Management's Discussion and Analysis

THE BUSINESS

Maple Leaf Foods Inc. is a leading Canadian food processing company committed to delivering quality food products to consumers around the world. Headquartered in Toronto, Canada, the Company employs approximately 24,000 people at its operations across Canada and in the United States, Europe and Asia.

EFFECT OF RESTRUCTURING AND OTHER RELATED COSTS

Except where noted, operating earnings, net earnings, earnings per share ("EPS") and return on net assets ("RONA") comparisons for 2006 exclude $64.6 million before tax ($50.4 million after-tax and minority interest) in restructuring and other related costs incurred in the third and fourth quarters of 2006, and also exclude $21.2 million in non-recurring tax expense recorded in the third quarter. Management believes that this is the most appropriate basis on which to evaluate operating results, as restructuring and other related costs are not representative of continuing operations.

SELECTED FINANCIAL HIGHLIGHTS

The following is a summary of audited financial information for the three years ended December 31, 2006 (in millions of dollars except per share information):

	2006	2005	2004[ii]
Sales[i]	$ 5,895.2	$ 6,129.2	$ 6,056.1
Operating earnings before restructuring and other related costs[iv]	223.9	263.0	256.4
Net earnings as reported	4.5	94.2	102.3
Restructuring and other related costs, net of tax and minority interest	49.9	8.4	—
U.S. tax adjustment, net of minority interest	18.6	—	—
Net earnings before restructuring and other related costs and U.S. tax adjustment[iv]	73.0	102.6	102.3
Total assets	3,275.7	3,189.8	3,038.1
Net debt	1,213.5	1,062.8	1,046.3
RONA[iii]	6.5%	8.2%	8.9%
Per share			
Basic EPS	$ 0.04	$ 0.74	$ 0.90
Diluted EPS	$ 0.03	$ 0.72	$ 0.89
EPS before restructuring and other related costs and non-recurring tax adjustments[iv]	$ 0.57	$ 0.81	$ 0.90
Cash dividends	$ 0.16	$ 0.16	$ 0.16

(i) 2005 restated in accordance with Note 2 to the Consolidated Financial Statements.
(ii) 2004 restated to reflect changes in Canadian rules for convertible debentures.
(iii) This is not a recognized measure under Canadian GAAP. The calculation of RONA comprises pro forma tax-affected earnings before interest divided by average monthly net assets. Net assets are defined as total assets, less cash, future tax assets and non-interest bearing liabilities. These calculations and definitions may not be comparable to measures used by other companies.
(iv) These are not recognized measures under Canadian GAAP. Management believes that this is the most appropriate basis on which to evaluate operating results, as restructuring and other related costs and the non-recurring U.S. tax adjustment are not representative of continuing operations.

RESULTS OF OPERATIONS

Although several segments of the Company's operations performed very well in 2006, this was overshadowed by the financial performance of the protein value chain operations that were significantly impacted by the rise in the Canadian dollar against the U.S. dollar and the Japanese yen over the last four years. The hog production and fresh pork operations are most adversely impacted by this change in currency as the value of hogs is pegged to the U.S. dollar and fresh pork products compete on a relative price basis with U.S.-based competitors. The weaker results from these operations more than offset a very strong contribution from the Company's consumer foods and bakery businesses.

In order to mitigate the significant impact of currency and increasing global competition in the hog and fresh pork areas of the business where the Company has relatively little control or pricing power, in October 2006, the Company announced a redirection of strategy to reorganize its protein operations to focus on growth in higher margin, value-added meats and meals businesses where the Company has brand and market leadership. As implementation of the strategy began in 2007, and will take three years to complete, the 2006 results reflect the old business model.

The following tables outline the change in some of the key indicators that affected the business and financial results:

	Average rate change[i]	
	Between 2006 and 2005	Between 2006 and 2002
Canadian dollar strengthened against the U.S. dollar by:	**6.8%**	38.4%
Canadian dollar strengthened against the Japanese yen by:	**12.5%**	28.6%

(i) % change in average rate calculated using daily closing rates (Source: Bloomberg).

Since 2002, the Canadian dollar appreciated 38% against the U.S. dollar. Management estimate that in isolation this represented an annualized loss of competitiveness of approximately $75.0 million in primary pork processing business and more than $30.0 million in hog production. Furthermore, during 2006, the Company was impacted by changes in certain costs and commodity market conditions as set out and explained more fully in the relevant business segment.

	Annual Averages		
	2006	2005	Change
Pork Industry Processor Margins (USD per cwt)	$ **3.12**	$ 3.25	(3.9)%
Poultry Industry Processor Margins (CAD per kg)[iii]	$ **0.76**	$ 0.57	33.3 %
Natural Gas (CAD / Gj)[iv]	$ **6.13**	$ 8.25	(25.7)%
Wheat (USD per bushel)[v]	$ **4.67**	$ 3.55	31.5 %

(ii) Average pork industry processor margins. 2005 pork processor margin has been restated using January 1, 2006 USDA cutout calculation method (Source: USDA).
(iii) Average poultry industry processor margins calculated using daily margins (Source: AOCP Indicator).
(iv) Average natural gas price calculated using daily close prices (Source: Canadian Gas Price Reporter).
(v) Average wheat price calculated using daily close prices (Source: Bloomberg).

Earnings from operations before restructuring and other related costs decreased 14.9% to $223.9 million compared to $263.0 million last year.

OPERATING SEGMENTS

The combination of the Company's Meat Products Group and the Agribusiness Group comprises the protein value chain operations[1], which are involved in producing animal protein products. The Meat Products Group comprises branded value-added prepared meats and meal products; fresh, frozen and branded value-added pork products; fresh, frozen and branded value-added chicken and turkey products; and global food marketing, distribution and trading. The Agribusiness Group operations include research, development and supply of quality livestock nutrition products and services; pet food; swine production; and animal by-products recycling.

The Bakery Products Group is comprised of Maple Leaf's 88.0% ownership in Canada Bread Company, Limited, a producer of fresh, frozen and branded value-added bakery products, including frozen par-baked bakery products, specialty baked goods and hand-held snacks, and fresh pasta and sauces.

[1] In this context, the "protein value chain" refers to the interlinked nature of the various phases involved in the production of finished pork and poultry products that starts with the initial production phase involving the sourcing and raising of hogs, chickens and turkeys, continues with the processing phase in which these animals are processed into finished products and finishes with the recycling phase where by-products created from the processing operations are used to produce feed and other components for the initial production phase.

Management's Discussion and Analysis

OPERATING REVIEW

Following are sales by business segment for the three years ended December 2006:

SALES:

($ millions)	Full Year			
	2006	2005	Change	2004
Meat Products Group	$ 3,745.6	$ 4,102.4	(8.7)%	$ 3,947.3
Agribusiness Group	815.9	800.8	1.9 %	907.5
Protein Value Chain	4,561.5	4,903.2	(7.0)%	4,854.8
Bakery Products Group	1,333.7	1,226.0	8.8 %	1,201.3
	$ 5,895.2	$ 6,129.2	(3.8)%	$ 6,056.1

Sales for the year decreased 3.8% to $5.9 billion, primarily reflecting lower prices of export pork products due to the stronger Canadian dollar. This was partially offset by bakery sales that increased in 2006 due to acquisitions, price increases to offset cost increases, and higher volumes in the frozen bakery and pasta operations.

