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Maple Leaf Foods

MAPLE LEAF

**Maple Leaf Foods Inc.**
Annual Report 2008

## financial review

# Management's Discussion and Analysis

## The Business

Maple Leaf Foods Inc. ("Maple Leaf" or the "Company") is a leading Canadian value-added meat, meals and bakery company committed to delivering quality food products to consumers around the world. Headquartered in Toronto, Canada, the Company employs approximately 24,000 people at its operations across Canada and in the United States, Europe and Asia.

## Financial Overview

In 2008, Adjusted Operating Earnings (i) decreased by 35.5% to $128.4 million (2007: $199.1 million) and Adjusted EPS (i) decreased 43.1% to $0.29 per share (2007: $0.51 per share). Basic loss per share from continuing operations increased 61.1% to $0.29 per share (2007: $0.18 per share). All figures are reported in Canadian dollars except as otherwise specified.

The Company's operating earnings for 2008 were significantly affected by three factors:

1. A product recall in August 2008 of sliced meats produced at the Company's Bartor Road facility in Toronto;
2. Unprecedented increases in the price of key inputs including wheat, corn and fuel costs, resulting in margin compression in a number of business units; and
3. Operating costs and benefits related to the execution of the Company's three-year strategy to refocus on its value-added meat, meals and bakery businesses.

Results of operations during 2008 include substantial one-time costs related to the product recall and other items related to the execution of the strategy to reposition the Company's protein operations. These impacts have been separately disclosed, where appropriate, in order to provide a clearer assessment of underlying Company results. This has required the use of non-GAAP measures in the Company's disclosures that Management believes provide the most appropriate basis on which to evaluate the Company's results.

## Selected Financial Information

Following is a summary of audited financial information for the three years ended December 31:

| (Millions of dollars except "EPS" information) | | **2008** | | 2007 | | 2006 |
|---|---|---|---|---|---|---|
| Sales | **$** | **5,242.6** | $ | 5,209.6 | $ | 5,324.8 |
| Adjusted operating earnings (i) | **$** | **128.4** | $ | 199.1 | $ | 172.8 |
| Net earnings (loss) from continuing operations | | **(36.9)** | | (23.2) | | (20.0) |
| Net earnings (loss) | | **(36.9)** | | 195.0 | | 4.5 |
| Basic EPS | **$** | **(0.29)** | $ | 1.53 | $ | 0.04 |
| Diluted EPS | | **(0.29)** | | 1.50 | | 0.03 |
| Basic EPS from continuing operations, as reported | | **(0.29)** | | (0.18) | | (0.16) |
| Diluted EPS from continuing operations, as reported | | **(0.29)** | | (0.18) | | (0.16) |
| Adjusted EPS from continuing operations (i) | | **0.29** | | 0.51 | | 0.38 |
| Total assets | **$** | **3,452** | $ | 2,998 | $ | 3,276 |
| Net debt (i) | **$** | **1,023** | $ | 855 | $ | 1,213 |
| Return on net assets (RONA) (i) | | **3.4%** | | 6.7% | | 5.6% |
| Cash flow from continuing operations | **$** | **195.5** | $ | 122.8 | $ | 107.4 |
| Cash dividends per share | **$** | **0.16** | $ | 0.16 | $ | 0.16 |

(i) Refer to Non-GAAP measures below.

## Non-GAAP Measures

The Company reports its financial results in accordance with Canadian GAAP. However, the Company has included certain non-GAAP financial measures and ratios in this analysis that Management believes provide useful information in measuring the financial performance and financial condition of the Company. These measures do not have a standardized meaning prescribed by Canadian GAAP and therefore may not be comparable to similarly titled measures presented by other publicly traded companies, nor should they be construed as an alternative to other financial measures determined in accordance with Canadian GAAP. Non-GAAP measures referred to in this analysis include:

### A) ADJUSTED OPERATING EARNINGS

Adjusted Operating Earnings is defined as earnings from continuing operations before one-time direct product recall, restructuring and other related costs. Management believes that this is the most appropriate basis on which to evaluate operating results, as one-time direct product recall, restructuring and other related costs are not representative of continuing operations.

### B) ADJUSTED EARNINGS PER SHARE ("ADJUSTED EPS")

Adjusted EPS is defined as earnings (loss) per share from continuing operations before one-time direct product recall, restructuring and other related costs. Following is a reconciliation of EPS from continuing operations as reported in the Company's consolidated financial statements to Adjusted EPS. Management believes this is the most appropriate basis on which to evaluate financial results, as product recall, restructuring and other related costs are not representative of continuing operations.

| (Per share) | | 2008 | | 2007 | | 2006 |
|---|---|---|---|---|---|---|
| EPS from continuing operations | $ | **(0.29)** | $ | (0.18) | $ | (0.16) |
| One-time direct product recall | | **0.22** | | — | | — |
| Restructuring and other related costs | | **0.36** | | 0.81 | | 0.37 |
| Tax benefit from lower future tax rates (i) | | **—** | | (0.08) | | — |
| Tax benefit related to animal nutrition business | | **—** | | (0.04) | | — |
| U.S. tax adjustment, net of minority interest | | **—** | | — | | 0.17 |
| Adjusted EPS | **$** | **0.29** | $ | 0.51 | $ | 0.38 |

(i) During 2007, the Company recorded a significant net tax benefit of $9.9 million related to the enactment of lower future tax rates.

### C) RETURN ON NET ASSETS ("RONA")

RONA is calculated by dividing tax-effected earnings from continuing operations before one-time direct product recall, restructuring and other related costs and before 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 on which to evaluate long-term financial performance and the Company has established an objective for RONA of 11.5%.

### D) EARNINGS BEFORE INTEREST, TAX, DEPRECIATION AND AMORTIZATION ("EBITDA")

EBITDA is calculated as earnings from continuing operations before one-time direct product recall, restructuring and other related costs and before interest and income taxes plus depreciation and intangible amortization. The Company measures its credit profile using a number of ratios, primarily net debt to EBITDA and EBITDA to interest expense.

### E) NET DEBT

Net debt is calculated as long-term debt and bank indebtedness, less cash.

## Product Recall

On August 17, 2008, the Company voluntarily recalled two packaged meat products that were manufactured at its Bartor Road facility in Toronto because of a concern that these products may be contaminated with *Listeria monocytogenes*. *Listeria monocytogenes* is one of six species of Listeria, a bacterium that is prevalent in the environment. *Listeria monocytogenes* is the only species of Listeria that is pathogenic. In high-risk populations, including the immune compromised, the elderly, infants and pregnant women, it can cause serious illness and death. After being advised that three packaged meat products manufactured at the Bartor Road facility tested positive for *Listeria monocytogenes*, the Company expanded its voluntary recall on August 20, 2008 to include a total of 23 packaged meat products produced on two manufacturing lines as a precautionary measure. As a further precaution, the Company also temporarily closed the Bartor Road facility.

On August 23, 2008, the Canadian Food Inspection Agency ("CFIA") and the Public Health Agency of Canada announced their conclusion that a strain of Listeria bacteria linked to illness or death of several consumers in Canada matched the Listeria strain identified in some Maple Leaf Foods' products. Immediately upon receiving this information the Company expanded its voluntary recall to include all production from the Bartor Road facility since January 1, 2008. This expanded recall was taken to ensure that all precautionary steps were being followed to protect consumers, notwithstanding that there was no evidence of Listeria contamination in products beyond the two production lines originally under investigation.

In taking this action, Management's position was to put the interests of consumers and public health first. This action resulted in 191 products being recalled, representing approximately 638,000 kilograms of product. Working closely with its customers, Maple Leaf quickly completed the recall of all products from retail shelves and foodservice distribution channels.

The Listeriosis strain identified in Maple Leaf products has been linked to 56 illnesses and 20 deaths. After a careful study of records, the factory and product test results, the CFIA, the Company and third-party experts concluded that the most likely source of product contamination was a harbourage point for bacteria deep inside the mechanical operations of two slicing machines. This harbourage point evaded the rigorous sanitation of this equipment that was completed on a daily basis in accordance with or exceeding the equipment manufacturer's recommendations. Several other environmental factors were identified that may have been source factors of the bacteria, but were not on product contact surfaces.

On September 17, 2008, the Company resumed production at the Bartor Road facility after conducting six intensive sanitizations, comprehensive environmental testing and verification, and the completion of comprehensive pre-operation inspections by the CFIA. In conjunction with the re-opening of the factory, the Company reviewed its protocols and made further enhancements to its food safety protocols at all of its 24 packaged meat plants. This included regular disassembly and deep sanitation of slicing equipment, enhanced environmental testing and additional employee training relating to new operating procedures and control of food-borne pathogens. The Company's cleaning and environmental monitoring reflects industry best practices across North America and exceeds Canadian regulatory standards.

Throughout October and November 2008, efforts focused on normalizing operations at the Bartor Road facility. The ramp-up process was very gradual as the factory was operating in a highly controlled and monitored environment with daily on-site inspection and oversight by the CFIA to ensure the effectiveness of the Company's enhanced food safety protocols. On November 17, 2008, the plant received approval to resume shipping products to customers.

Throughout the recall, Management placed consumer interests first and proactively kept the public informed of actions the Company was taking, well beyond regulatory requirements, to ensure the quality and safety of its products. Volumes continue to recover, reflecting a return in consumer confidence. A comprehensive volume recovery plan is being implemented to restore and grow the base business. The plan focuses on growing sales through various marketing and sales initiatives, such as product displays and in-store activities to drive sales volumes, major promotional activities and new product launches.

On January 20, 2009, the Federal Government commissioned an independent investigation into the August 2008 Listeriosis outbreak. The Company looks forward to co-operating fully with the investigation and sharing the findings of its own internal reviews.

### PRODUCT RECALL COSTS

At the end of the third quarter, Management estimated that the direct one-time costs related to the product recall would be between $25.0 and $30.0 million. These costs include the value of returned and destroyed product, sanitization costs at the Bartor Road facility, and direct media and consumer communications. The actual cost of these items at the end of 2008 was $37.5 million, of which $19.0 million was expensed in the third quarter and $18.5 million in the fourth quarter. Management does not expect any future costs of this nature in 2009 as the recall has been completed and all recalled product has been destroyed. The increase in these costs from prior estimates was due to higher than anticipated sanitization costs, start-up inefficiencies and increased consumer and public outreach.

### CLASS ACTION LITIGATION

As a result of the product recall, several class action lawsuits were filed against the Company on behalf of persons that consumed or purchased for consumption products that were subject to the recall in August 2008 due to possible contamination for *Listeria monocytogenes*. On December 18, 2008, the Company reached a settlement agreement with the plaintiffs of class action lawsuits related to the recall. The settlement amount will be $25 million, increasing by up to $2 million to the extent claims and costs may exceed $25 million. The class counsel under the supervision of the court will administer the compensation paid from the settlement amount. The Company and the class action counsel are of the opinion that settlement of the class action is fair, reasonable and in the best interests of the class. The settlement amount is fully funded by the Company's liability insurers.

## Economic Downturn

The current economic recession has the potential to impact the Company's financial results positively or negatively depending on consumer behaviour, or the effects on commodity prices. For example, there is a risk that consumers may trade down in their purchases from higher margin branded products to lower margin commodity products and the Company may experience an overall volume decline. On the other hand, there has been a recent trend among consumers to eat less frequently away from home, which could benefit the Company. Although the Company has experienced some decline in the sales of specialty items in its U.K. bakery that can be partly attributed to the difficult economic environment, Management is not able to predict whether the economic downturn will have a material effect on the Company's results of operations.

