit facility, to augment the Company's primary revolving credit facility with a \$250.0 million short-term bank lending facility with a maturity date of May 31, 2011. The facility was undrawn throughout its duration and in the first quarter of 2011 the Company terminated the facility.

notes to the consolidated financial statements

- (g) The Company has a demand operating line of credit of £5.0 million (\$7.9 million) and an overdraft operating facility of £5.0 million (\$7.9 million) to provide short-term funding for its U.K. operations. The Company also has additional operating facilities of \$30.0 million. As at December 31, 2011, £6.4 million (\$10.0 million) (December 31, 2010: £5.0 million (\$7.8 million), January 1, 2010: £2.5 million (\$4.2 million)) and \$20.0 million (December 31, 2010: \$20.0 million, January 1, 2010: \$nil) were outstanding respectively and have been classified as bank indebtedness.
- (h) The Company has other various lending facilities, with interest rates ranging from non-interest bearing to 7.5% per annum. These facilities are repayable over various terms from 2012 to 2016. As at December 31, 2011, \$11.6 million (December 31, 2010: \$12.2 million, January 1, 2010: \$14.5 million) was outstanding, of which \$9.8 million (December 31, 2010: \$9.1 million, January 1, 2010: \$8.9 million) was in respect of letters of credit.
- (i) The Company's estimated average effective cost of borrowing for 2011 was approximately 6.0% (2010: 4.8%) after taking into account the impact of interest rate hedges. The weighted average term of the Company's debt is 4.9 years.

Required repayments of long-term debt are as follows:

2012	\$	5,618
2013		6,109
2014		210,312
2015		343,020
2016		35,614
Thereafter		346,901
Total long-term debt	\$	947,574

14. OTHER LONG-TERM LIABILITIES

	As at December 31, 2011	As at December 31, 2010	As at January 1, 2010
Derivative instruments (Note 16)	\$ 70,722	\$ 71,676	\$ 77,328
Other	17,431	18,163	12,453
	\$ 88,153	\$ 89,839	\$ 89,781

15. CAPITAL AND OTHER COMPONENTS OF EQUITY

Share Capital

<i>(Thousands of shares)</i>	Common shares		Treasury stock	
	2011	2010	2011	2010
On issue at January 1	139,247	134,859	797	1,915
Issued for cash	-	3,270	-	-
Distributions under stock compensation plans	2,770	1,173	(2,770)	(1,173)
Purchase of treasury stock	(2,500)	(55)	2,500	55
Balance at December 31	139,517	139,247	527	797

notes to the consolidated financial statements

Common Shares

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

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

Shareholder Rights Plan

On July 28, 2011, the Company announced a Shareholder Rights Plan (the "Rights Plan"). It follows a previous plan that was allowed to expire on December 29, 2010. The Rights Plan was not adopted in response to any actual or anticipated transaction, but rather to allow the Board of Directors of the Company and its shareholders sufficient time to consider fully any transaction involving the acquisition or proposed acquisition of 20% or more of the outstanding common shares of the Company. The plan allows the Board of Directors time to consider all alternatives and to ensure the fair treatment of shareholders should any such transaction be initiated. One right has been issued with respect to each common share of the Company issued and outstanding as of the close of business on July 27, 2011. Should such an acquisition occur or be announced, each right would, upon exercise, entitle a rights holder, other than the acquiring person and related persons, to purchase common shares of the Company at a 50% discount to the market price at the time. The Rights Plan was approved by shareholders at a special meeting of the shareholders on December 14, 2011.

Treasury Shares

Shares are purchased by a trust in order to satisfy the requirements of the Company's stock compensation plan, as described in Note 21.

Accumulated Other Comprehensive Loss Attributable to Common Shareholders

	Foreign currency translation adjustments	Unrealized gain (loss) on cash flow hedges	Change in actuarial gains (losses)	Change in asset ceiling and minimum funding requirements	Total accumulated other comprehensive income (loss)
Balance at January 1, 2011	\$ (12,764)	\$ (9,821)	\$ -	\$ -	\$ (22,585)
Other comprehensive income (loss)	5,321	222	(127,336)	12,680	(109,113)
Transfer to retained earnings (deficit)	-	-	127,336	(12,680)	114,656
Balance at December 31, 2011	\$ (7,443)	\$ (9,599)	\$ -	\$ -	\$ (17,042)

	Foreign currency translation adjustments	Unrealized gain (loss) on cash flow hedges	Change in actuarial gains and losses	Change in asset ceiling and minimum funding requirements	Total accumulated other comprehensive income (loss)
Balance at January 1, 2010	\$ -	\$ (5,055)	\$ -	\$ -	\$ (5,055)
Other comprehensive income (loss)	(12,764)	(4,766)	(62,643)	29,832	(50,341)
Transferred to retained earnings (deficit)	-	-	62,643	(29,832)	32,811
Balance at December 31, 2010	\$ (12,764)	\$ (9,821)	\$ -	\$ -	\$ (22,585)

notes to the consolidated financial statements

The change in accumulated foreign currency translation adjustments includes tax of \$0.1 million for the year ended December 31, 2011 (2010: \$0.3 million).

The change in unrealized loss on cash flow hedges includes tax of \$0.2 million for the year ended December 31, 2011 (2010: \$1.2 million).

The Company estimates that \$1.4 million of the unrealized loss included in accumulated 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 ended December 31, 2011, a loss of approximately \$5.3 million, net of tax of \$2.0 million (2010: \$2.9 million, net of tax \$1.2 million), was released to earnings from accumulated other comprehensive loss and is included in the net change for the period.

Dividends

The following dividends were declared and paid by the Company:

	2011	2010
\$0.16 per qualifying common share (2010: \$0.16)	\$ 22,386	\$ 21,677

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT ACTIVITIES

Capital

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

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

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

	2011	2010
Interest coverage (EBITDA to net interest expense)	5.5x	5.5x
Leverage ratio (Net debt to EBITDA)	2.5x	2.5x

The Company's various credit facilities, all of which are unsecured, are subject to certain financial covenants. As at December 31, 2011, the Company was in compliance with all of these covenants.