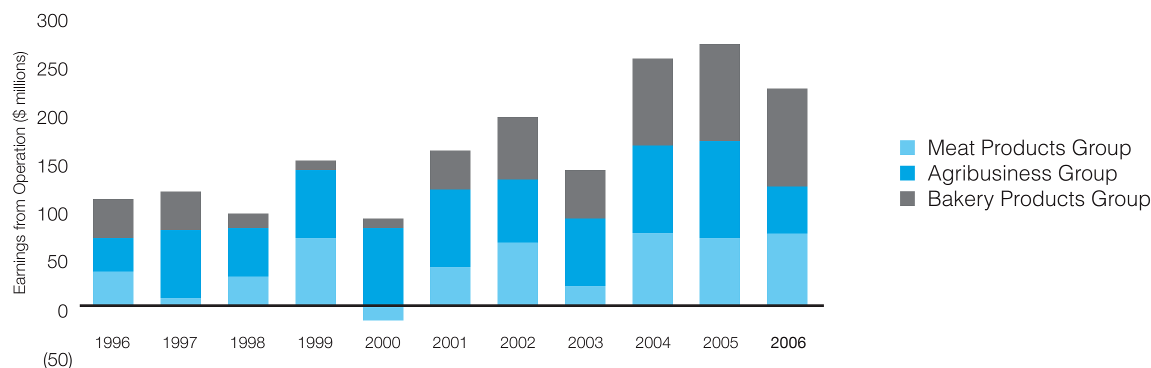
Following are earnings from operations before restructuring and other related costs by business segment for the three years ended December 2006:

EARNINGS FROM OPERATIONS BEFORE RESTRUCTURING AND OTHER RELATED COSTS:

($ millions)	Full Year(i)			
	2006	2005	Change	2004
Meat Products Group	$ 74.4	$ 59.9	24.2 %	$ 68.5
Agribusiness Group	48.6	101.9	(52.3)%	98.7
Protein Value Chain	123.0	161.8	(23.9)%	167.2
Bakery Products Group	100.9	101.2	(0.4)%	89.2
	$ 223.9	$ 263.0	(14.9)%	$ 256.4

(i) Excluding $64.6 million of restructuring and other related costs in 2006 and $13.2 million in 2005.

SEGMENTED OPERATING EARNINGS



MEAT PRODUCTS GROUP

(branded value-added prepared meats and meal products; fresh, frozen and branded value-added pork products; fresh, frozen and branded value-added chicken and turkey products; and global food marketing, distribution and trading)

Sales for the year decreased 8.7% to $3.7 billion compared to $4.1 billion last year. This decrease was due primarily to currency changes, a decline in volumes to Japan and a 1.8% reduction in the number of hogs processed. Volumes in the consumer foods business also declined marginally as the Company exited non-profitable products.

Earnings from operations before restructuring and related costs for the year increased to $74.4 million from $59.9 million in 2005. The consumer foods operations achieved excellent results in 2006, supported by its leading brands and market shares and rising demand in both the foodservice and retail markets for fully cooked meats and meal solutions. The business also benefited from lower raw material costs earlier in the year, price increases to offset higher energy and related costs and synergies related to the Schneider Foods acquisition. During the year, Maple Leaf extended its leadership in the value-added meats and meals category with the very successful launch of *Schneiders Fully Cooked Sausages, Maple Leaf Grilled Meat Strips,* and expansion of the *Maple Leaf Fully Cooked Roasts* product line. Growth in the consumer foods group more than offset a year-over-year decline in the earnings of the fresh pork operations that was largely related to the ongoing impact of a high Canadian dollar on global competitiveness.

The Company is making significant investments in its value-added meats business to support increased capacity, expansion into new products, and further cost reductions. These capital investments include the relocation of the existing *Schneiders Lunchmate* manufacturing operation to a new facility in Guelph, Ontario that has doubled its production capacity and reduced manufacturing costs. The Company also purchased and refurbished a 185,000 square foot facility in Brampton, Ontario to manufacture a major new line of refrigerated meal entrees under the brand *Maple Leaf Simply Fresh*. Capital spending related to these investments will amount to approximately $70.0 million, of which $32.0 million was spent in 2006.

The integration of Schneider Foods, purchased in April 2004, has progressed well with the systems integration underway, and is expected to be substantially completed in 2008. The integration of the management teams, sales forces and other functions has been completed. In 2007, the Company will commence further integration of the manufacturing and distribution operations, investing in existing and new facilities to increase efficiencies and consolidating production where possible.

The contribution from the primary pork processing operations decreased in 2006 compared to the prior year, due to weaker global protein markets earlier in the year, the strengthening of the Canadian dollar against the U.S. dollar and Japanese yen. North American pork margins declined 3.9% compared to 2005. Returns in the Japanese pork market were significantly reduced in the first half of 2006 primarily as a result of a weaker Japanese yen. Profitability in the fresh pork operations improved in the fourth quarter as a result of initiatives to increase manufacturing efficiencies and reduce costs, and from stronger export margins towards the end of the year, compared to weak results last year.

Earnings from fresh poultry operations increased in 2006 due primarily to higher industry-wide processor margins. In January 2007, the Company announced that it will close its fresh poultry processing facility in Canard, Nova Scotia at the end of April 2007. The viability of the Canard plant has been challenged by its age and insufficient live bird volume to justify the major investment required to improve its profitability. Closure costs, including severance, decommissioning and asset write-downs, will result in restructuring and other related charges of approximately $8.4 million before tax, of which approximately $2.3 million was recorded in the fourth quarter of 2006, with the remainder to be recorded when the facility is decommissioned in 2007.

As a result of its new protein value chain strategy, Maple Leaf announced that it will not proceed with construction of a new primary pork processing facility in Saskatoon, Saskatchewan. The Company intends to consolidate its existing fresh pork processing operations into a single double-shifted plant in Brandon, Manitoba, and will sell, convert or close its remaining primary processing plants over the next two to three years. In order to increase processing capacity at the Brandon plant from the current 45,000 hogs per week to approximately 85,000 hogs per week, the Company is investing approximately $11.0 million to support the first phase of wastewater treatment upgrades, and a further $10.0 million later in 2007 to complete the conversion of the front end primary processing to a double shift. Further investments will be made over the next two years to support increased processing volumes.

The Global foods operations had a challenging year in the face of a stronger Canadian dollar as margins on sales to Japan were again under pressure. In response to the new strategic direction for the protein value chain, the Company has identified those business lines that are not consistent or required under the new strategy and began the process of divesting or winding them down. These include a joint-venture interest in a hog processing facility in Quebec, the soybean trading business and the European trading and retail business. By the end of 2006, the Company had sold its joint-venture interest in a primary pork processing plant in Quebec and substantially exited its soybean business.