## Fluctuating Input Prices

Environmental initiatives sponsored by the U.S. Government have contributed to an increased demand for grains, in particular corn, that are used for ethanol production, and decreased land set aside for other crops such as wheat. Combined with strong demand from export markets and shortfalls in world crops, this resulted in unprecedented increases in 2007 and early 2008 in the prices of commodities including wheat, corn, barley and soybeans, all of which are inputs into or affect the Company's operations. Additionally, the price of crude oil increased significantly in 2008 with significant impact on the Company's operations, including freight, manufacturing and other indirect impacts such as packaging costs. Consequently, in 2008, input costs for a number of the Company's businesses increased dramatically.

Increased corn and barley prices result in higher feed costs and therefore, cost of production in the Company's hog production operations. The market price for hogs in Canadian dollars decreased slightly while feed costs increased significantly, and as a result, margins in hog production declined significantly during 2008. High commodity prices, particularly soybeans and soy oil, contributed to strong earnings in the rendering by-products business, particularly in the first three quarters of 2008.

Increased fresh meat prices affect the Company's further processed meats and meals businesses, but the Company in general has the ability to recover these cost increases in the price of its finished products. These price increases do not always precisely track increases in input and inflationary costs, but over time the Company is generally able to fully offset these increases. In the latter part of 2008, the Company's ability to execute planned price increases was adversely impacted due to business disruption created by the product recall and as a result, margins in the prepared meats business were compressed at the same time that volumes were reduced due to the product recall.

The scale and speed of wheat price increases in 2007 and 2008, together with increases in other commodities such as fuel led to significant margin compression in all of the Company's bakery operations in the first half of 2008. The Company implemented significant cost reduction initiatives and price increases to offset these dramatic cost increases, but was not able to recover all cost increases by year end.

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

| | At December 31 (i) | Annual Averages | | | |
|---|---|---|---|---|---|
| | **2008** | **2008** | 2007 | Change | 2006 |
| Price of a Market Hog (CAD per hog) (ii) | **$ 114.28** | **$ 123.51** | $ 125.76 | (1.8)% | $ 131.14 |
| Price of a Market Hog (USD per hog) (ii) | **$ 93.76** | **$ 116.17** | $ 116.94 | (0.7)% | $ 115.62 |
| Wheat (USD per bushel) (iii) | **$ 6.55** | **$ 10.37** | $ 6.41 | 61.8 % | $ 4.67 |
| Corn (USD per bushel) (iii) | **$ 4.07** | **$ 5.31** | $ 3.80 | 39.7 % | $ 2.67 |
| Soybeans (USD per bushel) (iii) | **$ 9.80** | **$ 12.35** | $ 8.72 | 41.6 % | $ 6.00 |
| Oil (USD per barrel) (iii) | **$ 44.60** | **$ 99.67** | $ 70.88 | 40.6 % | $ 66.06 |

(i) Spot prices at December 31, 2008 based on CME or WCB depending on region (Source: Bloomberg).
(ii) % change in live hog price calculated using 5-day average of CME or WCB depending on regions (Source: Bloomberg).
(iii) % change in average price calculated using daily close prices (Sources: Bloomberg, CBOT).

## Impact of Currency

Since 2005, the Canadian dollar has materially strengthened against most world currencies, especially the U.S. dollar, and in 2007 reached parity with the U.S. dollar. The Canadian dollar remained around parity to the U.S. dollar until the third quarter of 2008. This change had significant impacts on the Company's relative competitiveness, particularly in its export, international and domestic commodity-based businesses, when compared with U.S.-based competitors. The principal effects of these changes were experienced in 2005 through mid-2008. The businesses most affected by these changes in currency are the hog production and pork primary processing operations, 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.

Conversely, the Company's domestic branded and private label prepared meats and meals business, and its fresh bakery business (as defined under "Operating Segments"), while affected by these currency changes, have the advantage of strong brands and market shares, which provide the ability to react to changes in relative competitiveness by reducing costs and investing in brand and innovation support. As a result, in October 2006, the Company announced its strategy to reorganize its protein operations to focus on growth in the higher margin, value-added meat, meals and bakery businesses where the Company has brand and market leadership. Through reorganizing these businesses, the Company would also reduce its exposure to disadvantaged and commodity oriented businesses such as international trading, primary pork processing and hog production.

The following table outlines the change in some of the key currency indicators that have affected the Company's business and financial results:

| | Average rate change (i) | |
|---|---|---|
| | **Between 2008 and 2007** | Between 2008 and 2002 |
| Canadian dollar strengthened/(weakened) against the U.S. dollar by: | **1 %** | 47% |
| Canadian dollar strengthened/(weakened) against the Japanese yen by: | **(12)%** | 19% |

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

From December 31, 2002 to December 31, 2008, the Canadian dollar appreciated approximately 47% against the U.S. dollar. The Company estimates that, in isolation, this represented an annualized loss of competitiveness of approximately $100 million in primary pork processing business and more than $35 million in hog production.

In the fourth quarter of 2008, the Canadian dollar weakened against both the U.S. dollar and the Japanese yen. On a net basis, this was positive for the Company as it increased margins on pork exports to Japan.

# Management's Discussion and Analysis

## Company Reorganization

In October 2006, the Company announced and began a comprehensive strategy to significantly increase the profitability of its Meat Products and Agribusiness operations by refocusing growth in its value-added meat, meals and bakery businesses. This strategy, formulated in part as a response to material changes in the Company's competitive position as a result of the strengthening Canadian dollar, was expected to be materially complete by the end of 2009.

To achieve its objective, the Company is focusing its protein strategy on growing its value-added fresh and further processed meats and meals businesses. Through integration of its fresh and valued-added further processed operations, the Company's goal is to balance and optimize the value of all meats that it processes by significantly increasing the raw materials it directs into further processing; 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.

All components of the Protein Group, including the feed, hog production and primary processing operations are being sized to support the value-added fresh and further processed meats businesses. The number of hogs processed is being reduced from 7.5 million in 2006 to approximately 4.3 million annually. The number of hogs produced annually has been reduced from approximately 1.5 million hogs in 2006 to approximately 820,000 hogs by the end of 2008. The Company is selling or exiting operations and businesses that do not support this balanced, aligned and vertically integrated model.

The strategy goes beyond addressing currency challenges alone, by seeking to provide significant value creation for the Company and its shareholders. Important value creation initiatives are also underway in the Bakery Products Group, where the opportunities are focused on expanding into new categories, deepening relationships with strategic customers, and supply chain improvements. The goal of these initiatives is to focus the Company's business in higher margin consumer packaged goods segments of the market, with significantly less exposure to foreign currency fluctuations and commodity markets. The Company is seeking to build on its considerable strengths in the higher margin, fresh and further processed meat, meals and bakery businesses through innovation, investment, and acquisitions.

In 2007, the Company achieved the following milestones towards the transformation:

- Substantially restructured its Manitoba hog production operations towards wholly-owned and balanced operations concentrated in close proximity to the Brandon processing plant;
- Sold the animal nutrition business, except for two feed mills required to meet internal hog requirements;
- Double-shifted the front-end processing at the Brandon pork plant enabling the closure of two older facilities in Saskatoon and Winnipeg;
- Established a modern scale plant in Brampton, Ontario with capacity to support growth in value-added, packaged meats and meals, involving investment of approximately $25.0 million in 2007;
- Invested over $40.0 million in capital projects to reduce costs and add capacity in the manufacturing distribution network;
- Increased capacity utilization in the poultry and processed meats networks through closing four sub-scale facilities.

In 2008, the Company achieved the following milestones towards the transformation:

- Divested all of its ownership interests in hog production assets in Alberta and Ontario resulting in a substantially balanced system of operations in Manitoba concentrated in close proximity to the Brandon processing plant;
- Divested all of its hog genetics operations;
- Double-shifted the value-added "cut" operations at the Brandon pork plant, and established a dedicated competitive ham-boning operation in Winnipeg;
- Optimized its network of bakery operations in the U.K. by consolidating the production of two small facilities into the production of two larger, more efficient plants and in North America by closing a bagel plant in Toronto, Ontario and moving production to other regional facilities. Also, a new bagel line was commissioned in Roanoke, Virginia, in order to move production closer to customers and reduce transportation costs;
- Completed and commissioned two new distribution centres in Western Canada;
- Advanced the construction of a new $12 million food innovation centre near Toronto, Ontario;
- Continued to invest in capital projects to reduce costs and add capacity in the manufacturing distribution network.

In 2009, the following transformation milestones and strategic objectives are planned:

- Divestiture of the Burlington and Lethbridge pork processing plants which will conclude consolidation of all primary pork operations into one fully double-shifted "kill and cut" facility in Brandon, Manitoba;
- Ongoing manufacturing network optimization;
- Complete distribution network optimization in Western Canada;
- Commence implementation of new computer enterprise systems that will enable the consolidation of processing into dedicated shared service centres;
- Implementation of new standard operating procedures, technologies and environmental monitoring programs that are based on North American industry best practices;
- Opening of the food innovation centre and implementation of innovation strategy to step-change performance in bringing customer and consumer-relevant products to market.

As a result of volatile commodity markets in the first half of 2008, followed by the need to focus on business stability after the product recall in late August and through the fourth quarter, some large strategic initiatives were delayed. This included planned network optimization activities and new product innovation that required significant resource dedication. These initiatives will be resumed in 2009. Management continues to expect its transformation initiatives to yield cumulative benefits of $100 million. At the outset of the recall, Management estimated it would take six to 12 months to fully recover volumes and Management continues to believe that this is achievable. However, recovery of margins will take longer which will offset the benefits of transformation in the short-term. The Company has estimated the cumulative benefits from its transformation initiatives in order to provide context to the significant restructuring costs that have been incurred by the Company in connection with such initiatives.

## Systems Conversion

The Company has embarked on an initiative to consolidate all of its information technology systems on to a single platform. This will allow the Company to standardize processes, reduce costs and create a consolidated shared services platform. During 2008, Management initiated a plan to upgrade its existing software, and standardize processes across the Company. After further study, Management decided that it was in the best interests of the Company to completely replace, as opposed to upgrade, its current systems and selected software by SAP as its new ERP platform and engaged an implementation consultant. Management expects to begin initial installations of this software in early 2009, and that the full installation will be complete in less than four years. Management had previously estimated that the cost of replacing or upgrading its systems and moving to a shared services centre would cost up to approximately $170 million in combined operating and capital expenditures over the next three to four years, not including write-off or accelerated depreciation of existing system assets that will be made redundant by the new system. Based on the current project plan, Management has no reason to change this estimate at this point in the project.

## Operating Segments

The Company reports in three segments: the Meat Products Group, the Agribusiness Group and the Bakery Products Group. The combination of the Company's Meat Products Group and the Agribusiness Group comprise the Protein Group, which is involved in producing and marketing animal protein-based products.

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

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

The Bakery Products Group is comprised of Maple Leaf's 89.8% ownership in Canada Bread Company, Limited ("Canada Bread"), a producer of fresh and frozen value-added bakery products, sandwiches, and specialty pasta and sauces.

## Operating Review

Following are sales from continuing operations by business segment for the three years ended December 31:

### SALES
($ millions)

| | **2008** | 2007 | Change | 2006 |
|---|---|---|---|---|
| Meat Products Group | **$ 3,303.7** | $ 3,458.0 | (4.5)% | $ 3,745.7 |
| Agribusiness Group [(i)] | **233.0** | 241.0 | (3.3)% | 245.4 |
| **Protein Group** | **3,536.7** | 3,699.0 | (4.4)% | 3,991.1 |
| **Bakery Products Group** | **1,705.9** | 1,510.6 | 12.9 % | 1,333.7 |
| | **$ 5,242.6** | $ 5,209.6 | 0.6 % | $ 5,324.8 |

(i) Agribusiness Group excludes the sales of the animal nutrition business, which was sold in 2007 and is reported as discontinued operations in 2007 and 2006.