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

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

notes to the consolidated financial statements

Financial Instruments

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

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

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

The fair value of financial assets and liabilities classified as loans and receivables and other financial liabilities (excluding long-term debt) approximate their carrying value due to their short-term nature. The fair value of long-term debt as at December 31, 2011 was \$993.0 million as compared to its carrying value of \$947.6 million on the consolidated balance sheet. The fair value of the Company's long-term debt was estimated based on discounted future cash flows using current rates for similar financial instruments subject to similar risks and maturities.

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

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 collectability of its trade and other receivables in order to mitigate any possible credit losses. As at December 31, 2011 approximately \$0.8 million (2010: \$0.8 million) of the Company's accounts receivable were greater than 60 days past due. The Company maintains an allowance for doubtful accounts that represents its estimate of uncollectible amounts. 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, 2011, the Company has recorded an allowance for doubtful accounts of \$5.8 million (2010: \$6.8 million). Average accounts receivable days sales outstanding for the year is consistent with historic trends. There are no significant impaired accounts receivable that have not been provided for in the allowance for doubtful accounts. The Company believes that the allowance for doubtful accounts sufficiently covers any credit risk related to past due or impaired accounts receivable balances.

Management believes concentrations of credit risk with respect to accounts receivable is limited due to the generally high credit quality of the Company's major customers, as well as the large number and geographic dispersion of smaller customers. The Company does, however, conduct a significant amount of business with a small number of large grocery retailers. The Company's five largest customers comprise approximately 42.6% (2010: 39.8%) of consolidated pre-securitized accounts receivable at December 31, 2011 and the two largest customers comprise approximately 19.8% (2010: 20.4%) 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.

notes to the consolidated financial statements

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

Liquidity Risk

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

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

December 31, 2011	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	\$ 36,404	\$ -	\$ -	\$ -	\$ 36,404
Accounts payable and accrued charges	482,059	-	-	-	482,059
Long-term debt ⁽ⁱ⁾	5,618	6,109	210,312	725,535	947,574
Cross-currency interest rate swaps ⁽ⁱⁱ⁾	-	-	38,634	8,934	47,568
Total	\$ 524,081	\$ 6,109	\$ 248,946	\$ 734,469	\$ 1,513,605

(i) Does not include contractual interest payments.

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

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

As at December 31, 2011, the Company had available undrawn committed credit of \$379.5 million under the terms of its principal banking arrangements. These banking arrangements, which mature in 2015, 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, 2011, the Company had variable rate debt of \$243.2 million with a weighted average interest rate of 3.5% (2010: \$294.3 million with a weighted average of 3.0%). In addition, the Company is exposed to floating interest rates on its accounts receivable securitization programs. As at December 31, 2011, the amount borrowed pursuant to these programs was \$155.8 million at a weighted average interest rate of 2.1% (2010: \$156.2 million with weighted average rate of 2.4%). The maximum borrowing available to the Company under these programs is \$170.0 million.

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

As at December 31, 2011, 87% of the Company's outstanding debt and revolving accounts receivable securitization program were not exposed to interest rate movements (2010: 89%).

notes to the consolidated financial statements

Foreign Exchange Risk

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

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

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

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

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

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

A portion of the Company's U.S. dollar-denominated notes payable is not swapped into Canadian dollars and is designated as a net investment hedge of its U.S. operations. At December 31, 2011, the amount of notes payable designated as a hedge of the Company's net investment in U.S. operations was US\$5.0 million (December 31, 2010: US\$35.0 million). Foreign exchange gains and losses on the designated notes payable are recorded in shareholders' equity in the foreign currency translation adjustment component of accumulated other comprehensive income and offset translation adjustments on the underlying net assets of the U.S. operations, which are also recorded in accumulated other comprehensive income. The gain on the net investment hedge recorded in other comprehensive loss for the year ended December 31, 2011 was \$0.8 million before taxes (2010: loss of \$1.9 million).

The Company uses foreign exchange forward contracts to manage foreign exchange transaction exposures. The primary currencies to which the Company is exposed to are the U.S. dollar and the Japanese yen. Qualifying foreign currency forward contracts are accounted for as cash flow hedges. As of December 31, 2011, \$239.1 million of anticipated foreign currency-denominated sales and purchases have been hedged with underlying foreign exchange forward contracts settling at various dates beginning January 2012. The aggregate fair value of these forward contracts was a gain of \$2.6 million at December 31, 2011 (2010: \$2.2 million) that was recorded in accumulated other comprehensive income with an offsetting amount recorded in other current assets.

At December 31, 2011, the Company had fixed-rate debt of \$707.5 million (2010: \$599.4 million) with a weighted average notional interest rate of 5.7%. Changes in market interest rates cause the fair value of long-term debt with fixed interest rates to fluctuate but do not affect net earnings, as the Company's debt is carried at amortized cost and the carrying value does not change as interest rates change.

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

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

notes to the consolidated financial statements

It is estimated that, all else constant, an adverse hypothetical 10.0% change in the value of the Canadian dollar against all relevant currencies would result in a change in the fair value of the Company's foreign exchange forward contracts of \$25.0 million, with an offsetting change in net earnings of \$5.1 million and in other comprehensive income of \$19.9 million.

Commodity Price Risk

The Company is exposed to price risk related to commodities such as live hogs, fuel costs and purchases of certain other agricultural commodities used as raw materials including feed grains 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.

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 aggregate fair value of these forward contracts was a loss of \$0.4 million at December 31, 2011 (2010: \$nil) that was recorded in accumulated other comprehensive income with an offsetting amount recorded in other current liabilities.

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.