AGRIBUSINESS GROUP

(research, development and supply of quality livestock nutrition products and services; pet food; swine production; and animal by-products recycling)

Sales for the year increased 1.9% to $815.9 million from $800.8 million last year due primarily to the consolidation of Cold Springs Farm in 2006. Excluding the impact of this consolidation, sales declined by $12.8 million.

Earnings for the year from operations before restructuring and other related costs decreased 52.3% to $48.6 million from $101.9 million in 2005, due a to year-over-year decline in hog prices, a weaker U.S. dollar resulting in lower realized hog prices, and increased feed prices and energy costs. Earnings were also negatively affected by a one-time adjustment made to the inventory values of work-in-progress hogs. Throughout the year, the Company entered into short-term hedging programs. Although the impact of these hedging programs for the year was marginally positive, they did have a modest impact on quarterly earnings. The Company is restructuring its hog production business to establish 100% ownership of its hog barns, while significantly reducing total hogs under management. Moving to a smaller, vertically integrated business model in Manitoba will allow Maple Leaf to simplify hog production, and reduce operating costs.

Earnings from the animal nutrition operations for the year were lower due principally to restructuring in the hog production business and associated reductions in volumes and margins related to feeding Company-owned livestock, and changes made in sales prices in Western Canada. Earnings were also impacted by the costs of transitioning customers from the Company's three aging feed mills in Atlantic Canada into a new high-efficiency feed mill in Moncton, New Brunswick. As part of implementing the new business model, the Company is vertically integrating and re-sizing all protein operations to support growth in the value-added meats and meals market. As a result, the Company is proceeding with the sale of its animal nutrition business, retaining only two feed mills in Western Canada to meet the future requirements of its hog production operations.

Restructuring and other related costs of $18.7 million were recorded in 2006 related to the write-down on hog production assets to management's estimate of their realizable value in the restructuring process.

The Company's rendering earnings increased during the year driven by higher earnings from core rendering activities as well as the increased contribution from a new biodiesel plant in Quebec, which was commissioned in the first quarter of 2006.

BAKERY PRODUCTS GROUP

(fresh, frozen and branded value-added bakery products, including frozen par-baked bakery products; specialty baked goods and hand-held snacks; and specialty pasta and sauces)

Sales for the year increased 8.8% to $1.3 billion (excluding acquisitions in the U.K., sales increased by 5.5%). The increase in sales was primarily the result of price increases, an improved sales mix, and higher volumes in the frozen bakery and pasta operations.

Earnings from operations before restructuring and other related costs for the year were largely consistent at $100.9 million compared to $101.2 million in 2005. This was achieved despite a sharp increase in flour prices. Fresh bakery operating earnings improved from last year due to price increases and an improved mix of higher margin bakery products, supported by an ongoing focus on new product innovation, higher nutrition products and investment in brand building. *Dempster's Smart* bread, a white bread product made with a new enriched whole wheat flour that provides the health attributes of whole grain bread, was launched early in 2006 and contributed to earnings growth. Fresh pasta earnings increased as it expanded its whole grain higher nutrition product lines and added capacity through investment in its manufacturing plant in Vancouver, British Columbia.

The U.K. bakery operations benefited from the contribution of acquisitions and increased production at the new bagel plant in Rotherham, England. In November 2006, the Company completed the acquisition of the French Croissant Company Limited and Avance (U.K.) Limited. These operations manufacture premium croissant products and fresh and frozen specialty bakery items, such as baguettes with annual sales of approximately $85.0 million. The Company now operates one of the largest specialty bakeries in the United Kingdom, with leading market shares in the bagel and croissant categories. The North American frozen bakery operations recorded increased sales and volumes for the year, but profitability declined significantly due to record high wheat costs, higher energy costs, higher distribution costs, and some operational issues at its Roanoke, Virginia facility.

In November 2006, the Company announced the closure of a bakery in Langley, British Columbia that will improve its operating efficiencies in Western Canada fresh bakery operations by allowing the Company to consolidate manufacturing into other existing bakeries. The costs of closure, including severance, decommissioning and asset write-downs, will result in restructuring and other related costs of approximately $7.4 million before tax ($5.0 million after-tax), of which approximately $4.1 million has been recorded in the fourth quarter of 2006 with the remainder to be recorded as the plant is decommissioned.

COMPANY REORGANIZATION

In October 2006, the Company announced a comprehensive strategy to significantly increase the profitability of its protein operations by focussing on growth in the value-added fresh and processed meats and meals businesses, supported by a vertically integrated, balanced and optimized value chain.

In the last several years, the sharp rise in the Canadian dollar and challenging global protein markets have impacted the performance of the Company's protein value chain operations, primarily in hog production and fresh pork processing, and negated strong results in its further processed meats business. In response, management completed a comprehensive review of the value chain, with the objective of maximizing the profitability of its meat businesses and recovering what is estimated to be a $100 million annualized loss in competitiveness due to adverse currency movements.

To achieve this objective, the Company will focus its protein strategy on growing its value-added fresh and further processed meat and meals businesses. Through integration of its fresh and value-added further processed operations, the Company's goal is to balance and optimize the value of all its protein operations by significantly increasing the raw materials it directs into further processing; by accelerating new product innovation; establishing a low cost manufacturing base; and reducing the scope of its value chain to the size required to support its value-added meat businesses.

The Company intends to align and simplify its value chain operations to support this strategy. All other components, including feed, hog production and primary processing operations will be sized to support its value-added fresh and further processed meat businesses. The Company will divest of or discontinue operations and businesses that do not support this balanced, aligned and vertically integrated model. Management estimates that the Company will incur restructuring and other related charges in the range of $100.0 million to $150.0 million before tax over the next three years as it completes this reorganization, of which $35.0 million to $50.0 million will represent cash expenditures.

The new protein strategy will have the following transformational impacts:

- Hog operations will be reduced from partial ownership to full ownership of a smaller production operation concentrated in Manitoba.
- The animal nutrition business is to be sold except for two feed mills in Western Canada required to meet internal hog feed requirements.
- The focus of the fresh pork business will change to supply internal raw material needs, and to minimize wherever possible external sales of fresh meat, except to valued and higher margin customers. This requires reducing the number of hogs processed from approximately 7.5 million to approximately 4.3 million annually.
- Existing primary pork processing operations will be consolidated into one double-shifted plant in Brandon, Manitoba, and the remaining plants will be either sold, converted or closed.
- The organizational structure is expected to be simplified by integrating five operating companies in the protein value chain into one integrated protein organization.

Since this reorganization was announced in October 2006, the following milestones have been achieved:

- A formal sale process of the animal nutrition business has commenced.
- Restructuring of the hog operations is underway.
- A united leadership team to manage the fresh and further processed meats businesses has been announced.
- The sale or wind-down of the non-core global businesses and the re-focussing of a smaller team for international sales of Maple Leaf meat products is in process and expected to be complete in the first half of 2007.
- Construction of new wastewater treatment facilities and other expansions necessary to allow the ramp-up to a second shift kill at the Brandon pork plant in 2007 has commenced.