Sales for 2008 increased by 0.6% to $5.2 billion compared to the prior year. While sales were impacted by the divestiture of certain non-core businesses and a decline in volumes of processed meats in the second half of the year due to the product recall, price increases primarily in the Bakery Products Group, strong markets in core rendering and acquisitions resulted in slightly improved year-over-year sales.

Following are Adjusted Operating Earnings by business segment for the three years ended December 31:

### ADJUSTED OPERATING EARNINGS

($ millions)

| | **2008** | 2007 | Change | 2006 |
|---|---|---|---|---|
| Meat Products Group | **$ 29.5** | $ 94.1 | (68.7)% | $ 74.4 |
| Agribusiness Group [(i)] | **30.1** | (6.6) | 555.2 % | (2.5) |
| **Protein Group** | **59.6** | 87.5 | (31.9)% | 71.9 |
| **Bakery Products Group** | **83.0** | 119.3 | (30.4)% | 100.9 |
| Non-allocated Costs | **(14.2)** | (7.7) | 83.8 % | — |
| | **$ 128.4** | $ 199.1 | (35.5)% | $ 172.8 |

(i) Agribusiness Group excludes the results of the animal nutrition business, which was sold in 2007 and is reported as discontinued operations in 2007 and 2006

### MEAT PRODUCTS GROUP

*(value-added processed packaged meats; chilled meal entrees and lunch kits; value-added pork, and poultry and turkey products)*

Meat Products Group sales for the year declined 4.5% to $3.3 billion compared to $3.5 billion last year. While the Meat Products Group experienced lower sales in the first half of the year due to lower packaged meat sales and the strategic exit of certain low margin business, the majority of the year-over-year decline was due to the product recall that impacted the third and fourth quarters of 2008. This was due to the non-availability of recalled products, overall declines in the deli and sliced meats category, and lower sales of other non-recalled Maple Leaf branded products early in the recall. The rates of sales decline were most significant in August and September 2008, with sales improving through the fourth quarter. The decline in packaged meat sales was partly offset by the positive effect of currency on the sale of fresh pork.

Meat Products Group Adjusted Operating Earnings declined to $29.5 million as compared to $94.1 million last year. This decline in earnings was principally related to the product recall that negatively impacted third and fourth quarter operating results by approximately $50 million to $60 million comprising the following:

- $30 million of direct operating costs including lower sales and higher supply chain costs;
- $20 million to $30 million of indirect costs including the ability to pass through price increases to offset higher raw material costs and execute planned promotional and volume growth opportunities.

This does not include $37.5 million in one-time direct recall expenses that are reflected in restructuring and other costs. The Company has been making steady progress in rebuilding its packaged meat business and brand. Volumes continue to recover, reflecting a return in consumer confidence, and the packaged meat supply chain has largely stabilized. At the outset of the recall, Management estimated it would take six to 12 months to fully recover volumes and Management continues to believe that this is achievable. Based on performance to date, margin rates are expected to normalize more slowly than volume.

During the fourth quarter, the value-added further processed meats business experienced significant margin challenges due to increases in the cost of raw materials, packaging and ingredients. Management believes that under normal operating circumstances the Company would have had the ability to pass through price increases to offset these higher costs. However, due to the product recall, resources were focused exclusively on business stability. The results of the packaged meats and meals business also included significant investment cost associated with product innovation, and increased promotional and pricing concessions to drive improved volumes. Earnings from primary processing were significantly impacted by lower poultry processor margins due to increases in the cost of live birds, caused by the flow-through of higher feed costs that were not matched by increases in industry meat prices. A six-week labour disruption that began in September at the Company's poultry processing plant in Edmonton, Alberta also negatively impacted earnings. These lower poultry results were largely offset by improved profitability in the fresh pork processing operations, which benefited from improved market conditions and the restructuring of the Company's fresh pork business. This included increased efficiencies at the double-shifted Brandon plant, lower administrative expenses and lower overheads following the closure of several facilities.

The restructuring of the Company's protein operations, which involves significantly reducing the size of its hog and fresh pork operations and expanding its value-added meats and meals businesses, has been completed in several key areas. However, certain initiatives such as innovation and growth activities, and supply chain optimization have been temporarily delayed while the prepared meats business recovers from the effects of the product recall.

A key element of the restructuring is the consolidation of six pork processing plants into a single double-shifted operation in Brandon, Manitoba, which will supply raw materials for the Company's packaged meat business. In 2007, the front-end processing operations at Brandon increased from 45,000 to 75,000 hogs a week on two shifts, enabling the closure of two older facilities in Saskatoon and Winnipeg. In July 2008, the back-end value-added cut operations were commissioned, finalizing the double-shift expansion. This expansion was completed successfully and the facility is operating at target volumes. This expansion enabled the closure of another facility in Winnipeg at the end of the third quarter of 2008. By consolidating these operations in Brandon and reducing the number of hogs processed, significant cost reductions, scale efficiencies and margin improvements were realized in the second half of 2008.

Concurrent with the Brandon expansion, the expansion at the Lagimodiere Road plant in Winnipeg established an efficient operation for deboning 100% of the hams produced at the Brandon plant. The Lagimodiere plant is expected to meet all the Company's input requirements for boned hams in the production of value-added packaged meat products.

During 2008, the Company commenced marketing the sale of its pork facility in Burlington, Ontario, which processes over two million hogs annually. The sale process is still underway and Management expects an outcome will be finalized by the end of the first quarter of 2009. A smaller remaining primary processing facility in Lethbridge, Alberta will be marketed for sale in the second half of 2009 assuming favourable market conditions.

Two new distribution warehouses in Western Canada were commissioned during 2008, allowing for the consolidation of existing warehouses and third-party storage into two scale facilities in Coquitlam and Saskatoon. Although start-up costs in commissioning these facilities impacted operating earnings in the first half of 2008, reduced costs and improved efficiencies at these locations are expected to contribute to earnings in 2009.

### AGRIBUSINESS GROUP

*(hog production and animal by-products recycling)*

Agribusiness Group sales for the year decreased 3.3% to $233.0 million from $241.0 million, as reduced sales from exiting hog production operations in Ontario and Alberta more than offset stronger commodity prices that increased revenue on rendering by-product sales values.

Adjusted Operating Earnings in the Agribusiness Group for the year were $30.1 million compared to a loss of $6.6 million in 2007.

Hog production results improved significantly over the prior year as a result of a number of factors, principally the sale or exiting of non-core operations and production of fewer hogs. Alberta operations were exited in the first quarter and the sale of all Ontario operations was concluded and all remaining hogs fully divested in the third quarter. This is a significant milestone in the Company's strategic plan as it reflects an annualized run rate of approximately 820,000 finished hogs, all concentrated in close proximity to the primary processing facility in Brandon, Manitoba. In early 2009, the Company completed the sale of its small hog genetics business, the final step in completing the restructuring of its hog production operations. In addition, this business benefited from the receipt of $10.6 million in government grants relating to hog production losses in prior years.

Sharp increases in feed prices, although partially mitigated through forward buying programs, resulted in operating losses in the core hog production operations in Manitoba. However, an increased focus on local operations resulted in significant efficiencies in barn management, feed conversion and hog quality.

Results in the rendering by-products business increased sharply due to strong commodity prices, especially in the first three quarters of the year, and was a significant contributor to Agribusiness Group earnings. In the fourth quarter, commodity markets began to normalize, however, earnings remained higher on a comparable basis. The Company's bio-diesel operations also contributed to improved profitability as it benefited from higher fuel prices and increased volumes. On January 14, 2008, the Company purchased the assets of Central By-Products, a rendering business located near London, Ontario, to further expand its customer base in Central Canada.

### BAKERY PRODUCTS GROUP

*(fresh, frozen and branded value-added bakery products, including frozen par-baked bakery products, sandwiches and specialty pasta and sauces)*

Bakery Products Group sales increased by 12.9% to $1.7 billion as a result of price increases implemented across all business units in response to escalating input costs, and the contribution of acquisitions. Excluding acquisitions, sales increased by 8.9%.

Adjusted Operating Earnings in the Bakery Products Group were $83.0 million, a decrease of 30.4% compared to $119.3 million last year. Margins were compressed across all bakery businesses, as price increases could not keep pace with sharp increases in the price of wheat and energy.

# Management's Discussion and Analysis

In the first half of 2008, fresh bakery earnings were affected by increased wheat and oil prices, as price increases implemented late in 2007 and early 2008 were not sufficient to offset rapid increases in input costs. The combined impact of price increases implemented in the first quarter and declining wheat prices in the latter part of 2008 improved margins closer to historical levels late in the fourth quarter, but did not cover losses experienced earlier in the year. Investment in marketing increased in the year to support new product development and innovation in the fast growing ethnic and health conscious markets. In 2008, the Company launched *Smart 100% Whole Grain Wheat bread* nationally and *Smart Snack Cakes* in Eastern Canada as well as *Dempster's Indian Naan* in Ontario. Olivieri launched new gourmet flavour filled pasta in the U.S. and Canada and expanded its offering in sauces for pasta and pizza.

In the first quarter of 2008, the Company completed the purchase of Aliments Martel Inc., a leading manufacturer and distributor of sandwiches, meals and sweet goods based in Quebec.

Frozen bakery operating earnings were significantly lower than 2007 due to margin compression caused by higher wheat and fuel prices and the impact of an oven fire in the U.K.

The U.K. bakery operations were impacted by higher input costs and incremental operating costs due to an oven fire on its principal bagel line at the Rotherham plant. This caused a significant amount of increased costs and disruption in addition to lower volumes as the business was unable to continue planned marketing activities due to reduced bagel capacity. Further costs were incurred to commission a new oven and to source bagels from the Company's North American operations. At the end of 2008, the new oven was not yet operating at optimal capacity and additional incremental production costs will be incurred in the first half of 2009.

In 2008, the Company received insurance proceeds of $14.7 million (recorded in Other Income) to cover business interruption losses resulting from the oven fire. These proceeds should be considered in combination with the Bakery Products Group operating results as they partly offset the operating impacts during 2008.

As part of its acquisition integration activity, the U.K. bakery business took steps to further reduce costs and improve operating efficiencies. Two small bakery operations were closed in the fall, with production from these facilities, primarily croissants and bagels, transferred to the Company's larger bakeries in Maidstone and Rotherham. At the end of 2008, several new products were launched in the Italian specialty bread and Viennoiserie categories. Despite the softening of some categories due to a weakening economy, these launches strengthen the Company's brand recognition and market position in the U.K. market.

Lower earnings in the North American frozen bakery operations were driven by wheat, fuel and other inflationary cost increases, which were partially recovered through price increases and sales mix improvements. North American frozen bakery results were also negatively impacted by translation differences related to the weaker Canadian dollar in 2008. To increase profitability and margins, the North American frozen bakery business undertook several initiatives in 2008, including the closure of a bagel facility in Toronto and the transfer of production to other regional plants in October 2008 to increase capacity utilization. A new bagel line was commissioned at the bakery in Roanoke, Virginia, in the fall of 2008 to locate production closer to customers, although start-up costs impacted 2008 earnings. Production on this new line started mid-January 2009 and combined with other initiatives is expected to contribute to margins going forward. During the year, a new all natural line of frozen breads was launched in the U.S., the first offering of such products to increasingly health conscious consumers.

## Gross Margin

Overall, gross margin decreased by 9.6% to $620.2 million for the year from $686.2 million last year. Gross margin in the Meat Products Group was reduced due to lower volumes and increased supply chain costs due to the product recall, higher raw materials and packaging costs. Also in the Meat Products Group, a significant decrease in poultry processing margins due to higher live bird costs completely mitigated improved pork processor margins. In the Agribusiness Group, margins improved due to higher commodity prices in the core rendering business and the exiting of higher cost hog operations in Alberta and Ontario. The Bakery Products Group experienced margin compression in 2008 caused by increasing wheat and fuel prices. In the fourth quarter, margins in the Bakery Products Group strengthened as a result of commodity market declines, pricing actions and the impact of manufacturing efficiencies.

## Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by 1.0% to $491.8 million in 2008 from $487.1 million last year. Increased investment to support innovation, marketing and product development in the Bakery Products Group were partly offset by reductions in the Meat Products Group and Agribusiness Group as a result of the Company's transformation initiatives. Also, during the second half of the year, the Company responded to lower earnings and the effects of the product recall by curtailing most new hiring and cutting back on administrative costs.

# Management's Discussion and Analysis

## Other Income

Other income for the year increased to $24.9 million from $4.6 million last year, mainly due to insurance proceeds of $14.7 million received as a result of an oven fire at a bagel plant in the U.K. As these proceeds represent recovery of lost profits, they should be considered in combination with the operating results of the Bakery Products Group. Additionally, the Company received net insurance proceeds of $4.7 million due to a sow barn fire in Manitoba. Net proceeds of $4.3 million were also recognized in other income in 2008 related to a gain on disposal of a redundant warehouse facility located in Calgary, Alberta.

## Other Matters

On December 7, 2008, the Company announced that it was launching an investigation into allegations that a senior executive of its U.K. bakery operations may have sought to influence the pricing of a competitor who subsequently informed the Office of Fair Trading ("OFT") in the U.K. In January 2009, the Company was informed that the OFT has chosen not to launch an investigation into the allegations. By mutual agreement, the Company has accepted the senior executive's resignation effective February 28, 2009. The Company has concluded its investigation of the allegations and no further action will be taken.

On February 24, 2009, Maple Leaf Foods Inc. declared a dividend of $0.04 per share payable on March 31, 2009 to shareholders of record on March 10, 2009. Unless indicated otherwise, by the Company, in writing at or before the time the dividend is paid, each dividend paid by the corporation in 2009 or a subsequent year is an eligible dividend for the purposes of the "Enhanced Dividend Tax Credit".

## Product Recall, Restructuring and Other Related Costs

During 2008, the Company recorded costs of $37.5 million (2007: nil) relating to the product recall in August 2008 and $65.3 million (2007: $125.0 million) of restructuring and other related costs for a total of $102.8 million (2007: $125.0 million).

### PRODUCT RECALL

During 2008, the Company recorded approximately $37.5 million in one-time direct costs related to a voluntary recall of 191 products at its Bartor Road facility in Toronto. One-time direct costs include collection and destruction costs of recalled product of $17.6 million, the cost of shut-down and sanitization of the facility of $6.7 million; public outreach costs of $4.2 million; the cost of establishing and operating a consumer response centre dedicated to the recall of $1.2 million; losses incurred on product dispositions directly attributable to the recall of $2.2 million; and other costs of $5.6 million.

### RESTRUCTURING AND OTHER RELATED COSTS

During 2008, the Company recorded restructuring and other related costs of $65.3 million (2007: $125.0 million) related to restructuring and other initiatives across the Meat Products Group, the Agribusiness Group and the Bakery Products Group.

Details of these restructuring and other related costs are as follows:

| ($ millions) | **2008** | 2007 | 2006 | **Total** |
|---|---|---|---|---|
| Protein Group restructuring | **$ 25.1** | $ 19.6 | $ 27.6 | **$ 72.3** |
| Impairment/disposal of hog genetic operations | **5.0** | — | — | **5.0** |
| Impairment/disposal of Ontario and Alberta hog production assets, and impairment of long-lived hog production assets | **6.8** | 63.1 | 18.6 | **88.5** |
| Goodwill impairment related to retained operations of the animal nutrition business | **—** | 20.7 | — | **20.7** |
| Retention payments | **2.7** | 8.7 | 2.0 | **13.4** |
| Poultry plant closures | **—** | 6.3 | 2.3 | **8.6** |
| Impairment of a non-core equity investment | **—** | — | 7.3 | **7.3** |
| Bakery closures | **10.5** | 3.9 | 5.5 | **19.9** |
| Systems conversion | **15.2** | — | — | **15.2** |
| | **$ 65.3** | $ 122.3 | $ 63.3 | **$ 250.9** |
| Discontinued operations | **—** | 2.7 | 1.3 | **4.0** |
| Total restructuring | **$ 65.3** | $ 125.0 | $ 64.6 | **$ 254.9** |
| Cash incurred and to be incurred | **$ 20.1** | $ 23.2 | $ 25.4 | **$ 68.7** |
| Non-cash | **45.2** | 101.8 | 39.2 | **186.2** |
| | **$ 65.3** | $ 125.0 | $ 64.6 | **$ 254.9** |

# Management's Discussion and Analysis

### (i) Protein Group restructuring

Costs incurred during 2006 to 2008 relate to the closure of two primary pork processing plants in Saskatoon and Winnipeg, the closure of a meat processing facility in Etobicoke, Ontario, severances related to salaried headcount reductions, the exit of non-core protein operations including international meat trading, soybean trading, and a joint venture hog production operation in Quebec.

### (ii) Impairment/disposal of hog genetic operations

In December 2008, the Company sold its hog genetic operations. This transaction resulted in a loss on disposal of $5.0 million.

### (iii) Impairment/disposal of Ontario and Alberta hog production assets, and impairment of long-lived hog production assets

An important element of the Company's restructuring was the exit of hog production operations in Alberta and Ontario, and simplification of its hog production operations into wholly-owned, efficient assets in Manitoba. The completion of these initiatives required disposition of many investments, purchase of certain minority interests in Manitoba-based investments, and the exit of certain contractual obligations. As these transactions and initiatives took place over both 2007 and 2008, the Company recorded related costs throughout these periods. With the finalization of the sale of its hog genetics business in December 2008, this element of the Company's restructuring is complete and no further significant restructuring costs related to hog production are expected.

### (iv) Goodwill impairment related to retained operations of the animal nutrition business

When the assets of the animal nutrition business were sold in 2007, a further $20.7 million of goodwill was, as required by Canadian accounting rules, allocated to Maple Leaf's remaining feed and hog operations. The sale of the animal nutrition business placed certain restrictions in the operations of the two feed mills that were retained by Maple Leaf to supply feed to the Company's owned hog production operations in Manitoba. This reduced the assessment of future cash flows related to these remaining feed and hog operations. As a result, the Company determined that the goodwill allocated to the remaining feed and hog operations was impaired and recorded an impairment charge of $20.7 million. Although required to be reflected as goodwill impairment under Canadian GAAP, Management believes that this charge should be considered together with the gain on sale of the animal nutrition business.

### (v) Retention payments

These represent incremental and temporary compensation incentives to retain certain key personnel in operating businesses that were impacted by restructuring activities.

### (vi) Poultry plant closure

These charges related primarily to the closure of a primary processing plant in Canard, Nova Scotia and included severance, decommissioning and asset write-downs. The closure process was completed in 2007.

### (vii) Impairment of a non-core equity investment

In 2006, the Company wrote down an investment in a non-core flour, feed and rice milling company in the Caribbean to net realizable value.

### (viii) Bakery plant closures

These charges represent the costs of closure, including severance, decommissioning and asset write-downs of closing a bakery in Langley, B.C. and a bagel plant in Toronto, Ontario.

### (ix) Systems conversion

These charges relate to the write-off of assets made redundant by the Company's decision to replace its computer systems with enterprise software provided by SAP. Management expects that other systems made redundant over the next several years, as determined by the implementation schedule, may require similar write-offs, but are not expected to exceed $5.0 million.

As at December 2008, Management has completed a high percentage of restructuring originally envisaged by its strategic reorganization. However, Management also anticipates that there will be opportunities in the future to improve the efficiency of the Company's supply chain in the Meat Products and Bakery Products Groups, which will be likely to result in future restructuring costs. These costs are not ascertainable at this time, as plans have not been finalized relating to such actions.

Related to finalization of the protein restructuring, Management has not completed the sale or exit of its primary processing operations in Burlington, Ontario, or Lethbridge, Alberta. Depending on the outcome of these two initiatives, further asset impairments or restructuring may be required, but the amounts and timing cannot be determined until finalization of these initiatives.

## INTEREST EXPENSE

Interest expense for the year decreased to $88.7 million compared to $94.1 million last year. The decrease is primarily due to lower short-term interest rates. The Company's average borrowing rate for 2008 was 6.0% (2007: 6.6%). As at December 31, 2008, 70.0% of indebtedness was not exposed to interest rate fluctuations (2007: 75.0%).

### INCOME TAXES

Income tax for the year was a recovery of $8.5 million versus an expense of $0.8 million in 2007. Note 21 of the Consolidated Financial Statements presents a reconciliation between statutory tax rates and the Company's effective tax rate. Following is a discussion of certain reconciling amounts:

- During the year, the Company recorded restructuring and other related costs of $102.8 million (2007: $122.3 million) that had a tax effect of $28.4 million (2007: $20.6 million), for an effective tax rate of 27.6%. The lower rate on the recovery booked was primarily driven by the tax effect on non-deductible amounts of $1.2 million and lower tax rates applied to deductions available in later years.
- During the third quarter of 2006, the Company recorded a tax expense of $21.2 million to write-down future tax assets related to its U.S. frozen bakery business. In 2008, a future tax valuation allowance of $3.5 million was recorded against additional tax losses generated in the year. The total valuation allowance recorded on the losses related to the U.S. frozen bakery business is $30.6 million as of the end of 2008.
- The Company's income tax rate varies and could increase or decrease based on the amounts of taxable income derived and from which source, any amendments to tax laws and income tax rates and changes in assumptions and estimates used for tax assets or liabilities.

### PENSION INCOME

Pension income for the year was $11.5 million compared to $17.1 million in 2007. Components of pension income are provided in Note 22 of the Consolidated Financial Statements.

The Company operates both defined contribution and defined benefit plans. The assets of the defined benefit plans are invested primarily in foreign and domestic fixed income and equity securities that are subject to fluctuations in market prices. Discount rates used to measure plan liabilities are based on long-term market interest rates. Fluctuations in these market prices and rates can impact pension expense and funding requirements. During 2008, both equity and fixed income investments and markets suffered significant losses worldwide. As a result, the asset return in the Company's defined benefit pension plans averaged a loss of approximately 14.5% for 2008. The effect of these investment losses will be reflected in 2009 and beyond as higher pension expense. Management estimates that the increased expense related to changes in actuarial values for 2009 could be as much as $30.0 million before taxes. The Company has presented this estimate in order to provide readers with an understanding of the expected impact on pension expenses due to market returns of the Company's pension plans in 2008 as well as the impact of revised actuarial calculations.

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 the contributions.

## Acquisitions and Divestitures

### 2008

In December 2008, the Company sold its hog genetics business. The loss on disposal is included in restructuring and other related costs for 2008.

On January 29, 2008, the Company acquired the shares of Aliments Martel Inc. ("Martel"), a leading manufacturer and distributor of sandwiches, meals and sweet goods based in Quebec for $44.2 million plus contingent consideration of up to $22.6 million based on financial performance over the three years following the acquisition date. The Company has allocated $18.2 million of the purchase price to the net identifiable assets of Martel at the acquisition date and $26.0 million to goodwill. The Company has not yet finalized the purchase price allocation for this acquisition.

On January 14, 2008, the Company purchased the assets of Central By-Products ("CBP"), a rendering business located near London, Ontario for $18.1 million. The Company has allocated $5.7 million to the net identifiable assets of CBP at the acquisition date and $12.4 million to goodwill. The Company has not yet finalized the purchase price allocation for this acquisition.

In the first quarter of 2008, the Company sold most of its Ontario hog production operations and all of its wholly-owned production investments in Alberta. The loss on these disposals had previously been recognized in the fourth quarter of 2007.