It is estimated that, all else constant, an adverse hypothetical 10.0% change in market prices of the underlying commodities would result in a change in the fair value of underlying outstanding derivative contracts of \$11.5 million, with an offsetting change in net earnings of \$1.3 million and in other current assets of \$10.2 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:

	2011			2010		
	Notional amount	Fair value Asset	Liability	Notional amount	Fair value Asset	Liability
Cash flow hedges						
Cross-currency interest rate swaps	US\$ 313,000	\$ -	\$ 47,568	US\$ 490,000	\$ -	\$ 106,761
Foreign exchange forward contracts ^{(i), (ii)}	239,093	2,627	-	142,750	2,215	-
Commodity futures contracts ^{(i), (ii)}	5,453	-	382	-	-	-
Fair value hedges						
Commodity futures contracts ^{(i), (ii)}	\$ 108,314	\$ 5,033	\$ -	\$ 60,437	\$ -	\$ 2,869
Derivatives not designated in a formal hedging relationship						
Interest rate swaps	\$ 920,000	\$ -	\$ 35,882	\$ 590,000	\$ -	\$ 24,922
Foreign exchange forward contracts ^{(i), (ii)}	72,893	23	-	87,100	620	-
Commodity futures contracts ^{(i), (ii)}	426,829	4,392	-	60,936	-	589
Total		\$ 12,075	\$ 83,832		\$ 2,835	\$ 135,141
Current		\$ 12,075	\$ 13,110		\$ 2,835	\$ 63,465
Non-current		-	70,722		-	71,676
Total		\$ 12,075	\$ 83,832		\$ 2,835	\$ 135,141

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

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

notes to the consolidated financial statements

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

For the years ended December 31, 2011 and 2010, the amount of hedge ineffectiveness recognized in earnings was not material.

Non-designated Interest Rate Swaps

During the second quarter of 2010, the Company entered into \$590.0 million of interest rate swaps. Swaps totalling \$330.0 million started on April 28, 2010 and have an expiry date of April 28, 2015 with an average interest rate of 3.34%. Swaps totalling \$260.0 million started on December 8, 2011 and have an expiry date of December 8, 2015 with an average interest rate of 4.18%. These swaps were not designated in a formal hedging relationship. The change in fair value of the non-designated interest rate swaps for the year ended December 31, 2010 was a loss of \$24.9 million (\$17.6 million after-tax) and was recorded in net earnings.

During the first quarter of 2011, the Company entered into swaps to offset \$330.0 million of existing interest rate swaps with an expiry date of April 28, 2015. The offsetting interest rate swaps were executed as new fixed-rate private placement debt, finalized in the fourth quarter of 2010, and reduced the Company's expected floating rate debt requirements by \$355.0 million. Under the offsetting interest rate swaps, the Company receives an average fixed rate of 2.52% and pays floating rate of interest on a notional amount of \$330.0 million. The change in fair value of non-designated interest rate swaps for the year ended December 31, 2011 was a loss of \$11.0 million (\$8.0 million after-tax) and was recorded in net earnings.

The effect on the fair value of the interest rate swaps of a parallel 50 bps shift in the yield curve was an increase of \$4.8 million or decrease of \$4.9 million.

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. Each level is based on the following:

- Level 1 – inputs are unadjusted quoted prices of identical instruments in active markets.
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – one or more significant inputs used in a valuation technique are unobservable in determining fair values of the instruments.

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

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

	Level 1	Level 2	Level 3	Total
Assets:				
Foreign exchange forward contracts	\$ –	\$ 2,650	\$ –	\$ 2,650
Commodity futures contracts	9,425	–	–	9,425
	\$ 9,425	\$ 2,650	\$ –	\$ 12,075
Liabilities:				
Commodity futures contracts	\$ 382	\$ –	\$ –	\$ 382
Interest rate swaps	–	83,450	–	83,450
	\$ 382	\$ 83,450	\$ –	\$ 83,832

There were no transfers between levels during the year ended December 31, 2011.

notes to the consolidated financial statements

17. OTHER INCOME

	2011	2010
Gain on disposal of investments	\$ 571	\$ -
Gain on sale of intangible assets	3,129	-
Gain on sale of property and equipment	3,858	217
Recovery from insurance claims	1,735	-
Rental income	606	509
Other	433	(564)
	\$ 10,332	\$ 162

18. INTEREST EXPENSE

	2011	2010
Interest expense on long-term debt	\$ 49,833	\$ 35,972
Interest on Bankers' Acceptance and prime loans	3,963	8,019
Interest expense on interest rate swaps	32,794	23,359
Interest income on interest rate swaps	(25,022)	(17,518)
Net interest expense on non-designated interest rate swaps	3,453	5,300
Interest expense on securitized receivables	3,215	4,312
Deferred finance charges	4,966	4,196
Other interest charges	3,145	2,746
Interest capitalized (Notes 7, 11)	(5,600)	(1,512)
	\$ 70,747	\$ 64,874

notes to the consolidated financial statements

19. INCOME TAXES

The components of income tax expense were as follows:

	2011	2010
Current tax expense		
Current year	\$ 19,060	\$ 29,924
Adjustment for prior periods	(487)	106
	\$ 18,573	\$ 30,030
Deferred tax expense		
Origination and reversal of temporary differences	3,471	(13,847)
Change in tax rates	2,425	2,894
	\$ 5,896	\$ (10,953)
Total income tax expense	\$ 24,469	\$ 19,077

Reconciliation of effective tax rate

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

	2011	2010
Income tax expense according to combined statutory rate of 28.0% (2010: 30.2%)	\$ 31,304	\$ 16,520
Increase (decrease) in income tax resulting from:		
Deferred tax expense relating to changes in tax rates	2,425	2,894
Tax adjustments related to prior acquisitions	(12,177)	(1,500)
Tax rate differences in other jurisdictions	(1,237)	(562)
Manufacturing and processing credit	(943)	(500)
Non-taxable (gains) losses	(748)	710
Non-deductible expenses	444	158
Unrecognized income tax benefit of losses	3,679	2,405
Other	1,722	(1,048)
	\$ 24,469	\$ 19,077