RESTRUCTURING AND OTHER RELATED COSTS

During 2006, the Company recorded restructuring and other related costs of $64.6 million primarily related to the Company's implementation of the plan to reorganize its protein value operations. The details of these restructuring and other related costs are as follows:

($ millions)		
Protein value chain reorganization	$	49.5
Bakery plant closure	$	5.5
Poultry plant closure	$	2.3
Impairment of a non-core equity investment	$	7.3
Total	$	64.6

PROTEIN VALUE CHAIN REORGANIZATION

These charges include the write-down of hog production assets, severances related to salaried headcount reductions, estimated costs of exiting non-core protein operations including international meat trading, soybean trading, an interest in a joint-venture hog production operation in Quebec, and the cost of retention payments.

BAKERY PLANT CLOSURE

These charges represent the costs of closure, including severance, decommissioning and asset write-downs of closing a bakery in Langley, B.C. The total costs related to the closure of this facility are approximately $7.4 million ($5.0 million after-tax) of which $4.1 million has been recognized during 2006.

POULTRY PLANT CLOSURE

These charges represent the costs of closure, including severance, decommissioning and asset write-downs of the Company's primary poultry processing plant in Canard, N.S. The total closure costs related to this facility are approximately $8.4 million ($5.8 million after-tax) of which $2.3 million was recognized during 2006.

IMPAIRMENT OF A NON-CORE EQUITY INVESTMENT

The Company has written down an investment in a non-core flour, feed and rice milling company in the Caribbean to net realizable value.

During 2005, the Company recorded $13.2 million in restructuring and other related costs ($8.8 million after-tax) related to certain plant closures and operational restructuring of several of its businesses associated with the integration of Schneider Foods, the closure of the Company's bakery in Peterborough, England, and certain other operational restructuring and other related items.

The Company had previously estimated that the total restructuring and other related costs for the protein value chain would be between $80.0 million and $120.0 million. Management have revised their estimates of these costs based on more detailed plans, and now estimates that restructuring and other related costs to this reorganization will amount to between $100.0 million and $150.0 million including $49.5 million recorded in 2006. Of the total amount $35.0 million to $50.0 million represents cash costs. The total amount of restructuring and other related charges is partly dependent on whether certain facilities that are non-core to the Company strategy will be sold or closed.

$ millions	2006	Remaining	Total
Protein value chain reorganization	**49.5**	50.5 to 100.5	100.0 to 150.0
Other	**15.1**	24.9	40.0
Total	**64.6**	75.4 to 125.4	140.0 to 190.0

In addition, the Company is initiating other improvements and restructuring and other related costs unrelated to the protein reorganization. Management anticipates that approximately $24.9 million related to these initiatives will be charged to earnings during 2007.

OTHER INCOME

Other Income decreased to $3.0 million from $7.0 million in 2005. In 2005, the Company recorded higher earnings from equity investments and realized gains from insurance proceeds.

INTEREST EXPENSE

Interest expense for the year increased to $99.1 million compared to $98.3 million last year. The increase is primarily due to an increase in short-term interest rates. At December 2006, 77.0% (2005: 85.8%) of indebtedness was not exposed to interest rate fluctuations.

INCOME TAXES

Income tax expense increased marginally to $52.5 million from $51.3 million in 2005, however, the Company's effective rate increased from 32.4% in 2005 to 83.0% in 2006. The increase in effective tax rates was due to the following factors:

- During the second quarter, a charge was included in tax expense, arising from changes to income tax legislation, of $3.7 million consisting of a reassessment of pre-acquisition tax liabilities of a subsidiary, partly offset by the removal of the Large Corporation tax in Canada.
- During the second quarter, tax expense decreased by $3.6 million due to tax rate changes enacted during the quarter.
- During the third quarter, the Company recorded a tax expense of $21.2 million to write down future tax assets related to its U.S. frozen bakery business. Although management continues to believe that the tax losses incurred to date will be utilized, the accumulation of tax losses in recent years and uncertainty as to when these losses will be utilized has triggered a technical application of accounting rules that require the Company to set up a full valuation allowance against these tax assets.
- There were restructuring and other related charges in the third and fourth quarters that had a tax rate of 22.1%.

ACQUISITIONS AND DIVESTITURES

During the fourth quarter of 2006, the Company acquired the remaining interest in several partly-owned hog investments that had been accounted for on an equity basis, for a total of $2.9 million and recorded goodwill of $0.2 million.

On November 27, 2006, the Company purchased two bakeries in the U.K.: the French Croissant Company Ltd. that markets croissants and specialty goods across the U.K., and Avance (U.K.) Limited, a leading supplier of fresh, frozen and long-life specialty bakery items for a total of $63.9 million. The Company has not yet finalized the price allocation for these acquisitions.

In October 2006, Canada Bread acquired the shares of Royal Touch Foods Inc. ("Royal Touch"), a pre-packaged sandwich supplier based in Etobicoke. Canada Bread purchased 50% of the Royal Touch shares from Maple Leaf Foods and acquired the remaining shares from an unrelated third party. Canada Bread paid a net purchase price of $7.9 million net of cash acquired of $0.8 million of which 50% was paid to Maple Leaf. The purchase price is subject to an adjustment based on the net assets of Royal Touch as at the acquisition date. As at December 31, 2006, the purchase price adjustment has not yet been determined.

In August 2006, the Company purchased an additional 17% interest in its subsidiary Cold Springs Farm Limited ("Cold Springs") for $5 million in cash, thereby increasing its ownership to 66%. The Company has not yet finalized the price allocation for this acquisition.

In March 2006, Canada Bread acquired the assets and operations of Harvestime Limited ("Harvestime"), a bakery in Walsall, England for $2.0 million. The bakery produces par-baked breads, rolls and specialty bakery products. As at December 31, 2006, the Company has finalized the purchase price allocation and goodwill of $0.7 million resulting from the transaction has been included in the total assets of the Bakery Products Group.

In January 2006, the Company purchased the assets of a hatchery in Quebec that supplies chick embryos for the production of influenza vaccines for $2.8 million. As at December 31, 2006, the Company has finalized the purchase price allocation and has allocated $2.2 million of the purchase price to a customer contract acquired with the business.

In May 2005, the Company purchased the remaining 32% interest in a subsidiary of Schneider Foods, Cappola Food Inc., for net consideration of approximately $3.6 million resulting in additional goodwill of approximately $1.5 million that has been included in the total assets of the Meat Products Group.

TRANSACTIONS WITH RELATED PARTIES

In January 2007, the Company purchased 122,900 additional shares in Canada Bread for $6.5 million, increasing the Company's ownership interest of Canada Bread from 87.5% to 88.0%.

In 2005, the Company purchased 225,300 additional shares in Canada Bread for $10.5 million comprised of cash of $7.0 million and shares of $3.5 million, increasing its ownership to 87.5% and resulting in goodwill of $6.1 million.