### 2007

On August 17, 2007, the Company acquired La Fornaia Ltd. ("La Fornaia") a leading producer of specialty Italian breads for total consideration of £19.1 million ($40.7 million). During 2008, the Company finalized the purchase price allocation, allocating £2.6 million ($5.8 million) of the purchase price to the identifiable net assets of La Fornaia at the acquisition date, and £16.5 million ($34.9 million) to goodwill and intangible assets. The acquired intangible assets include £3.0 million ($5.7 million) allocated to customer relationships.

On February 26, 2007 the Company acquired 100% of the equity of Pâtisserie Chevalier Inc. ("Chevalier") for $8.4 million. Chevalier is a producer of single-portion snack cake products in Quebec. During 2008, the Company finalized the purchase price allocation, allocating $6.5 million of the purchase price to the identifiable net tangible assets of Chevalier at the acquisition date, $0.6 million to intangible assets and $1.3 million to goodwill.

On July 20, 2007, the Company completed the sale of its animal nutrition business for proceeds of $525 million, recording an after-tax gain on the transaction of $207.2 million ($1.63 per share).

On August 31, 2007, the Company purchased the remaining interest in its subsidiary Cold Springs Farms Limited ("Cold Springs") for $10.0 million with $5.0 million paid in cash on closing and $5.0 million paid in the third quarter of 2008.

During the first quarter of 2007, the Company completed the sale of its European seafood and convenience businesses in Germany. The Company also completed several transactions comprising both the purchase and sale of interests in certain hog investment companies related to the realignment of its hog production business. The sale of these businesses did not have a significant impact on ongoing earnings or cash flows.

## Investments in Canada Bread Company, Limited

On July 17, 2008, the Company purchased 458,800 additional shares in Canada Bread Company, Limited ("Canada Bread") for cash consideration of $32.6 million, increasing the Company's ownership interest in Canada Bread from 88.0% to 89.8%. The Company has allocated $11.9 million of the purchase price to the net identifiable assets of Canada Bread at the acquisition date and $20.7 million to goodwill. The Company has not yet finalized the purchase equation for this acquisition.

On January 16, 2007, the Company purchased 122,900 additional shares in Canada Bread for $6.5 million, increasing the Company's ownership interest from 87.5% to 88.0%.

## Capital Resources

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

Total debt, net of cash balances, at December 31, 2008 was $1,022.8 million, compared to $854.8 million as at December 31, 2007. The increase for the year was largely due to the Company's capital investment program, purchase of additional shares in Canada Bread, and acquisitions completed in the first quarter of 2008. This increase was partially offset by lower working capital and the proceeds from the issuance of equity units in December 2008.

Cash balances as at the end of the year were $365.5 million (2007: $28.2 million). Lower commodity prices and working capital management during the fourth quarter, combined with operating cash flow and the proceeds of an equity issue resulted in strong cash flow generation towards the end of the year. Most of the cash balances will be used to fund the Company's 2009 capital requirements and debt maturities.

Cash flow from continuing operations for the year was $195.5 million compared to $122.8 million last year. Cash was generated from operating earnings and lower investments in working capital. Offsetting these positive results were cash restructuring costs and the one-time impacts of the product recall.

Working capital investment was affected by several factors. Lower commodity prices towards the end of the year resulted in lower investments in accounts receivable and inventory. Lower volumes in the Meat Products Group following the product recall reduced inventory and accounts receivable, and Management aggressively managed working capital needs by advancing accounts receivable collections, reducing inventory and extending supplier credit. Management expects that this aggressive management of working capital needs will continue during 2009.

## Capital Expenditures

Capital expenditures for 2008 were $206.2 million compared to $236.7 million last year. In 2008, the Company continued to invest in a number of initiatives to generate efficiencies in manufacturing and distribution and expand capacity in core businesses. These projects included investments at its U.K. bakery operations in an additional croissant line and new packaging that extends product shelf life. At the Company's North American bakery operations, the Company closed a bagel plant in Toronto and invested in bagel capacity in Roanoke, Virginia in order to reduce overheads and transportation costs. As part of its transformation efforts, the Company continued to invest in its manufacturing and distribution networks to support the future growth of its value-added meats and meals business.

Significant capital investments were also made to complete the consolidation of fresh pork processing at the Company's scale facilities in Brandon and Winnipeg. In 2008, the Company successfully double-shifted the Brandon kill and cut facility and expanded the ham boning capabilities of the Winnipeg plant. These milestones mark the completion of capital spending relating to primary processing consolidation.

The effects of lower earnings and cash flows following the product recall in August 2008 prompted Management to restrict short-term investments in capital assets, resulting in capital expenditures for the year lower than the Company's previous estimate of $280.0 million. If and when cash flows and earnings from operations recover from the effects of high commodity prices and the product recall, Management expects to adjust its capital spending plans to match the rate of improvement in operations.

## Debt Facilities

The Company is exposed to fluctuations in the prices of raw materials, seasonal and other market-related price changes. Due to the high sales volumes and rapid turnover of inventories, the impact of these price fluctuations is generally short-term. When commodity price increases are significant, it can increase the funding required for investments in working capital. These cash flow requirements are funded from current operating cash flow and existing credit facilities. Management is of the opinion that its operating cash flow and existing credit facilities provide the Company with sufficient resources to finance ongoing business requirements and its capital investment program for at least the next 12 months.

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 2008. At the end of the year, net debt to EBITDA [(i)] was 3.4x (2007: 2.2x), with the increase attributable to lower earnings in 2008, principally driven by higher commodity costs in the first half of 2008 and the product recall in August 2008. Management has a long-term target range for this ratio of between 2.5x and 3.5x. The increase in this ratio during 2008 prompted Management to restrict investments in capital assets and issue $70.0 million (before issuance costs) of equity units during the fourth quarter.

The following table summarizes available and drawn credit facilities at December 31, 2008:

| ($ millions) | 2008 | 2007 |
|---|---|---|
| Credit Facilities | | |
| Maple Leaf Foods Inc. | **$ 1,776.0** | $ 1,663.0 |
| Subsidiary | **97.8** | 115.0 |
| **Total Available** | **$ 1,873.8** | $ 1,778.0 |
| Drawn Amount | | |
| Maple Leaf Foods Inc. | **$ 1,325.9** | $ 797.8 |
| Subsidiary | **65.8** | 85.2 |
| Letters of credit | **128.3** | 120.2 |
| **Total Drawn** | **$ 1,520.0** | $ 1,003.2 |
| % Drawn | **81.1%** | 56.4% |

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 certain accounts receivable to financial institutions. At year end, the Company had $181.3 million (2007: $218.5 million) of trade accounts receivable being serviced under these facilities. These facilities are accounted for as an off-balance sheet transaction under Generally Accepted Accounting Principles. Where cost effective to do so, the Company may finance automobiles, manufacturing equipment, computers and office equipment with operating lease facilities.

## Contractual Obligations

The following table provides information about certain of the Company's significant contractual obligations as at December 31, 2008:

| | | Payments due by fiscal year | | | | | |
|---|---|---|---|---|---|---|---|
| ($ millions) | **Total** | 2009 | 2010 | 2011 | 2012 | 2013 | After 2013 |
| Long-term debt | **$ 1,379.5** | $ 179.2 | $ 218.7 | $ 696.4 | $ 6.0 | $ 6.2 | $ 273.0 |
| Cross-currency swaps related to long-term debt | **58.1** | 5.1 | 19.8 | 16.4 | — | — | 16.8 |
| | **1,437.6** | 184.3 | 238.5 | 712.8 | 6.0 | 6.2 | 289.8 |
| Contractual obligations including leases | **247.7** | 59.1 | 46.2 | 35.6 | 29.0 | 23.0 | 54.8 |
| Total contractual obligations | **$ 1,685.3** | $ 243.4 | $ 284.7 | $ 748.4 | $ 35.0 | $ 29.2 | $ 344.6 |

(i) Refer to Non-GAAP measures on page 1.

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

## 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. The Company has established financial objectives including targets for return on net assets (11.5%) and compound annual earnings per share growth (15.0%). In allocating capital to investments to support these goals, the Company establishes internal hurdle return rates for capital initiatives. Capital projects are generally financed with senior debt.

The Company uses leverage in its capital structure to reduce the cost of capital. The Company maintains its primary credit ratios and leverage at levels that provide continued access to investment grade credit pricing and terms. The Company measures its credit profile using a number of metrics, primarily net debt to EBITDA [i] and EBITDA [i] to interest expense.

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

The Company has maintained a stable dividend distribution that is based on 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, an equity compensation program established in 2006.

For the year ended December 31, 2008, total equity decreased by $6.3 million to $1,143.0 million. During the same period, total debt net of cash and cash equivalents increased by $168.0 million to $1,022.8 million.

(i) Refer to non-GAAP measures on page 1.

### FINANCIAL INSTRUMENTS

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

| | |
|---|---|
| Cash and cash equivalents | Designated as held for trading |
| Accounts receivable | Loans and receivables |
| Notes and mortgages 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 | Held for trading [i] |

(i) The Company has derivative instruments, from time to time, that are classified as held for trading. These derivatives 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. Financial assets and liabilities classified as held for trading and all derivative financial instruments are recorded at fair value. The fair value of long-term debt as at December 31, 2008 is $1,358.4 million as compared to its carrying value of $1,379.5 million on the consolidated balance sheet.

The fair value of the Company's long-term debt was estimated based on discounted future cash flows using current rates for similar financial instruments subject to similar risks and maturities. The fair values of the Company's interest rate and foreign exchange derivative financial instruments are 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 and counterparties to meet their payment obligations.

In the normal course of business, the Company is exposed to credit risk from its customers, substantially all of which are in the grocery and foodservice markets. The Company performs ongoing credit evaluations of new and existing customers' financial condition and reviews the collectibility of its trade and other accounts receivable in order to mitigate any possible credit losses. The Company maintains an allowance for uncollectible accounts that represents its estimate of uncollectible amounts. The components of this allowance include a provision related to specific losses estimated on individually significant exposures and a provision based on historical trends of collections. There are no impaired receivables that have not been provided for in the allowance for uncollectible accounts. Based on the above assumptions, as at December 31, 2008, the Company believes that the allowance for uncollectible accounts sufficiently covers any credit risk related to past due or impaired accounts receivable balances.

Management believes concentrations of credit risk with respect to accounts receivable is limited due to the credit quality of the Company's major customers, as well as the large number and geographic dispersion of smaller customers. The Company does, however, conduct a significant amount of business with a small number of large grocery retailers. The Company's five largest customers comprise approximately 30% of consolidated accounts receivable at December 31, 2008 and the two largest customers comprise approximately 23% of consolidated sales.

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

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

### LIQUIDITY RISK

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

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

As at December 31, 2008, the Company had available undrawn committed credit of $310.2 million under the terms of its principal banking arrangements as well as $365.5 million in cash balances. These banking arrangements, which mature in 2011, are subject to certain covenants and other restrictions.

### MARKET RISK

#### Interest Rate Risk

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

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

At December 31, 2008, the Company had variable rate debt of $270.7 million with a weighted average interest rate of 3.9%. In addition, the Company is exposed to floating interest rates on its accounts receivable securitization programs. As at December 31, 2008, the amount sold pursuant to these programs was $181.3 million at a weighted average interest rate of 3.2%.

With respect to interest rate, foreign currency and commodity price market risk, sensitivity analyses discussing the effects of reasonably possible changes in relevant risk variables on net earnings and other comprehensive income on an after-tax basis are disclosed below. The periodic effects are determined by relating the reasonably possible changes in the risk variables to the balance of financial instruments at the reporting date.

It is estimated that, assuming all else remains constant, a one-percentage point change in interest rates would not materially impact net earnings.

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, 2008, 70.0% of the Company's outstanding debt was not exposed to interest rate movements (2007: 75.0%).