Income tax recognized in other comprehensive income

	2011	2010
Derivative instruments	\$ 198	\$ (1,203)
Foreign exchange	(120)	315
Pension adjustments	(39,072)	(11,600)
	\$ (38,994)	\$ (12,488)

notes to the consolidated financial statements

Deferred tax assets and liabilities

Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	As at December 31, 2011	As at December 31, 2010	As at January 1, 2010
Deferred tax assets:			
Tax losses carried forward	\$ 91,964	\$ 92,974	\$ 90,355
Accrued liabilities	34,449	22,546	20,970
Employee benefits	42,517	-	-
Cash basis farming	-	-	381
Other	13,634	15,429	15,561
	\$ 182,564	\$ 130,949	\$ 127,267
Deferred tax liabilities:			
Property and equipment	\$ 47,289	\$ 29,078	\$ 35,904
Cash basis farming	-	224	-
Employee benefits	-	228	12,960
Goodwill and other intangible assets	14,684	14,428	11,225
Unrealized foreign exchange gain on long- term debt	-	606	875
Other	4,838	10,939	14,283
	\$ 66,811	\$ 55,503	\$ 75,247
Classified in the consolidated financial statements as:			
Deferred tax asset – non-current	\$ 127,456	\$ 101,848	\$ 83,330
Deferred tax liability – non-current	(11,703)	(26,402)	(31,310)
	\$ 115,753	\$ 75,446	\$ 52,020

Recognized deferred tax assets

The Company has recognized deferred tax assets in the amount of approximately \$92.0 million (December 31, 2010: \$93.0 million; January 1, 2010: \$90.4 million), relating primarily to tax losses carried forward by subsidiaries in the U.K. and Canada. These deferred tax assets are based on the Company's estimate that the relevant subsidiaries will earn sufficient taxable profits to fully utilize these tax losses in the appropriate carry over periods.

Unrecognized deferred tax assets

The Company has unrecognized deferred tax assets in the amount of approximately \$34.8 million (December 31, 2010: \$29.1 million; January 1, 2010: \$32.4 million), relating primarily to tax losses carried forward in the U.S. and Canada. These tax losses carried forward consist primarily of net operating losses ("NOLs") relating to a U.S. subsidiary and a capital loss of a subsidiary of the Company. The amount of NOLs is approximately \$98.6 million (December 31, 2010: \$83.6 million; January 1, 2010: \$82.5 million). These NOLs expire in the years from 2021 to 2031. The capital loss of the subsidiary of the Company is approximately \$49.9 million (December 31, 2010: \$49.9 million; January 1, 2010: \$49.9 million). This capital loss does not expire.

Unrecognized deferred tax liabilities

Deferred tax is not recognized on the unremitted earnings of subsidiaries and other investments as the Company is in a position to control the reversal of the temporary difference and it is probable that such differences will not reverse in the foreseeable future. The unrecognized temporary difference at December 31, 2011 for the Company's foreign subsidiaries was \$116.9 million (December 2010: \$136.1 million; January 1, 2010 \$135.4 million).

notes to the consolidated financial statements

20. EARNINGS PER SHARE

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

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

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

Year ended December 31	2011			2010		
	Net earnings attributable to common shareholders	Weighted average number of shares ⁽ⁱⁱ⁾	EPS	Net earnings attributable to common shareholders	Weighted average number of shares ⁽ⁱⁱ⁾	EPS
Basic	\$ 82,134	138.7	\$ 0.59	\$ 29,310	135.6	\$ 0.22
Stock options ⁽ⁱ⁾	-	3.1	-	-	3.7	-
Diluted	82,134	141.8	0.58	29,310	139.3	0.21

(i) Excludes the effect of approximately 4.8 million options, restricted share units and warrants (2010: 3.6 million) to purchase common shares that are anti-dilutive.

(ii) In millions.

21. SHARE-BASED PAYMENT

Under the Maple Leaf Foods Share Incentive Plan as at December 31, 2011 the Company may grant options to its employees and employees of its subsidiaries to purchase shares of common stock and may grant Restricted Share Units ("RSUs") and Performance Share Units ("PSUs") entitling employees to receive common shares. Options 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 the continued service of the employee with the Company and/or other criteria based on measures of the Company's performance. Under the Company's Share Purchase and Deferred Share Unit Plan ("DSU Plan"), eligible Directors may elect to receive their retainer and fees in the form of Deferred Share Units ("DSUs") or as common shares of the Company.

Stock Options

A summary of the status of the Company's outstanding stock options as at December 31, 2011 and 2010, and changes during these years is presented below:

	2011		2010	
	Options outstanding	Weighted average exercise price	Options outstanding	Weighted average exercise price
Outstanding, beginning of year	983,100	\$ 14.13	2,805,250	\$ 13.02
Granted	2,632,000	11.36	-	-
Exercised	-	-	(321,000)	10.30
Forfeited	(82,900)	14.22	(72,800)	14.78
Expired	(606,600)	13.42	(1,428,350)	12.63
Outstanding, end of year	2,925,600	\$ 11.86	983,100	\$ 14.13
Options currently exercisable	293,600	\$ 16.32	900,100	\$ 14.21

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

notes to the consolidated financial statements

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

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

At grant date, each option series is measured for fair value based on the Black-Scholes formula. Expected volatility is estimated by considering historic average share price volatility. The inputs used in this model for the options granted in 2011 (none in 2010) are as follows:

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

(i) Weighted average volatility.

(ii) Expected weighted average life.

(iii) Based on Government of Canada bonds.

The fair value of options granted in 2011 was \$5.8 million (2010: \$nil) and is amortized to income on a graded basis over the vesting periods of the related options. Amortization charges in 2011 relating to current and prior year options were \$0.9 million (2010: \$nil).

Restricted Stock Units

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

notes to the consolidated financial statements

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

A summary of the status of the Company's RSU plans (including PSUs) as at December 31, 2011 and 2010 and changes during these years is presented below:

	2011		2010	
	RSUs outstanding	Weighted average fair value at grant	RSUs outstanding	Weighted average fair value at grant
Outstanding, beginning of year	6,385,435	\$ 9.58	6,357,430	\$ 10.11
Granted	1,518,850	11.00	2,131,272	11.39
Exercised	(1,649,640)	8.15	(1,174,317)	11.58
Forfeited	(105,043)	9.43	(117,485)	9.91
Expired	(86,980)	10.82	(811,465)	15.50
Outstanding, end of year	6,062,622	\$ 10.30	6,385,435	\$ 9.58

The fair value of RSUs (including PSUs) granted in 2011 was \$14.5 million (2010: \$19.1 million) and is amortized to income on a graded basis over the vesting periods of the related RSUs. Amortization charges in 2011, relating to current and prior year RSUs, were \$18.5 million (2010: \$15.9 million). The key assumptions used in the valuation of fair value of RSUs include the following:

	2011	2010
Expected RSU life (in years)	2.4	3.0
Forfeiture rate	11.9%	15.0%
Risk-free discount rate	1.1%	1.4%

Share Purchase and Deferred Share Unit Plan

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

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

notes to the consolidated financial statements

A summary of the status of the Company's outstanding DSUs as at December 31, 2011 and 2010, and changes during these years is presented below:

Units outstanding	2011	2010
Outstanding, beginning of year	280,748	272,944
Additions: granted	78,790	64,848
Additions: dividend reinvestment	4,696	4,324
Exercised	-	(61,368)
Outstanding, end of year	364,234	280,748
Value at December 31	\$ 3,945	\$ 3,198

22. COMMITMENTS AND CONTINGENCIES

- (a) The Company has been named as defendant in several legal actions and is subject to various risks and contingencies arising in the normal course of business. Management is of the opinion that the outcome of these uncertainties will not have a material adverse effect on the Company's financial position.
- (b) In the normal course of business, the Company and its subsidiaries enter into sales commitments with customers, and purchase commitments with suppliers. These commitments are for varying terms and can provide for fixed or variable prices. With respect to certain of its contracts, the Company has the right to acquire at fair value, and the suppliers have the right to sell back to the Company, certain assets that have an estimated fair value of \$8.2 million (2010: \$12.1 million). The Company believes that these contracts serve to reduce risk, and does not anticipate that losses will be incurred on these contracts.
- (c) The Company has entered into a number of construction contracts as a part of its prepared meats network transformation project and the new bakery in Hamilton, Ontario. Contract commitments at the end of 2011 were \$109.9 million.
- (d) The Company has operating lease, rent and other commitments that require minimum annual payments as follows:

2012	\$	65,184
2013		55,760
2014		43,863
2015		34,880
2016		29,020
Thereafter		106,130
	\$	334,837

During the year ended December 31, 2011 an amount of \$55.6 million was recognized as an expense in earnings in respect of operating leases (2010: \$58.0 million).

notes to the consolidated financial statements

23. RELATED PARTY TRANSACTIONS

The Company has control over one publicly traded subsidiary that is consolidated into the Company's results, Canada Bread Company, Limited ("Canada Bread"), of which it owns 90.0%. Transactions between the Company and its consolidated entities have been eliminated on consolidation.

McCain Foods Limited was partly owned by McCain Capital Corporation ("MCC"), which was a 31.3% shareholder of the Company, until December 2, 2011. On December 2, 2011, MCC reorganized its shareholdings such that it is no longer a related party of the Company. As a result of this, the Company is no longer a related party with McCain Foods Limited. For the period of the year that McCain Foods Limited was a related party, the Company recorded sales to McCain Foods Limited of \$2.9 million (2010: \$3.6 million) in the normal course of business and at market prices. Trade receivables from McCain Foods Limited as at December 31, 2010 were \$0.1 million and at January 1, 2010 were \$0.3 million.

Day & Ross Transportation Group, a subsidiary of McCain Foods Limited, was a related party to the Company until December 2, 2011. For the period of the year that Day & Ross Transportation Group was a related party, the Company paid Day & Ross Transportation Group \$6.2 million (2010: \$4.9 million) for services in the normal course of business and at market prices. Trade payables to Day & Ross Transportation Group as at December 31, 2010 were \$0.4 million and at January 1, 2010 were \$0.2 million.

The Company sponsors a number of defined benefit and defined contribution plans as described in Note 9. During 2011, the Company received \$1.5 million (2010: \$1.7 million) from the defined benefit pension plans for the reimbursement of expenses incurred by the Company to provide services to these plans. In 2011, the Company's contributions to these plans were \$33.3 million (2010: \$31.2 million).

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

Remuneration of key management of the Company is comprised of the following expenses:

	2011	2010
Short-term employee benefits		
Salaries, bonuses and fees	\$ 18,589	\$ 17,923
Company car allowance	417	362
Other benefits	193	171
Total short-term employee benefits	\$ 19,199	\$ 18,456
Long-term employee benefits		
Post-employment benefits	817	735
Share-based benefits	13,941	11,305
Total remuneration	\$ 33,957	\$ 30,496

During 2011, key management did not exercise share options granted under the Maple Leaf Foods Share Incentive Plan (2010: 280,800 options were exercised with total exercise price of \$2.9 million).

notes to the consolidated financial statements

24. GOVERNMENT INCENTIVES

During 2011, the Company recorded incentives from the Canadian government of \$8.2 million (2010: \$7.3 million) resulting from government support for the development of renewable energies. During 2011, the Company recorded incentives of \$2.6 million from the Province of Ontario to purchase equipment as required by the Canadian Food Inspection Agency, and \$1.5 million in AgriStability benefits. During the year, the Company also recorded other incentives totalling \$0.1 million (2010: \$0.4 million). In 2010, the Company recorded incentives of \$2.7 million from the Canadian government as part of its policy to compensate hog producers for losses in prior periods. These incentives were recorded as reductions of cost of goods sold in the consolidated statements of earnings. Furthermore, in 2010, 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.

25. SEGMENTED FINANCIAL INFORMATION

Reportable Segmented Information

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

- (a) The Meat Products Group comprises value-added processed packaged meats; chilled meal entrees and lunch kits; and primary pork and poultry processing.
- (b) The Agribusiness Group comprises the Company's hog production and animal by-products recycling operations.
- (c) The Bakery Products Group comprises the Company's 90.0% (2010: 90.0%) ownership in Canada Bread Company, Limited, a producer of fresh and frozen par-baked bakery products including breads, rolls, bagels, artisan and sweet goods, and fresh pasta and sauces.
- (d) Non-allocated costs comprise expenses not separately identifiable to business segment groups. These costs include general expenses related to systems implementation, consulting fees related to the Company's Board renewal program and research involving the Company's Value Creation Plan, changes in fair value of biological assets, and unrealized gains or losses on commodity contracts.