CAPITAL RESOURCES AND LIQUIDITY

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. An exception to this is the Agribusiness Group where credit granted to agricultural customers can have longer collection terms that are matched to crop and livestock cycles. Investment in working capital is also affected by fluctuations in the prices of raw materials, seasonal and other market-related fluctuations. For example, although an increase or decrease in pork or grain commodity prices may not affect margins, they can have a material effect on investment in working capital, primarily inventory and accounts receivable. Due to its diversity of operations, the Company has in the past consistently generated a strong base level of operating cash flow, even in periods of higher commodity prices and restructuring of its operations. These operating cash flows provide a base of underlying liquidity that the Company supplements with credit facilities to provide longer-term funding and to finance fluctuations in working capital levels.

CASH FLOW

Total debt, net of cash balances, was $1.2 billion at December 31, 2006. This represents an increase of $150.8 million from the prior year due largely to acquisitions made in the United Kingdom, increases in working capital, and share repurchases during 2006.

Operating cash flow for the year was $132.0 million compared to $264.7 million last year. The reduction in operating cash flow was driven primarily by lower net earnings and a significant decrease in the fourth quarter cash flows from changes in working capital. In the final quarter of 2005, working capital had decreased as a result of an increase in accounts receivable securitization by $35.6 million and an increase in accrued charges and taxes payable that were not as significant in 2006.

CAPITAL EXPENDITURES

Capital expenditures on plant and equipment for the year were $169.5 million compared to $152.1 million last year. In 2006, the Company made significant investments in its consumer foods business to support increased capacity, new product lines and further cost reductions. These investments included the relocation of the existing *Schneiders Lunchmate* manufacturing operation to a new facility in Guelph, Ontario that will double the production capacity and reduce manufacturing costs. The Company has also purchased and renovated a 185,000 square foot facility in Brampton, Ontario to manufacture a new line of branded, fully cooked meal entrees. Total capital spending related to these investments is approximately $70.0 million, of which $32.0 million was spent in 2006. Other significant projects that were ongoing or completed during the year were capacity expansion in the Vancouver, B.C. pasta facility, new premises for the merged Consumer Foods and Schneider Foods' head office, a new feed mill in Atlantic Canada, a biodiesel plant in Quebec, and capacity expansion in the U.K.

DEBT FACILITIES

The Company's strategy related to liquidity is to reduce reliance on any single source of credit, maintain sufficient undrawn credit facilities and to spread debt maturities over time to reduce refinancing risk. In order to ensure continued access to competitively priced credit, the Company's policy is to maintain its primary credit ratios and leverage at levels that provide access to investment grade credit. In circumstances where the Company determines it is appropriate to reduce leverage, it will use equity or other forms of liquidity as an additional source of capital.

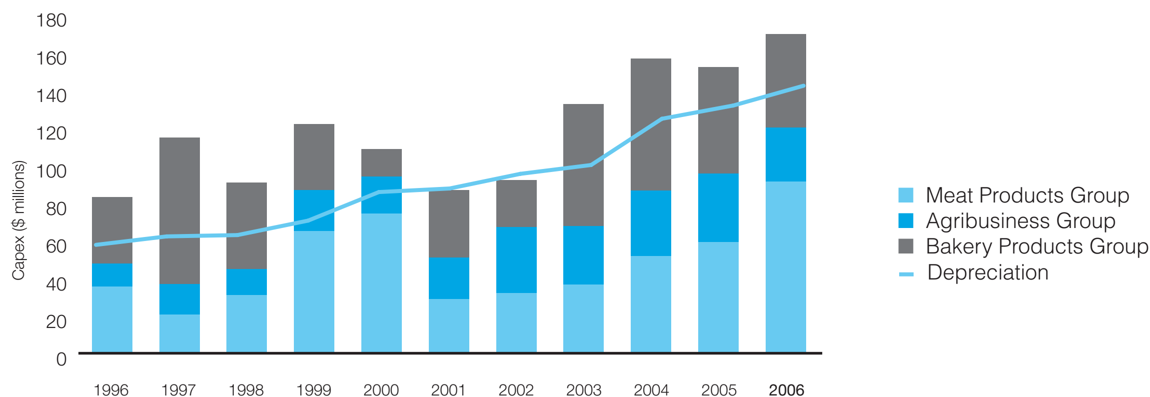
At December 31, 2006, the Company had available undrawn committed credit of $475.6 million. During 2006, a combination of a reduction in lower earnings and investment in business acquisitions resulted in an increase of the Company's leverage ratio, net debt to EBITDA (net debt to earnings before income taxes, depreciation and amortization) to 3.2x (2005: 2.6x). At this level, leverage is within the Company's policy targets, and is expected to improve during 2007 as a result of strengthening operating earnings and proceeds from asset dispositions.

In June 2006, the Company completed an agreement with its principal bank syndicate to renew its primary revolving credit facility, increasing the facility from $700.0 million to $870.0 million, The term was extended to May 2011 with a slight reduction in interest rates. This renewal has strengthened the Company's medium-term liquidity and the facility is expected to continue to be used to meet the Company's shorter-term funding requirements for general corporate purposes. This transaction is explained more fully in Note 8 to the Consolidated Financial Statements.

At December 31, 2006, the Company had aggregate credit facilities, including subsidiary debt, of $2.0 billion (2005: $1.9 billion), of which $1.4 billion (2005: $1.2 billion) was utilized (including $116.7 million (2005: $77.6 million) in respect of letters of credit). Subsidiary debt facilities available amounted to $148.4 million (2005: $159.9 million), of which $123.9 million (2005: $136.3 million) was utilized (including $9.4 million (2005: $8.1 million) in respect of letters of credit) at year end.

To access competitively priced financing, and to further diversify its funding sources, the Company operates several accounts receivable financing facilities pursuant to which the Company sells its accounts receivable to financial institutions. At year end, the Company had $241.5 million (2005: $230.1 million) sold under these facilities. Where cost effective to do so, the Company may finance automobiles, heavy equipment, computers and office equipment with operating lease facilities.

CAPITAL EXPENDITURES



In 2006, the Company repaid a loan of $87.8 million related to its primary pork processing plant in Brandon, Manitoba.

CONTRACTUAL OBLIGATIONS

The following table provides information about certain of the Company's significant contractual obligations as at December 31, 2006:

		Payments due by fiscal year					
($ millions)	Total	2007	2008	2009	2010	2011	After 2011
Long-term debt	$ 1,278.0	$ 91.5	$ 12.3	$ 174.4	$ 216.2	$ 487.8	$ 295.8
Cross-currency swaps related to long-term debt	98.7	23.3	—	5.8	23.4	24.8	21.4
Lease obligations	219.9	45.5	36.8	28.0	21.3	17.3	71.0
Total contractual obligations	$ 1,596.6	$ 160.3	$ 49.1	$ 208.2	$ 260.9	$ 529.9	$ 388.2

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. Additional details concerning financing are set out in the Notes to the Consolidated Financial Statements. As at December 31, 2006, the Company was in compliance with all debt covenants.

DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

Inherent in the food business is exposure to market risks from changes in interest rates, foreign exchange rates and commodity prices (including prices of wheat, feed grains and livestock). When considered appropriate, these exposures may be managed by the use of derivative financial instruments, including interest rate swaps, currency contracts, commodity futures and options. Information on the Company's material year end derivative hedge positions is set out in Note 10 to the Consolidated Financial Statements. If the Company had not entered into these contracts, operating earnings for 2006 would have been lower by $5.4 million (2005: lower by $9.0 million) and interest expense would have been lower by $16.2 million (2005: lower by $19.2 million).