#### 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 Company also uses cross-currency interest rate swaps to effectively convert fixed-rate U.S. dollar notes payable to floating rate Canadian dollar notes. These swaps are accounted for as fair value hedges.

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

(In thousands of currency units)

| Maturity | Notional amount | Receive rate (iii) | Notional amount | Pay rate (iii) |
|---|---|---|---|---|
| | US$ | | CAD$ | |
| 2009 | 15,000 | 6.3% | 23,273 | BA (i) + 2.6% |
| 2009 | 125,000 | 6.3% | 144,606 | 6.2% (ii) |
| 2010 | 75,000 | 8.5% | 110,775 | 7.7% |
| 2011 | 177,000 | 5.2% | 231,025 | 5.4% |
| 2014 | 100,000 | 5.6% | 138,000 | 6.0% |
| 2009 | | BA (i) | 200,000 | 3.1% |

(i) Three-month Canadian bankers' acceptance rate.

(ii) Swap notional amounts are not exchanged at inception and maturity. These swaps hedge the coupon payments on U.S. dollar notes payable by converting the U.S. dollar interest into Canadian dollar interest.

(iii) 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, 2008, the amount of notes payable designated as a hedge of the Company's net investment in U.S. operations was US$160.0 million (December 31, 2007: US$160.0 million). Foreign exchange gains and losses on the designated notes payable are recorded in shareholders' equity in the foreign currency translation component of accumulated other comprehensive income and offset translation adjustments on the underlying net assets of the U.S. operations, which are also recorded in accumulated other comprehensive income. The net investment hedge recorded in other comprehensive loss for the year ended December 31, 2008 was $37.4 million before taxes (December 31, 2007: gain of $29.9 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 U.S. dollars and Japanese yen. Qualifying foreign currency forward contracts are accounted for as cash flow hedges. As of December 31, 2008, $182.9 million of anticipated foreign currency-denominated sales were hedged with underlying foreign exchange forward contracts settling at various dates beginning in February 2009. The aggregate fair value of these forward contracts was a loss of $2.6 million at December 31, 2008 (2007: gain of $1.7 million) and was recorded in other current liabilities.

At December 31, 2008, the Company had fixed rate debt of $1,117.7 million with a weighted average interest rate of 5.8%. 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 this carrying value does not change as interest rates change.

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

For cross-currency interest rate swaps designated as cash flow or fair value hedges of foreign exchange risk, changes in the fair values of the hedged item and the hedging instruments attributable to foreign exchange rate movements offset completely in the income statement in the same period. As a consequence, these financial instruments are not exposed to foreign exchange risks with an effect on net earnings. It is estimated that, assuming all else remains constant, a hypothetical 10% change in the value of the Canadian dollar against all relevant currencies would result in a change in the fair value of the Company's foreign exchange forward contracts of $9.1 million, an offsetting change in net earnings of $6.4 million and a corresponding change in other comprehensive income of $12.7 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 Company also uses futures to minimize the price risk assumed under forward priced contracts with suppliers. The futures contracts are designated and accounted for as fair value hedges.

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

It is estimated that, assuming all else remains constant, a hypothetical 10% change in market prices of the underlying commodities would result in a change in the fair value of the underlying derivative contracts of $8.6 million, a corresponding change in net earnings of $1.1 million and a corresponding change in other comprehensive income of $4.7 million. These amounts exclude the offsetting impact of the commodity price risk inherent in the transactions being hedged.

For the years ended December 31, 2008 and 2007, the amount of hedge ineffectiveness recognized in earnings was not material.

All hedging activity is governed by risk management policies that specify the type of allowed hedging instrument, maximum exposure and the allowable hedge activity.

## Seasonality

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

## Share Capital and Dividends

During 2008, the Company repurchased for cancellation 1,023,000 common shares pursuant to a normal course issuer bid at an average purchase price of $11.55. The excess of the purchase cost over the book value of the shares was charged to retained earnings. The Company did not repurchase any of its own shares in 2007.

As at December 31, 2008, there were 107,258,681 voting common shares issued and outstanding (2007: 107,600,271) and 22,000,000 non-voting common shares issued and outstanding (2007: 22,000,000). 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.

In each of the quarters of 2008, the Company declared and paid cash dividends of $0.04 per common share (voting and non-voting). This represents a total dividend of $0.16 per common share (voting and non-voting) and aggregate dividend payments of $20.8 million (2007: $20.8 million).

### PRIVATE PLACEMENT

On December 16, 2008, the Company completed the issuance, on a private placement basis, of 7,368,421 units at a price of $9.50 per unit for aggregate gross proceeds of $70.0 million. The net proceeds after issuance costs will be used for general corporate purposes.

The structure of the financing was designed to provide the Company with the flexibility of minimizing dilution to existing shareholders. Each unit consists of one subscription receipt for Maple Leaf Foods' common shares and 0.4 common share purchase warrant. Each subscription receipt entitles the holder to receive one common share of the Company on August 4, 2009 or, at the election of the Company, the return in cash of $9.50 per subscription receipt. Each whole common share purchase warrant is exercisable into one common share of the Company until December 16, 2010 at a price of $9.50 per common share. The subscription receipt component of the financing structure was designed to enable Management to decide, with better visibility of earnings following the expected recovery from the product recall, whether the Company should retain the equity in its capital structure or return the proceeds to investors.

## 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. In 2008, the Company began deployment of its Environmental Excellence program at close to half of its manufacturing facilities. This program establishes a standard environmental management system across the Company's various business interests. Deployment at the remainder of the Company's manufacturing facilities will continue in 2009. 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.

As a large food company, there are health, environmental and social issues that go beyond short-term profitability that Management believes must shape its business if the Company is to realize a sustainable future. On the environmental front, the Company is undertaking multiple initiatives in conjunction with key customers to reduce packaging, track greenhouse gas emissions and the miles it takes to produce and deliver food products. Increasingly sound environmental practices are becoming a key component of maintaining a competitive advantage. In 2008, the Company undertook a comprehensive planning process to establish its environmental sustainability priorities and develop longer-term environmental objectives. While this process was briefly delayed due to product recall activities, priorities such as greenhouse gas and energy management, water conservation, waste reduction, packaging and supply chain environmental sustainability were established.

## 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 document. 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.

### PROTEIN BUSINESS STRATEGIC TRANSFORMATION

In 2006, in response to a four-year strengthening of the Canadian dollar and challenging global protein markets that impacted the performance of the Company's protein value chain operations, primarily in hog production and fresh pork processing, the Company completed a comprehensive review of its protein-related businesses and operations, with the objective to maximize the profitability of its meat businesses and recover the loss in competitiveness due to adverse currency movements. As a result, the Company decided to focus its strategy in its protein operations on growing its value-added fresh and further processed meats and meals businesses. As part of this strategy, the Company is integrating its fresh and valued-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 to the size required to support and supply its value-added meat businesses. In 2007 and 2008, the Company completed many steps in the strategy including closing two pork plants and double shifting the front-end "kill" portion of the Brandon, Manitoba primary processing plant, selling the animal nutrition business, opening a modern, scaleable plant for value-added, packaged meats and meals products, and restructuring or disposing of elements of the Company's Manitoba, Alberta and Ontario hog operations. In 2009, significant transformation milestones include the divestiture of the Burlington and Lethbridge pork processing plants, the completion of distribution network optimization in Western Canada and commencement of computer enterprise systems installation. While the Company has invested considerable effort in developing and executing the strategy, there can be no guarantee that the strategy is the correct one to maximize the profitability of its meat businesses and recover the loss in competitiveness due to adverse currency movements, or that the Company will be successful in continuing to implement and execute the strategy or that its business will not be disrupted. If the strategy is unsuccessful or implemented or executed incorrectly, it could have a material adverse effect on the Company's financial condition and results of operations.

### SYSTEMS CONVERSION AND STANDARDIZATION

The Company has made a decision to replace its information systems with an integrated ERP system from SAP. Poor design or execution of these changes, disruptions to and diversions of the Company's management resources or poor implementation of the information systems required to support the new structure could result in the project not achieving the objectives in the longer term and may also negatively impact the Company's performance in the shorter term. Any of the foregoing could result in 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 and by maintaining prudent levels of insurance.

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. In spite of these procedures, in August 2008, the Company initiated a large recall of ready-to-eat meat products produced at one packaged meats facility following the discovery of bacteria contamination in some products. The affected plant reopened in September 2008 and the Company has implemented additional food safety procedures across all of its facilities. However, the Company cannot guarantee that compliance with such procedures and regulations, including the additional procedures that have been implemented, will necessarily mitigate the risks related to food safety. A food safety reoccurrence such as the August 2008 recall could have a material impact on the Company's financial condition and results of operations, which impact may include significant damage to the Company's brand and reputation.

### LEVERAGE AND AVAILABILITY OF CAPITAL

The Company's ability to raise financing has historically depended on its ability to access the debt capital and bank credit markets. The cost and amount of funding has depended largely on market conditions, and the outlook for our business and credit ratings at the time capital is raised. Given the worldwide financial crisis that developed in 2008, there can be no assurance that the Company will be able to raise financing at the time it is needed or upon terms that are commercially reasonable. The failure to obtain such financing when needed could have a material adverse effect on the Company's financial condition and results of operations. The terms of the Company's credit facilities and the terms of any debt securities, if issued and outstanding, 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. Management does not currently anticipate that the Company will breach any such covenants based on current estimates of future earnings and cash funding needs; however, increases in the costs of the product recall, or deterioration of earnings related to other impacts may impair the Company's ability to comply with such covenants or impair the Company's ability to obtain cost effective replacement financing. Any of these events could have a material adverse effect on the Company's financial condition and results of operations.

In December 2008, the Company closed a private placement of 7,368,421 units, each unit comprised of one subscription receipt and 0.4 of a common share purchase warrant, for aggregate gross proceeds to the Company of $70.0 million. As a result, an aggregate of 7,368,421 subscription receipts and 2,947,368 whole common share purchase warrants were issued pursuant to the offering. Each subscription receipt entitles the holder to receive on August 4, 2009, without payment of additional consideration, one common share of the Company or, at the election of the Company, the return in cash of $9.50 per subscription receipt. Each whole common share purchase warrant is exercisable for one common share of the Company at any time until December 16, 2010 at an exercise price of $9.50 per common share. Should common shares be issued pursuant to the subscription receipts or upon exercise of the warrants (or upon conversion into common shares of non-voting common shares issued pursuant thereto), existing shareholders will suffer immediate dilution of their ownership interest in the Company. This may have an adverse effect on the market price or value of the Company's common shares. .

### 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 assets of the defined benefit plans are invested primarily in foreign and domestic fixed income and equity securities, which are subject to fluctuations in market prices. In addition, the discount rates used to perform the actuarial calculation of the plan liabilities are also based on long-term market interest rates. There can be no guarantee that fluctuations in these market prices and rates will not impact pension expense and funding requirements. Furthermore, the Company has merged and is in the process of merging a number of its defined benefit pension plans. The funding status of the individual plans depends in part on whether the mergers are approved. Failure by the regulators to approve the mergers could also result in an increase to the Company's funding requirements. Any increase in pension expense or funding requirements could have a material adverse impact on the Company's financial condition and results of operations.

### HOG AND PORK MARKET CYCLICALITY

The Company's results of operations and financial condition are partially dependent upon the cost and supply of hogs and the selling prices for fresh meat products, both of which are influenced by constantly changing market forces of supply and demand over which the Company has little or no control. These prices for the most part are denominated in or related to U.S. dollars which add further variability due to fluctuations in exchange rates. The North American primary pork processing markets are highly competitive, with major and regional companies competing in each market. The market prices for pork products regularly experience periods of supply and demand imbalance, and are sensitive to changes in industry processing capacity. Factors contributing to this cyclicality include the substantial capital investment and high fixed costs required to manufacture primary 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. The Company's revised protein strategy is designed to reduce certain of these risks by reducing volumes of hogs produced and volume of fresh pork sold. There can be no assurance that all or part of 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 is susceptible to risks related to health status of livestock both within and outside its protein operations. 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, 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 hog and poultry livestock is also purchased from independent third parties. Accordingly, there can be no assurance that an outbreak of animal disease in Canada will not have a material adverse effect on the Company's financial condition and results of operations. Maple Leaf 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. There can be no assurance, however, that these prevention measures or plans will be successful in minimizing or containing the impact of an outbreak of animal disease and that such outbreak will not have a material adverse effect on the Company's financial condition and results of operations.