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

notes to the consolidated financial statements

	2011		2010
Sales			
Meat Products Group	\$ 3,039,460	\$	3,181,134
Agribusiness Group	259,644		199,498
Bakery Products Group	1,594,520		1,587,487
	\$ 4,893,624	\$	4,968,119
Earnings before restructuring and other related costs and other income			
Meat Products Group	\$ 95,987	\$	81,281
Agribusiness Group	81,895		50,505
Bakery Products Group	86,294		94,399
Non-allocated costs	(1,206)		(753)
	\$ 262,970	\$	225,432
Capital expenditures			
Meat Products Group	\$ 84,437	\$	66,423
Agribusiness Group	17,108		16,978
Bakery Products Group	127,626		78,903
	\$ 229,171	\$	162,304
Depreciation and amortization			
Meat Products Group	\$ 57,702	\$	73,177
Agribusiness Group	16,126		16,312
Bakery Products Group	52,162		53,722
	\$ 125,990	\$	143,211
	As at December 31, 2011	As at December 31, 2010	As at January 1, 2010
Total assets			
Meat Products Group	\$ 1,465,576	\$ 1,503,186	\$ 1,700,058
Agribusiness Group	223,013	249,594	257,503
Bakery Products Group	937,292	836,447	890,578
Non-allocated assets	314,578	245,683	226,900
	\$ 2,940,459	\$ 2,834,910	\$ 3,075,039
Goodwill			
Meat Products Group	\$ 442,336	\$ 442,336	\$ 443,150
Agribusiness Group	13,845	13,939	13,939
Bakery Products Group	297,558	296,636	297,970
	\$ 753,739	\$ 752,911	\$ 755,059

notes to the consolidated financial statements

Information about Geographic Areas

Property and equipment and investment property located outside of Canada was \$105.9 million (2010: \$123.6 million). Of this amount, \$65.0 million (2010: \$72.1 million) was located in the United States and \$40.7 million (2010: \$51.2 million) was located in the United Kingdom.

Goodwill attributed to operations located outside of Canada was \$59.5 million (2010: \$58.6 million), which is all attributed to operations in the United States.

Revenues earned outside of Canada were \$1,230.1 million (2010: \$1,284.9 million). Of this amount \$536.7 million (2010: \$700.5 million) was earned in the United States, \$309.8 million (2010: \$192.6 million) was earned in Japan, and \$153.0 million (2010: \$153.2 million) was earned in the United Kingdom. Revenue by geographic area is determined based on the shipping location.

Information about Major Customers

During the year, the Company reported sales to one customer representing 11.5% (2010: 11.7%) of total sales. These revenues are reported in both the Meat Products Group and Bakery Products Group. No other sales were made to any one customer that represented in excess of 10% of total sales.

26. SUBSEQUENT EVENTS

On February 1, 2012, the Company purchased the operations of a poultry farm in Alberta that included a poultry quota. The total purchase price was \$31.1 million paid in cash, which will be accounted for as a business combination in accordance with IFRS 3 *Business Combinations* in the first quarter of 2012. The Company has not yet finalized the allocation of this purchase price.

On February 7, 2012, the Company announced that it will consolidate its further processed poultry operations, closing a facility in Ontario in May 2012, and transferring production to two other Ontario-based facilities. Investments totalling approximately \$6.5 million will be made to support the production transfers. In addition, the Company will incur approximately \$5.6 million before taxes in restructuring costs, of which approximately \$4.2 million are cash costs.

27. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”)

These are the first audited annual consolidated financial statements that comply with IFRS. The accounting policies set out in Note 3 have been applied in preparing the consolidated financial statements for the year ended December 31, 2011, the comparative information presented in these consolidated financial statements for the year ended December 31, 2010, and in the preparation of the opening consolidated balance sheets at January 1, 2010.

First-time adopters of IFRS must apply the provisions of IFRS 1. IFRS 1 requires adopters to retrospectively apply all effective IFRS standards as of the reporting date (December 31, 2011) with certain optional exemptions and certain mandatory exceptions. The IFRS 1 optional exemptions and mandatory exceptions applied in the conversion from previous Canadian GAAP to IFRS are outlined below.

An explanation of how the transition from Canadian GAAP to IFRS has affected the Company's financial position and financial performance, and cash flows, is set out in the following reconciliations and the explanatory notes that accompany the reconciliations. Reconciliations of the consolidated statements of earnings, comprehensive income and shareholders' equity for the respective periods are below. Changes to the cash flows were not material as a result of the conversion to IFRS.

notes to the consolidated financial statements

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 (“transition date”) in accordance with *IFRS 3 Business Combinations*. The retrospective basis would require restatement of all business combinations that occurred prior to the transition date. The Company elected not to retrospectively apply IFRS 3 to business combinations that occurred prior to the transition date and such business combinations have not been restated. Any goodwill arising on such business combinations prior to the transition date has not been adjusted from the carrying value previously determined under Canadian GAAP.

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 and equipment at the transition date. The Company elected to retrospectively apply the historical cost model for property and equipment on the transition date.

Employee Benefits

IFRS 1 provides the option to retrospectively apply the “corridor approach” under IAS 19 *Employee Benefits*, for the recognition of actuarial gains and losses, or to recognize all cumulative gains and losses deferred under previous Canadian GAAP in opening retained earnings at the transition date. The Company elected to recognize all cumulative actuarial gains and losses that existed on the transition date in opening retained earnings for all of its employee benefit plans.

Cumulative Currency 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 differences retrospectively and to reset cumulative translation gains and losses to zero at the transition date. The Company elected to reset all cumulative translation gains and losses that existed in the cumulative transition adjustment (“CTA”) balance to zero in opening retained earnings at the transition date. The CTA balance as of January 1, 2010 of \$48.1 million was recorded as an adjustment to retained earnings, with an offset to accumulated other comprehensive income resulting in no impact on total equity.

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. The Company elected to apply this exemption. There are several differences between IFRS 2 and Canadian GAAP. For example, when a share-based award vests in instalments over the vesting period (graded vesting), IFRS 2 requires each instalment to be accounted for as a separate arrangement. Canadian GAAP as applied by the Company in prior periods 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. This difference resulted in an increase in contributed surplus of \$4.1 million and a decrease in retained earnings of \$4.1 million as at the transition date, with no impact on total equity.