Management hedges commodities when it determines that conditions are appropriate to mitigate risks and reduce the risk of loss from adverse changes in commodity prices. The Company attempts to closely match commodity contract terms with the underlying hedged exposure and continually measures the effectiveness of the hedge in place.

The Company either enters into interest rate swaps or has negotiated fixed interest rates on credit facilities such that the interest payment on a relatively high percentage of its outstanding debt is not exposed to fluctuations in interest rates. At December 31, 2006, 77.0% (2005: 85.8%) of the Company's exposure to interest rate fluctuations was hedged or fixed.

The Company periodically enters into foreign exchange hedges to fix certain of its foreign currency exposure. This involves the use of cross-currency interest rate swaps and foreign currency-denominated debt to hedge the Company's balance sheet exposure and the use of spot, forward and option contracts to manage the Company's exposure to foreign currency cash flows.

All hedging and derivative activity is in accordance with risk management policies that specify both the type of allowed derivatives, maximum trading exposures and the definition of allowable hedge activity. Counterparty risk is monitored and controlled carefully, and no derivative instruments may be entered into with a counterparty whose public credit rating is less than A credit quality.

During 2006, there were no material derivative gains or losses related to the ineffectiveness of hedges and no material hedges were discontinued in 2006 as a result of it ceasing to be probable that a forecasted transaction would occur.

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 back 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 fourth quarter and spring holiday seasons.

SHARE CAPITAL AND DIVIDENDS

During 2006, the Company repurchased 1,909,600 common shares (2005: 127,000) for cancellation pursuant to a normal course issuer bid at an average price of $12.07 (2005: $15.66) per share. The excess of the purchase cost over the book value of the shares was charged to retained earnings.

In each of the quarters of 2006, the Company declared and paid cash dividends of $0.04 per common share. This represents a total dividend of $0.16 per common share and aggregate dividend payments of $20.4 million (2005: $20.3 million).

As at February 15, 2007, there were 105,147,466 common shares of the Company issued and outstanding and 22,000,000 non-voting common shares issued and outstanding. The non-voting common shares are convertible into voting common shares on a one-for-one basis at the option of the holder or holders thereof.

ENVIRONMENT

Maple Leaf Foods is committed to maintaining high standards of environmental responsibility and positive relationships in the communities where the Company 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. 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. There can be no assurance, however, 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.

RISK FACTORS

The Company operates in the food processing sector, and is therefore subject to risks and uncertainties related to these businesses that may have adverse effects on the Company's results of operations and financial position. Some of these risks and uncertainties are outlined below. Prospective investors should carefully review and evaluate the following risk factors together with all of the other information contained in this report. The risk factors described below are not the only risk factors facing the Company. The Company may be subject to risks and uncertainties not described below that the Company is not presently aware of or that the Company may currently deem insignificant.

HOG AND PORK MARKET CYCLICALITY

The Company's results of operations and financial condition are partially dependent upon the cost and supply of hogs and the selling prices for its 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 in U.S. dollars which adds further variability due to exchange rates. The North American 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. Factors contributing to this cyclicality include the substantial capital investment and high fixed costs required to manufacture pork products efficiently and the significant costs associated with plant closures. In addition, the supply and market price of live hogs is dependent upon a variety of factors over which the Company has little or no control, including fluctuations in the size of herds maintained by North American hog suppliers, environmental and conservation regulations, economic conditions, the relative cost of feed for hogs, weather, livestock diseases and other factors. Although the Company's protein value chain strategy is designed to reduce certain of these risks, severe price swings in raw materials, and the resultant impact on the prices the Company charges for its products, have at times had, and may in the future have, material

adverse effects on the Company's financial condition and results of operations. There can be no assurance that all or part of any 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.

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 actively manages these risks by maintaining strict and rigorous controls and processes in its manufacturing facilities and distribution systems.

The Company's facilities are subject to audit by federal health agencies in Canada and similar institutions outside of Canada, and performs its own audits to ensure compliance with its internal standards, which are generally at, or higher than, regulatory agency standards. However, the Company cannot guarantee that compliance with procedures and regulations will necessarily mitigate the risks related to food safety.

LIVESTOCK

The Company is susceptible to risks related to health status of livestock both within and outside its protein value chain. Livestock health problems could adversely affect production, supply of raw material to manufacturing facilities and consumer confidence. The Company monitors herd health status and has strict biosecurity procedures and employee training programs throughout its hog production system. However, not all livestock procured by the Company may be subject to these processes, as hog and poultry livestock is also purchased from independent third parties, and the Company cannot be assured that an outbreak of animal disease in Canada will not have a material adverse effect on the Company's financial condition and results of operations. Maple Leaf 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 encourage the Canadian government to enhance both the country's prevention measures and preparedness plans.

CREDIT RISK OF CUSTOMERS

The Company sells products, primarily feed and services, to the agricultural industry and provides credit to customers in this sector. Terms of sale vary from relatively short credit terms to extended terms designed to match livestock cycles. As the Company's customers are exposed to market and other risk, credit provided in this segment has a higher degree of risk and subject to greater levels of default. The Company carefully monitors the level of credit made available to individual customers, and registers security where possible, but the Company cannot completely eliminate the risk of extended credit to agricultural customers. Default by customers on credit extended by the Company may have a material adverse effect on the Company's financial condition and results of operations.

FOREIGN CURRENCIES

A significant amount of the Company's revenues and costs are either denominated in or directly linked to other currencies (primarily U.S. dollars and Japanese yen). In periods when the Canadian dollar has appreciated both rapidly and materially against these foreign currencies, revenues linked to U.S. dollars or Japanese yen are immediately reduced while the Company's ability to change prices or realize on 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 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/U.S. dollar exchange rate can, and has had significant effects on the Company's relative competitiveness in its domestic and international markets. The Company's earnings related to the U.K. may also be affected, adversely or favourably, by foreign currency translation.

In order to mitigate the impact of currency changes, the Company has decided to focus its strategy in the Meat and Agribusiness operations on growing its value-added fresh and further processed meat and meals businesses. As part of this strategy, the

Company intends to integrate its fresh and value-added further processed operations, with the goal of balancing and optimizing the value of all the meat that it processes through significantly increasing the raw materials it directs into further processing; increasing its new product innovation; establishing a low cost manufacturing base; and reducing the scope of its value chain as required to support its value-added meat businesses.

COMMODITIES

The Company is a purchaser of certain commodities, such as wheat, feed grains, livestock and natural gas, in the course of normal operations. The Company may use commodity futures and options for hedging purposes to reduce the effect of changing prices in the short-term. On a longer-term basis, the Company manages the risk of increases in commodities and other input costs by increasing the price it charges to its customers.

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. As a result, the Company can be affected, both positively and adversely, by international events that affect the price of food commodities or the free flow of food products between countries. Examples of such events are animal disease in other countries, trade actions and tariffs on food products, and government subsidies of competing agricultural products.