### FOREIGN CURRENCIES

A significant amount of the Company's revenues and costs are either denominated in or directly linked to other currencies (primarily U.S. dollars and Japanese yen). In periods when the Canadian dollar has appreciated both rapidly and materially against these foreign currencies, revenues linked to U.S. dollars or Japanese yen are immediately reduced while the Company's ability to change prices or realize 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 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/U.S. dollar exchange rate can have, and has had significant effects on the Company's relative competitiveness in its domestic and international markets which can have, and has had, significant effects on the Company's financial condition and results of operations. The Company's United Kingdom operations may also be affected in a similar manner, adversely or favourably, by changes in exchange rates between the U.S. and Canadian dollars, on the one hand, and the British pound on the other.

### COMMODITIES

The Company is a purchaser of certain commodities, such as wheat, feed grains, livestock and natural gas, in the course of normal operations. Commodity prices are subject to fluctuation and such fluctuations are sometimes severe. The Company may use commodity futures and options for hedging purposes to reduce the effect of changing prices in the short term but such hedges may not be successful in mitigating this commodity price risk. On a longer-term basis, the Company manages the risk of increases in commodities and other input costs by increasing the price it charges to its customers. 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. 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 labeling of the Company's products, including food safety standards. The Company's manufacturing facilities and products are subject to inspection by federal, provincial and local authorities. The Company strives to maintain material compliance with all laws and regulations and maintains all material permits and licenses relating to its operations. Nevertheless, there can be no assurance that the Company is in compliance with such laws and regulations or that it will be able to comply with such laws and regulations in the future. Failure by the Company to comply with applicable laws and regulations could subject the Company to civil remedies, including fines, injunctions, recalls or seizures, as well as potential criminal sanctions, which could have a material adverse effect on the Company's financial condition and results of operations. Various governments throughout the world are considering regulatory proposals relating to genetically modified organisms, drug residues or food ingredients, food safety and market and environmental regulation that, if adopted, may increase the Company's costs. In addition, new regulations and standards may be enacted in Canada in response to the Company's August 2008 recall of ready-to-eat meat products following the discovery of bacteria contamination in some 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 and 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.

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, 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. 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 healthy 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 its products could result in declining demand for the Company's products, which in turn could cause 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 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 adverse effect on the Company's financial condition and results of operations.

### CONSOLIDATING CUSTOMER ENVIRONMENT

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

### 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 and ship products as well as perform core business processes. The Company actively manages these risks by maintaining a general emergency response process. This process involves 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 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 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.

## Critical Accounting Estimates

The preparation of the Company's consolidated financial statements requires Management to make certain estimates and assumptions. The estimates and assumptions are based on the Company's experience combined with Management's understanding of facts and circumstances at the time. These estimates may differ from actual results, and certain estimates are considered critical as they are both important to reflect the Company's financial position and results of operations and require 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 carrying value of a reporting unit has been impaired. Impairment of goodwill is tested at the reporting unit level by comparing the reporting unit's carrying amount to its fair value. Indefinite life intangible assets are tested for impairment annually in the fourth quarter and, as required, if events occur that indicate it is more likely than not the carrying value has been impaired. The impairment tests for indefinite life intangible assets and goodwill were performed in 2008 and no impairment was identified.

### RESERVE 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 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, Management considers product life, the profitability of recent sales of inventory, and changes in 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 specified sales volumes. Significant estimates used to determine these liabilities include the level of customer performance and the historical promotional expenditure rate compared to 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 of 7.5%, salary escalation, retirement ages of employees 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.

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

| ($ millions) | 1% Increase | 1% Decrease |
|---|---|---|
| End-of-year obligation | $ 2.8 | $ (3.2) |
| Aggregate of 2008 current service cost and interest cost | $ 0.2 | $ (0.2) |

### TAXES

Provisions for income taxes are based on domestic and international statutory income tax rates and tax planning opportunities available to the Company in the jurisdictions in which it operates. Significant judgement is required in determining income tax provisions, including evaluating tax positions and valuation allowances, if applicable. 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 and reassessed by tax authorities. The Company adjusts these additional accruals in light of changing facts and circumstances.

### RESERVES FOR PRODUCT RECALLS, RESTRUCTURING AND OTHER RELATED COSTS

The Company evaluates accruals related to restructuring and other related costs at each reporting date to ensure these accruals are still appropriate. 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

In May 2007, the Accounting Standards Board issued CICA Handbook Section 3031, "Inventories". The standard introduces changes to the measurement and disclosure of inventory and is consistent with International Financial Reporting Standards. The Company adopted the measurement provisions of the standard effective January 1, 2008. The adoption of the standard did not have a material impact on the results of operations or measurement of inventory.

In October 2006, the Accounting Standards Board issued CICA Handbook Section 3862, "Financial Instruments – Disclosure" and Section 3863, "Financial Instruments – Presentation", which replace Section 3861, "Financial Instruments – Disclosure and Presentation"

("CICA 3861"). The new disclosure standards require increased disclosure of risks associated with recognized and unrecognized financial instruments and how those risks are managed. The standards carry forward the former presentation requirements of CICA 3861. The Company has complied with the new disclosure requirements beginning in 2008 and the new disclosure requirements are presented in Note 12 of the Consolidated Financial Statements.

In October 2006, the Accounting Standards Board issued CICA Handbook Section 1535, "Capital Disclosures", which establishes standards for disclosing information about an entity's capital and how it is managed. The Company has complied with the new disclosure requirements beginning in 2008 and the new disclosure requirements are presented in Note 12 of the Consolidated Financial Statements.

## Recent Accounting Pronouncements

In 2008, the CICA issued Handbook Section 3064, "Goodwill and Intangible Assets" ("CICA 3064"). CICA 3064, which replaces Section 3062, "Goodwill and Intangible Assets", and Section 3450, "Research and Development Costs", establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. This new standard is effective for the Company's interim and annual consolidated financial statements commencing January 1, 2009. The Company does not expect the adoption of the new standard will have a material impact on its financial statements.

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

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

In January 2009, the CICA issued EIC Abstract 173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities". The EIC requires the Company to take into account the Company's own credit risk and the credit risk of the counterparty in determining the fair value of financial assets and financial liabilities, including derivative instruments. The Company is currently assessing the impact of the new standard on its financial statements.

## Disclosure Controls and Internal Control Over Financial Reporting

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

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

The Company's Chief Executive Officer and Chief Financial Officer, have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Company's internal control over financial reporting and disclosure controls and procedures as at December 31, 2008 and have concluded that such controls and procedures are effective.

Other than the remediation steps described below, there have been no changes in the Company's internal control over financial reporting during the period beginning on October 1, 2008 and ended on December 31, 2008 that has materially affected, or is reasonably likely to materially affect, its internal control over financial reporting.

As previously disclosed, the Company had identified a material weakness in the design of disclosure controls and procedures and internal control over financial reporting for the fiscal year ended December 31, 2007 and the interim fiscal periods ended March 31, 2008, June 30, 2008 and September 30, 2008. The material weakness in design was due to the Company having an insufficient number of personnel in the taxation area with the required experience and capabilities to complete all necessary control procedures during a period in which there was an unusually high volume of activity within the taxation department, due to the sale of the Company's animal nutrition business as well as other restructuring activities. The impact of this material weakness, while limited to the taxation department, provided for the reasonable possibility that a material misstatement in the annual or interim financial statements of the Company would not be prevented or detected on a timely basis by the Company's internal control over financial reporting or its disclosure controls and procedures. The Company remediated the effect of the material weakness in design noted above by carrying out additional reviews and procedures involving senior tax department personnel as at December 31, 2008.

The Company is undertaking a further review of the structure and capacity of its taxation department and plans to remediate any ongoing design deficiencies identified above during the first half of 2009.

## International Financial Reporting Standards

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

In order to meet the requirement of transition to IFRS, the Company has established an enterprise-wide project and formed a steering committee. The Company's transition plan is comprised of three phases; initial diagnostic assessment, design, and implementation. The Company is currently in the process of finalizing the initial assessment of the impact of the adoption of IFRS. Changes in accounting policies upon adoption of IFRS are likely and may materially impact the Company's consolidated financial statements.

## 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 | **2008** | **$ 1,203,263** | **$ 1,355,301** | **$ 1,344,334** | **$ 1,339,704** | **$ 5,242,602** |
| | 2007 | 1,316,135 | 1,318,773 | 1,301,099 | 1,273,633 | 5,209,640 |
| Net earnings (loss) from continuing operations | **2008** | **(10)** | **(9,353)** | **(12,919)** | **(14,575)** | **(36,857)** |
| | 2007 | 5,266 | (6,458) | 1,698 | (23,738) | (23,232) |
| Net earnings (loss) | **2008** | **(10)** | **(9,353)** | **(12,919)** | **(14,575)** | **(36,857)** |
| | 2007 | 10,463 | (1,671) | 208,244 | (22,072) | 194,964 |
| Earnings per share: | | | | | | |
| Basic from continuing operations (i) | **2008** | **$ 0.00** | **$ (0.07)** | **$ (0.10)** | **$ (0.12)** | **$ (0.29)** |
| | 2007 | 0.04 | (0.05) | 0.01 | (0.19) | (0.18) |
| Adjusted EPS from continuing operations (i) (ii) | **2008** | **0.04** | **(0.01)** | **0.13** | **0.12** | **0.29** |
| | 2007 | 0.12 | 0.13 | 0.06 | 0.20 | 0.51 |
| Total Basic (i) | **2008** | **0.00** | **(0.07)** | **(0.10)** | **(0.12)** | **(0.29)** |
| | 2007 | 0.08 | (0.01) | 1.62 | (0.17) | 1.53 |
| Diluted from continuing operations (i) | **2008** | **0.00** | **(0.07)** | **(0.10)** | **(0.12)** | **(0.29)** |
| | 2007 | 0.04 | (0.05) | 0.01 | (0.19) | (0.18) |
| Total Diluted (i) | **2008** | **0.00** | **(0.07)** | **(0.10)** | **(0.12)** | **(0.29)** |
| | 2007 | 0.08 | (0.01) | 1.58 | (0.17) | 1.50 |

(i) Does not add due to rounding.
(ii) Refer to Non-GAAP Measures on Page 1.

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.mapleleaf.com**.

## 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. Specific forward-looking statements in this document include, but are not limited to, statements with respect to expected product recall costs in 2009, the timing of court approval of the Company's class action product recall settlement, the timing of the completion of the Company's protein transformation strategy, the timing and execution of planned network optimization activities and new product innovation, the expected benefits of the Company's protein transformation strategy and the timing of these benefits, the timing, cost and expected benefits of the Company's new planned shared services platform software, expectations regarding the timing of volume and margin recovery from the product recall, the ability of the Lagimodiere Road plant in Winnipeg to meet the Company's input requirements for boned hams, expectations regarding the timing of the sale of the Company's facilities in Burlington, Ontario and Lethbridge, Alberta, expectations regarding the contribution to earnings of two new distribution warehouses in Western Canada, increased costs at the Company's U.K. bakery operations due to commissioning of a new oven, expected margin contribution from the Company's new bagel line in Roanoke, Virginia, expected additional restructuring costs related to the protein business transformation and future restructurings, expected amount of write-downs in systems made redundant by the Company's new shared services platform software, the amount of increased pension expenses and the sources of cash used to fund them, expected use of cash balances, continuation of prudent management of working capital, expected timing of capital spending plans, source of funds for ongoing business requirements and capital investments, expectations regarding sufficiency of the allowance for uncollectible accounts, analysis regarding sensitivity of the business to changes in interest rates, exchange rates and market prices for commodities, expectations regarding environmental expenditures and outcome of outstanding litigation, expectations regarding covenant compliance, impact of recently adopted accounting pronouncements and expectations concerning remedying the Company's deficiency in design of its internal control over financing reporting and disclosure controls and procedures. Words such as "expect", "anticipate", "intend", "attempt", "may", "will", "plan", "believe", "seek", "estimate", and variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve assumptions and risks and uncertainties that are difficult to predict.