Decommissioning Liabilities Included in the Cost of Property and Equipment

IFRS 1 allows an entity to elect not to retrospectively apply the requirements of International Financial Reporting Interpretation Committee (“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 chose the transition date as the date to commence the capitalization of borrowing costs to all qualifying assets.

notes to the consolidated financial statements

IFRS 1 Mandatory Exceptions

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 as of the transition date.

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.

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.

Reconciliation of Canadian GAAP to IFRS

In preparing its opening IFRS consolidated financial statements, the Company has adjusted amounts reported previously in financial statements prepared in accordance with Canadian GAAP. An explanation of how the transition from Canadian GAAP to IFRS has affected the Company's financial position and financial performance is set out below.

(i) Reconciliation of Shareholders' Equity as Reported under Canadian GAAP to Total Equity under IFRS

The following is a reconciliation of the Company's shareholders' equity reported in accordance with Canadian GAAP to its total equity in accordance with IFRS:

	Note	December 31, 2010	January 1, 2010
Shareholders' equity under Canadian GAAP		\$ 1,217,377	\$ 1,189,050
Reclassification of non-controlling interest to total equity under IFRS		84,836	81,070
Differences increasing (decreasing) reported total equity:			
Property and equipment	1	(13,493)	(12,261)
Biological assets	2	1,820	(9,021)
Impairment of goodwill	3	(96,300)	(102,219)
Employee benefits	4	(260,046)	(218,270)
Capitalization of borrowing costs	5	1,512	-
Deferred income taxes	6	52,237	53,454
Cumulative translation differences	7	-	-
Share-based compensation	8	-	-
Increase in subsidiary interest	9	(1,171)	-
Total equity under IFRS		\$ 986,772	\$ 981,803

notes to the consolidated financial statements

1. Property and Equipment

IFRS provides more specific guidance than Canadian GAAP on the capitalization and componentization of property and equipment. Specifically, IFRS requires that each part of an identifiable item of property and equipment with a cost that is significant in relation to the total cost of the item shall be capitalized and depreciated separately. As a result of this difference, the Company determined that certain assets must be separately capitalized components under IFRS. The retrospective application of this standard resulted in a decrease in total equity, being the cumulative incremental depreciation that would have been expensed in prior periods had these assets been separately identified and depreciated.

2. Biological Assets

Under Canadian GAAP, the Company's hog and poultry assets are considered inventory and, in general, are recorded at the lower of cost and net realizable value. Under IFRS, these assets are considered a separate asset class called biological assets, which must be carried at fair value less costs to sell. This change will result in periodic revaluations of the Company's biological assets to fair value less costs to sell. The change in total equity relates to the difference in fair value less costs to sell of the Company's hog and poultry assets and their recorded amounts under Canadian GAAP. In addition, pursuant to the classification requirements of IFRS, biological assets have been reclassified from inventory to biological assets in the balance sheet with no impact on total equity.

3. Impairment of Goodwill

Under IFRS, the Company determined a CGU's recoverable amount to be the higher of fair value less costs to sell and value in use, calculated using estimated future cash flows discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Under Canadian GAAP impairment was evaluated using a two-step process whereby the recoverable amount was compared to the carrying value. If the recoverable amount was less than its carrying value, then the impairment loss was measured and recognized based on the fair value of the asset or asset group.

Goodwill was tested for impairment for each applicable CGU group as at January 1, 2010 and October 1, 2010 (the annual impairment testing date) by comparing the CGU groups carrying amount to its recoverable amount. The application of IFRS resulted in an impairment loss at transition of \$102.2 million using future estimated cash flows over a period of five years, present valued using discount rates ranging from 10.1% to 12.6%, with an ending terminal value determined using growth rates ranging from 2.6% to 3.0%. Future cash flows were based upon Management forecasts, and reflected Management's best estimate at the time.

The impairment loss at transition was attributed to the U.K. Bakery (\$71.2 million) and Sandwich products (\$31.0 million) as at the transition date.

4. Employee Benefits

The election to recognize all unrecognized cumulative actuarial gains and losses into opening retained earnings resulted in a decrease in total equity at transition. In addition, unrecognized past service costs that were vested and the transition amount under Canadian GAAP were recognized in opening retained earnings at the transition date. On an ongoing basis, the Company elected to recognize all actuarial gains and losses immediately in the consolidated statements of comprehensive income.

IFRS provides more specific guidance on the recognition of employee benefit assets and liabilities. Specifically, the recognition of the value of an over-funded employee benefit plan is limited to the amount of the surplus that is considered recoverable. In addition, a liability is recognized under IFRS for minimum funding obligations that the Company may have under an employee benefit plan. The application of this difference results in a decrease in total equity.

5. Capitalization of Borrowing Costs

This increase in total equity is the result of the Company's election to capitalize borrowing costs in respect of qualifying assets as of the transition date.

notes to the consolidated financial statements

6. *Deferred Income Taxes*

The increase in total equity related to deferred taxes reflects the change in temporary differences resulting from the effect of the other transitional adjustments. During the second quarter, the Company identified a further reduction of \$8.6 million relating to the transition. During the fourth quarter the Company identified a further reduction of \$0.1 million relating to the transition.

7. *Cumulative Translation Differences*

The Company elected to reset CTA to zero as of January 1, 2010 in accordance with IFRS 1. The CTA balance as of January 1, 2010 of \$48.1 million was recorded as an adjustment to retained earnings. The application of the exemption had no impact on total equity.

8. *Share-based Compensation*

When a share-based award vests in instalments over the vesting period (graded vesting), IFRS requires each instalment 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 historic share-based awards would have had a different quantification and amortization of compensation expense related to this difference. This difference results in an increase in contributed surplus and a decrease in retained earnings with no impact on total equity.

9. *Increase in Subsidiary Interest*

Under IFRS, when acquiring further interest in a subsidiary, the excess of the purchase price over the carrying value of non-controlling interest is considered to be a capital transaction under IFRS. This adjustment moves the excess purchase price over the carrying value of non-controlling interest that was recorded under Canadian GAAP to retained earnings, resulting in a reduction of total equity as at December 31, 2010.