REGULATION AND LEGAL MATTERS

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 and the Ministry of Agriculture in Canada. 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 licences relating to its operations. Nevertheless, there can be no assurance that the Company is in compliance with such laws and regulations or that it will be able to comply with such laws and regulations in the future. Failure by the Company to comply with applicable laws and regulations could subject the Company to civil remedies, including fines, injunctions, recalls or seizures, as well as potential criminal sanctions, which could have a material adverse effect on the Company. Various governments throughout the world are considering regulatory proposals relating to genetically modified organisms, drug residues or food ingredients, food safety and market and environmental regulation that, if adopted, may increase the Company's costs. If any of these or other proposals are enacted, the Company could experience a disruption in supply and may be unable to pass on the cost increases to its customers without incurring volume loss as a result of higher prices.

In the normal course of its operations, the Company becomes involved in various legal actions. The Company believes that the resolution of these claims will not have a material effect on the Company. However, the final outcome with respect to actions outstanding, pending or with respect to future claims cannot be predicted with certainty. Therefore, there can be no assurance that their resolution will not have a material adverse effect on the Company's financial position or 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 to the Company. The Company has incurred and will continue to incur capital and operating expenditures to comply with such laws and regulations. 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 such time, the Company and other prior operators of such facilities may have generated and disposed of wastes which are or may be considered 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 may have a material effect on the Company's financial results and financial condition.

CONSOLIDATING CUSTOMER ENVIRONMENT

As the retail grocery and foodservice trades continue to consolidate and customers grow larger, 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.

LEVERAGE

The terms of the Company's credit facilities and the terms of any debt securities, if issued, include covenants which could limit the Company's operating and financial flexibility. The Company's ability to make scheduled payments of principal or interest, or refinancing of its indebtedness depends on its future business performance, which is subject to economic, financial, competitive and other factors beyond its control. Any failure by the Company to satisfy its obligations with respect to its indebtedness at maturity or prior thereto would constitute a default under such indebtedness and could cause a default under the agreements governing other indebtedness, if any, of the Company.

ANIMAL DISEASE AND HUMAN HEALTH

The Company is subject to risks that affect agriculture and animal health, including disease affecting its employees, such as a pandemic. These risks could result in disruptions of trade, consumer confidence issues, and impact its ability to manufacture, ship products and perform core business processes. The Company actively manages these risks by maintaining a general emergency response process. These processes involve prevention, preparedness including emergency simulations, response and recovery plans. In 2005, the Company initiated a project to update its emergency response plans to more thoroughly address the potential for a global pandemic and its human health implications. These plans will be updated as necessary to maintain relevance and priority, and be supported by simulations of various emergencies for continuous improvement. The Company monitors the World Health Organization ("WHO") and other alert systems worldwide, to enable prompt reaction to any specific issues. However, not all services procured by the Company may be subject to these processes, as it depends on independent third parties for many aspects of the business, such as transportation. The Company cannot guarantee that a potential human disease pandemic will not have a material adverse effect on the Company's financial condition and results of operations.

EMPLOYMENT MATTERS

The Company and its subsidiaries have approximately 24,000 full and part-time employees, which includes salaried and union employees, many of whom are covered by collective agreements. These employees are located in various jurisdictions around the world, each of which with differing employment laws and practices and differing liabilities for 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 an 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 was 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.

CRITICAL ACCOUNTING ESTIMATES

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

GOODWILL VALUATION

Goodwill is tested for impairment annually in the second quarter and otherwise as required if events occur that indicate that it is more likely than not that the fair value of a reporting unit has been impaired. In performing this test, the Company assesses the value of goodwill of its various reporting units. In testing goodwill for impairment in the second quarter of 2006 it was noted that no impairment in the value of goodwill had occurred.

RESERVE FOR BAD DEBTS

The Company establishes an appropriate provision for non-collectible or doubtful accounts. Estimates of recoverable amounts are based on management's best estimate of a customer's ability to settle its obligations, and actual amounts received may be affected by various factors, including industry conditions and changes in individual customer financial condition.

PROVISIONS FOR INVENTORY

Management makes estimates as to the future customer demand for our products when establishing the appropriate provisions for inventory. In making these estimates, we consider the life of the product, the profitability of recent sales of the inventory, and changes in our customer mix.

TRADE MERCHANDISE ALLOWANCES AND OTHER TRADE DISCOUNTS

The Company provides for estimated payments to customers based on various trade programs and contracts, which includes payments upon attainment of certain sales volumes. Significant estimates used to determine these liabilities include the level of customer performance and the historical promotional expenditure rate versus contracted rates.

EMPLOYEE BENEFIT PLANS

The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance 7.5%, salary escalation 3.5%, retirement ages of employees and expected heath care costs. Discount rates used in actuarial calculations are based on long-term interest rates and can have a material effect on the amount of plan liabilities.

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:

	1% increase	1% decrease
Effect on end-of-year obligation ($ million change)	2,780	(3,431)
Aggregate of 2006 current service cost and interest cost ($ million change)	211	(237)

TAXES

The provision for income taxes is based on domestic and international statutory income tax rates and tax planning opportunities available to the Company in the jurisdictions in which it operates. Significant judgement is required in determining income tax provisions and in evaluating tax positions. The Company establishes additional provisions for income taxes when, despite the belief that existing tax positions are fully supportable, there remain certain tax positions that may be reviewed by tax authorities. The Company adjusts these additional accruals in light of changing facts and circumstances. The tax provision includes the impact of changes to accruals that are considered appropriate.

RESTRUCTURING AND OTHER RELATED COSTS RESERVES

The Company evaluates accruals related to restructuring and other related costs at each reporting date to ensure these accruals are still appropriate. In certain instances, management may determine that these accruals are no longer required because of efficiencies in carrying out restructuring and other related activities. In certain circumstances, management may determine that certain accruals are insufficient as new events occur or as additional information is obtained.

CHANGES IN ACCOUNTING POLICIES

SALES CLASSIFICATION

On January 1, 2006, the Company retroactively adopted the guidance presented in EIC Abstract 156 "Accounting by a Vendor for Consideration Given to a Customer including a Reseller of the Vendor's Products". The EIC requires vendors to classify certain consideration provided to customers as a reduction of revenue rather than as cost of sales unless the vendor receives, or will receive an identifiable benefit in exchange for the consideration. The adoption of this standard resulted in a restatement of sales in prior periods. The impact of the adoption of this standard was a reduction in sales during fiscal 2006 of approximately $369.4 million (fiscal 2005: $333.3 million). This accounting change had no impact on operating earnings, net earnings or earnings per share.

RECENT ACCOUNTING PRONOUNCEMENTS

CAPITAL DISCLOSURES

In October 2006, the Canadian Accounting Standards Board issued Section 1535 "Capital Disclosures" ("Section 1535") which requires entities to disclose qualitative information about their objectives, policies and process for managing capital. This standard is effective for fiscal periods beginning on or after October 1, 2007. The Company cannot reasonably estimate the effect Section 1535 will have on its disclosures.

FINANCIAL INSTRUMENTS

In 2005, the Canadian Accounting Standards Board issued three new standards effective for fiscal year ends beginning after October 1, 2006; CICA Handbook Section 1530 "Comprehensive Income" ("Section 1530"), Section 3855 "Financial Instruments – Recognition and Measurement" ("Section 3855"), and Section 3865 "Hedges" ("Section 3865"). The Company will adopt these standards effective January 1, 2007.

Section 1530 requires that companies present comprehensive income and its components, as well as net income, in their financial statements. Comprehensive income is the change in equity during a period resulting from transactions and other events from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners.

Section 3855 requires that all financial assets be classified as held for trading, available for sale held-to-maturity or loans and receivables and all financial liabilities as held for trading or as other liabilities. All derivative instruments, including any embedded derivatives that are required to be separated from the host instruments, must be classified as held for trading. Financial assets and liabilities classified as held for trading are measured at fair value with gains and losses during the period recognized in net income in the periods in which they arise. Financial assets classified as available-for-sale are measured at fair value with gains and losses recognized in other comprehensive income until the underlying financial asset is derecognized or becomes impaired. Held-to-maturity investments, loans and receivables and other liabilities are measured at amortized cost. Gains or losses on financial assets and liabilities carried at amortized cost are recognized in net income when the financial asset or financial liability is derecognized or impaired.

Section 3865 establishes standards for when and how hedge accounting may be applied. The standard requires that hedges be designated as either fair value hedges, cash flow hedges or hedges of a net investment in a self-sustaining operation. For a fair value hedge, the gain or loss on the hedging item is recognized in earnings for the period together with the offsetting change on the hedged item attributable to the hedged risk. For a cash flow hedge, as well as a hedge of a net investment in a self-sustaining foreign operation, the effective portion of the unrealized gain or loss on the hedging item is reported in other comprehensive income and subsequently recognized in earnings when the hedged item affects earnings.

The impact on the Company's adoption of Sections 1530, 3855 and 3865 is expected to be as follows:

- Other Comprehensive Income will be reported in the Shareholders' Equity section to show unrealized gains and losses that are not included in GAAP income.
- On an ongoing basis, any non-equity accounted for investments will need to be carried at fair value rather than historical cost. The Company does not expect the impact of this requirement to be significant to its financial statements.
- The Company has determined that the adoption of Handbook Section 3865 will not cause any significant changes in its overall risk management strategy or in its overall hedging activities.
- Instruments that meet the definition of a derivative that are embedded in non-derivative contracts will be separated where the economic characteristics and risks of the embedded instrument are not closely related to those of the host, and where the combined instrument is not measured at fair value. The Company has reviewed its significant outstanding contracts and has determined that there are no significant embedded derivative features requiring separate recognition as at December 31, 2006.
- The Company is currently evaluating the impact these standards will have on its results of operations and financial position.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Company's disclosure controls and procedures were 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 Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures as at December 31, 2006, and has concluded that such disclosure controls and procedures are effective.

The Company's management, under the direction and supervision of the Chief Executive Officer and Chief Financial Officer, are also responsible for establishing and maintaining internal control over financial reporting. These controls were designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. There have been no changes in the Company's internal control over financial reporting during the quarter ended December 31, 2006 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

SUMMARY OF QUARTERLY RESULTS

The following is a summary of unaudited quarterly financial information for the eight interim periods ended December 31, 2006 (in thousands of dollars except per share information):

		First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Sales	2006 [(i)]	$1,425,951	$1,496,696	$1,457,765	$1,514,806	$5,895,218
	2005	1,500,643	1,580,482	1,529,557	1,518,561	6,129,243
Net earnings	2006	17,272	21,186	(22,309)	(11,624)	4,525
	2005	12,748	33,237	30,061	18,196	94,242
Net earnings before restructuring and other related costs and non-recurring tax adjustments	2006	$ 17,272	$ 21,186	$ 11,840	$ 22,687	$ 72,985
	2005	21,094	33,237	30,061	18,196	102,588
Earnings per share:						
Basic	2006	$ 0.14	$ 0.17	$ (0.17)	$ (0.09)	$ 0.04
	2005	0.10	0.26	0.24	0.14	0.74
Basic before restructuring and other related costs and non-recurring tax adjustments	2006	0.14	0.17	0.09	0.18	0.57
	2005	0.17	0.26	0.24	0.14	0.81
Diluted	2006	0.13	0.16	(0.17)	(0.09)	0.03
	2005	0.10	0.25	0.23	0.14	0.72

(i) Restated in accordance with Note 2 to the Consolidated Financial Statements.

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

FORWARD-LOOKING STATEMENTS

This document contains, and the Company's oral and written public communications often contain, forward-looking statements that are based on current expectations, estimates, forecasts and projections about the industries in which the Company operates and beliefs and assumptions made by the management of the Company. Such statements include, but are not limited to, statements with respect to our objectives and goals, as well as statements with respect to our beliefs, plans, objectives, expectations, anticipations, estimates and intentions. Words such as "expect," "anticipate," "intend," "attempt," "may," "will," "plan," "believe," "seek," "estimate,"

and variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve assumptions and risks and uncertainties that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed, implied or forecasted in such forward-looking statements. The Company does not intend, and the Company disclaims any obligation to update any forward-looking statements, whether written or oral, or whether as a result of new information, future events or otherwise except as required by law.

These forward-looking statements are based on a variety of factors and assumptions including, but not limited to: the condition of the Canadian and United States economies; the rate of appreciation of the Canadian dollar versus the U.S. dollar and Japanese yen; the availability and prices of livestock, raw materials, energy and supplies; product pricing; the competitive environment and related market conditions; operating efficiencies; access to capital; the cost of compliance with environmental and health standards; adverse results from ongoing litigation; and actions of domestic and foreign governments. These assumptions have been derived from information currently available to the Company including information obtained by the Company from third-party industry analysts.

Actual results may differ materially from those predicted by such forward-looking statements. While the Company does not know what impact any of these differences may have, its business, results of operations, financial condition and the market price of its securities may be materially adversely affected. Factors that could cause actual results or outcomes to differ materially from the results expressed or implied by forward-looking statements include, among other things:

- the cyclical nature of the cost and supply of hogs and the competitive nature of the pork market generally;
- the risks posed by food contamination, consumer liability and product recalls;
- the risks related to the health status of livestock;
- the risks related to the creditworthiness of customers to whom the Company extends credit;
- the Company's exposure to currency exchange risks;
- the ability of the Company to hedge against the effect of commodity price changes through the use of commodity futures and options;
- the impact of international events on commodity prices and the free flow of goods;
- the risks posed by compliance with extensive government regulation and legal claims;
- the impact of extensive environmental regulation and potential environmental liabilities;
- the risks associated with a consolidating retail environment;
- the risks associated with the Company's outstanding indebtedness;
- the risks associated with animal disease and human health; and
- the risks associated with complying with differing employment laws and practices globally and the potential for work stoppages due to non-renewal of collective agreements.

The Company cautions you that the foregoing list of factors is not exhaustive. These factors are discussed in more detail under the heading "Risk Factors" on page 26 of this document. You should review such section in detail.

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

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