(ii) **Reconciliation of Net Earnings as Reported under Canadian GAAP to IFRS**

Year ended December 31	Note	2010
Net earnings under Canadian GAAP		\$ 25,822
Add back: non-controlling interest	1	6,193
Differences increasing (decreasing) reported amount:		
Depreciation of asset components	2	(1,116)
Depreciation of leasehold improvements	3	(310)
Revaluation of biological assets	4	10,841
Share-based compensation	5	1,789
Capitalization of borrowing costs	6	1,512
Employee benefits	7	(8,083)
Hedge accounting	8	276
Income taxes	9	(1,311)
Net earnings under IFRS		\$ 35,613

1. *Non-controlling Interest*

Non-controlling interest is included in the determination of net earnings under Canadian GAAP. Under IFRS, net earnings are attributed to both the controlling and non-controlling interests. This adjustment adds back non-controlling interest to net earnings and results in an increase to net earnings.

2. *Depreciation of Asset Components*

The adoption of IFRS resulted in separately capitalizing components of certain assets where the components were significant and had different useful lives than the previously recorded asset. The depreciation of these separate components resulted in a change in depreciation expense under IFRS compared to Canadian GAAP.

notes to the consolidated financial statements

3. Depreciation of Leasehold Improvements

Under IFRS the Company has recognized additional costs of leasehold improvements. The amortization of these additional costs results in this difference.

4. Biological Assets

The difference in fair value less costs to sell of the Company's biological assets and their recorded amounts under Canadian GAAP results in an adjustment to net earnings.

5. Share-based Compensation

The different quantification and amortization of compensation expense under Canadian GAAP compared to IFRS results in this difference.

6. Capitalization of Borrowing Costs

Interest expense is reduced due to the capitalization of borrowing costs to qualifying assets.

7. Employee Benefits

Under IFRS, the Company elected to recognize all actuarial gains and losses related to the employee defined benefit plans in the consolidated statements of comprehensive income. This election has resulted in a reduction of net earnings as actuarial gains or losses were previously recognized in net earnings under Canadian GAAP using the corridor method. During the third quarter the Company identified an additional employee benefit liability of \$1.0 million that should have been recorded on transition, this amount was adjusted through other comprehensive income in the third quarter of the current year.

8. Hedge Accounting

Certain commodity hedges that qualified for hedge accounting under Canadian GAAP no longer qualify under IFRS, and the adjustment to net earnings represents the change in fair value of those instruments in the period. This has resulted in an increase in net earnings under IFRS.

9. Income Taxes

Deferred income taxes are impacted by the changes in temporary differences resulting from the effect of the IFRS reconciling items described above.

(iii) Reconciliation of Comprehensive Income (Loss) as Reported under Canadian GAAP to IFRS

Year ended December 31	Note	2010
Comprehensive income under Canadian GAAP		\$ 1,486
Differences increasing (decreasing) reported amount:		
Differences in net earnings	1	3,598
Non-controlling interest	2	6,193
Hedge accounting	3	(182)
Change in accumulated foreign currency translation adjustment related to impairment of goodwill	4	5,919
Change in accumulated foreign currency translation adjustment related to leasehold improvements	5	194
Employee benefits	6	(33,693)
Comprehensive loss under IFRS		\$ (16,485)

notes to the consolidated financial statements

1. Differences in Net Earnings

Reflects the differences in net earnings between Canadian GAAP and IFRS as described in the *Reconciliation of Net Earnings as Reported under Canadian GAAP to IFRS* table.

2. Non-controlling Interest

Non-controlling interest is included in the determination of comprehensive income (loss) under Canadian GAAP. Under IFRS, comprehensive income is attributable to both the controlling and non-controlling interests. This adjustment adds back non-controlling interest to comprehensive income (loss) as reported under Canadian GAAP.

3. Hedge Accounting

The Company has determined that some of its commodity hedging activities will not qualify for hedge accounting under IFRS, resulting in a decrease to net earnings.

4. Impairment of Goodwill

Reflects the foreign currency translation of the foreign denominated component of the \$102.2 million impairment loss recognized at transition.

5. Leasehold Improvements

Reflects the foreign currency translation of the foreign denominated component of the adjustments related to leasehold improvements.

6. Employee Benefits

Under IFRS, the Company elected to recognize all actuarial gains and losses related to the employee defined benefit plans in the consolidated statements of comprehensive income. This election has resulted in a reduction of net earnings as actuarial gains or losses were previously recognized in net earnings under Canadian GAAP using the corridor method.

Corporate Information

CAPITAL STOCK

The Company's authorized capital consists of an unlimited number of voting and an unlimited number of non-voting common shares. At December 31, 2011, 140,044,089 voting common shares were issued and outstanding, for a total of 140,044,089 outstanding shares. There were 750 shareholders of record of which 710 were registered in Canada, holding 98.88% of the issued voting shares.

OWNERSHIP

The Company's major shareholder is McCain Capital Inc. holding 45,773,783 voting shares representing 32.69% of the total issued and outstanding shares and West Face Capital Inc. holding 15,894,413 voting shares representing 11.35% of the total issued and outstanding shares. The remainder of the issued and outstanding shares are publicly held.

CORPORATE OFFICE

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

ANNUAL MEETING

The annual meeting of shareholders of Maple Leaf Foods Inc. will be held on Wednesday, May 2, 2012 at 11:00 a.m. at the Ontario Bar Association Conference Centre, 200 – 20 Toronto Street, Toronto, Ontario.

DIVIDENDS

The declaration and payment of quarterly dividends are made at the discretion of the Board of Directors. Anticipated payment dates in 2012: March 30, June 29, September 28 and December 31.

SHAREHOLDER INQUIRIES

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

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

COMPANY INFORMATION

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

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

TRANSFER AGENT AND REGISTRAR

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

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.

For more information about investing
in Maple Leaf Foods, please visit
the investor section of our website.

www.mapleleaffoods.com



Maple Leaf Foods Inc.
30 St. Clair Avenue West, Suite 1500
Toronto, Ontario, Canada M4V 3A2