In particular, these forward-looking statements are based on a variety of factors and assumptions that are discussed throughout this document. 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 and United States economies; the rate of exchange of the Canadian dollar to the U.S. dollar and the Japanese yen; expected recovery of sales following the product recall; the availability and prices of raw materials, energy and supplies; product pricing; the availability of insurance; the competitive environment and related market conditions; improvement of operating efficiencies whether as a result of the protein business transformation or otherwise; continued access to capital; the cost of compliance with environmental and health standards; no adverse results from ongoing litigation; no unexpected actions of domestic and foreign governments; and the general assumption that none of the risks identified below or elsewhere in this document will materialize. All of these assumptions have been derived from information currently available to the Company including information obtained by the Company from third-party sources. These assumptions may prove to be incorrect in whole or in part. In addition, actual results may differ materially from those expressed, implied or forecasted in such forward-looking statements, which reflect the Company's expectations only as of the date hereof.

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

- the risks associated with implementing and executing the protein business transformation;
- the risks associated with changes in the Company's shared systems and processes;
- the risks posed by food contamination, consumer liability and product recalls;
- the risks associated with the Company's outstanding indebtedness;
- the impact on pension expense and funding requirements of fluctuations in the market prices of fixed income and equity securities and changes in interest rates;
- the 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 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;
- 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 impact of a pandemic on the Company's operations; 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 the reader that the foregoing list of factors is not exhaustive. These factors are discussed in more detail under the heading "Risk Factors" on page 19 of this document. The reader should review such section in detail. 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.

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

# Management's Statement of Responsibility

Management recognizes its responsibility for conducting the Company's affairs in the best interests of all its shareholders. The Consolidated Financial Statements and related information in the annual report are the responsibility of Management. The Consolidated Financial Statements have been prepared in accordance with Canadian generally accepted accounting principles, which involve the use of judgement and estimates in applying the accounting principles selected. Other financial information in the annual report is consistent with that in the Consolidated Financial Statements.

The Company maintains systems of internal controls, which are designed to provide reasonable assurance that accounting records are reliable, and to safeguard the Company's assets. The Company's independent auditors, KPMG LLP, Chartered Accountants, have audited and reported on the Company's Consolidated Financial Statements. Their opinion is based upon audits conducted by them in accordance with Canadian generally accepted auditing standards to obtain reasonable assurance that the Consolidated Financial Statements are free of material misstatement.

The Audit Committee of the Board of Directors, all of whom are independent of the Company or any of its affiliates, meets periodically with the independent external auditors, the internal auditors and management representatives to review the internal accounting controls, the consolidated quarterly and annual financial statements and other financial reporting matters. Both the internal and independent external auditors have unrestricted access to the Audit Committee. The Audit Committee reports its findings and makes recommendations to the Board of Directors.

February 24, 2009

**M. H. McCain**
President and
Chief Executive Officer

**M. H. Vels**
Executive Vice-President and
Chief Financial Officer

# Auditors' Report to the Shareholders

We have audited the consolidated balance sheets of Maple Leaf Foods Inc. as at December 31, 2008 and 2007 and the consolidated statements of earnings, comprehensive income (loss), retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants, Licensed Public Accountants
Toronto, Canada
February 24, 2009

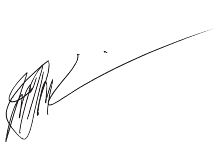
# Consolidated Balance Sheets

| As at December 31,<br>(In thousands of Canadian dollars) | 2008 | 2007 |
|---|---|---|
| **ASSETS** | | |
| Current assets | | |
| Cash and cash equivalents | **$ 365,518** | $ 28,222 |
| Accounts receivable (Note 5) | **139,144** | 202,285 |
| Inventories (Note 6) | **377,414** | 351,064 |
| Income and other taxes recoverable | **20,971** | — |
| Future tax asset – current (Note 21) | **19,787** | 25,409 |
| Prepaid expenses and other current assets | **32,289** | 16,529 |
| Assets held for sale (Note 4) | **—** | 10,092 |
| | **$ 955,123** | $ 633,601 |
| Property and equipment (Note 7) | **1,169,435** | 1,126,727 |
| Other long-term assets (Note 8) | **329,070** | 304,567 |
| Future tax asset – non-current (Note 21) | **24,854** | 22,837 |
| Goodwill | **876,261** | 817,477 |
| Other intangible assets (Note 9) | **97,358** | 92,635 |
| | **$ 3,452,101** | $ 2,997,844 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| Current liabilities | | |
| Bank indebtedness | **$ 8,894** | $ 9,845 |
| Accounts payable and accrued charges | **600,924** | 550,528 |
| Income and other taxes payable | **—** | 12,881 |
| Current portion of long-term debt (Note 10) | **179,244** | 17,945 |
| Other current liabilities | **28,456** | — |
| | **$ 817,518** | $ 591,199 |
| Long-term debt (Note 10) | **1,200,224** | 855,281 |
| Future tax liability – non-current (Note 21) | **37,903** | 74,115 |
| Other long-term liabilities (Note 11) | **179,039** | 248,448 |
| Non-controlling interest | **74,447** | 79,554 |
| Shareholders' equity (Note 14) | **1,142,970** | 1,149,247 |
| | **$ 3,452,101** | $ 2,997,844 |

Contingencies and commitments (Note 24)

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,<br>(In thousands of Canadian dollars, except share amounts) | 2008 | 2007 |
|---|---|---|
| Sales | $ 5,242,602 | $ 5,209,640 |
| Cost of goods sold | 4,622,409 | 4,523,448 |
| Gross margin | $ 620,193 | $ 686,192 |
| Selling, general and administrative expenses | 491,778 | 487,136 |
| Earnings from continuing operations before the following: | $ 128,415 | $ 199,056 |
| Product recall, restructuring and other related costs (Note 13) | (102,812) | (122,304) |
| Other income (Note 19) | 24,864 | 4,578 |
| Earnings from continuing operations before interest and income taxes | $ 50,467 | $ 81,330 |
| Interest expense (Note 20) | 88,651 | 94,122 |
| Loss from continuing operations before income taxes | $ (38,184) | $ (12,792) |
| Income taxes (Note 21) | (8,538) | 801 |
| Loss from continuing operations before non-controlling interest | $ (29,646) | $ (13,593) |
| Non-controlling interest | 7,211 | 9,639 |
| Loss from continuing operations | $ (36,857) | $ (23,232) |
| Net earnings from discontinued operations (Note 3) | — | 218,196 |
| Net earnings (loss) | $ (36,857) | $ 194,964 |
| Basic earnings (loss) per share (Note 17) | | |
| From continuing operations | $ (0.29) | $ (0.18) |
| From discontinued operations | — | 1.71 |
| | $ (0.29) | $ 1.53 |
| Diluted earnings (loss) per share (Note 17) | | |
| From continuing operations | $ (0.29) | $ (0.18) |
| From discontinued operations | — | 1.68 |
| | $ (0.29) | $ 1.50 |
| Weighted average number of shares (millions) | 126.7 | 127.3 |

See accompanying Notes to the Consolidated Financial Statements

# Consolidated Statements of Retained Earnings

| Years ended December 31,<br>(In thousands of Canadian dollars) | 2008 | 2007 |
|---|---|---|
| Retained earnings, beginning of year | **$ 378,604** | $ 204,415 |
| Net earnings (loss) for the year | **(36,857)** | 194,964 |
| Dividends declared ($0.16 per share; 2007: $0.16 per share) | **(20,769)** | (20,775) |
| Premium on shares repurchased for cancellation (Note 14) | **(5,515)** | — |
| Premium on shares issued from Restricted Share Unit Trust (Note 14) | **(814)** | — |
| Retained earnings, end of year | **$ 314,649** | $ 378,604 |

See accompanying Notes to the Consolidated Financial Statements

# Consolidated Statements of Comprehensive Income (Loss)

| Years ended December 31,<br>(In thousands of Canadian dollars) | 2008 | 2007 |
|---|---|---|
| Net earnings (loss) for the year | **$ (36,857)** | $ 194,964 |
| Other comprehensive income (loss) (Note 15) | | |
| Change in accumulated foreign currency translation adjustment | **(6,579)** | (16,036) |
| Change in unrealized derivative loss on cash flow hedges | **(10,329)** | 22,620 |
| | **$ (16,908)** | $ 6,584 |
| Comprehensive income (loss) | **$ (53,765)** | $ 201,548 |

See accompanying Notes to the Consolidated Financial Statements

# Consolidated Statements of Cash Flows

| Years ended December 31, (In thousands of Canadian dollars) | 2008 | 2007 |
|---|---|---|
| **CASH PROVIDED BY (USED IN)** | | |
| Operating activities | | |
| Net loss from continuing operations | $ (36,857) | $ (23,232) |
| Add (deduct) items not affecting cash | | |
| Depreciation and amortization | 149,219 | 141,181 |
| Stock-based compensation (Note 16) | 17,160 | 15,340 |
| Non-controlling interest | 7,212 | 9,639 |
| Future income taxes | (23,254) | (46,290) |
| Gain on sale of property and equipment | (4,724) | (2,341) |
| Gain on sale of investments | — | (176) |
| Amortization of terminated interest rate swaps | 4,391 | 3,721 |
| Change in fair value of derivative financial instruments | 12,851 | (1,085) |
| Change in other long-term receivables | 893 | (1,957) |
| Increase in net pension asset | (27,489) | (48,034) |
| Asset impairments and change in provision for restructuring and other related costs | 37,859 | 101,348 |
| Other | 6,066 | 5,363 |
| Change in non-cash operating working capital | 52,156 | (30,643) |
| Cash provided by operating activities of continuing operations | $ 195,483 | $ 122,834 |
| Cash used in operating activities of discontinued operations | — | (17,086) |
| | $ 195,483 | $ 105,748 |
| Financing activities | | |
| Dividends paid | (20,769) | (20,775) |
| Dividends paid to non-controlling interest | (755) | (801) |
| Increase in long-term debt | 415,000 | 5,389 |
| Decrease in long-term debt | (22,715) | (340,863) |
| Proceeds on issuance of share capital (Note 14) | 5,143 | 20,944 |
| Shares repurchased for cancellation (Note 14) | (11,814) | — |
| Issuance of equity units (Note 14) | 69,106 | — |
| Purchase of treasury stock (Note 14) | (11,341) | (30,054) |
| Other | 1,994 | 8,200 |
| Cash provided by (used in) financing activities of continuing operations | $ 423,849 | $ (357,960) |
| Cash used in financing activities of discontinued operations | — | (389) |
| | $ 423,849 | $ (358,349) |
| Investing activities | | |
| Additions to property and equipment | (206,220) | (236,660) |
| Proceeds from disposal of property and equipment | 19,727 | 9,788 |
| Acquisition of businesses – net of cash acquired (Note 23) | (62,962) | (65,013) |
| Proceeds on sale of investments | 1,053 | 3,713 |
| Proceeds on disposal of business | — | 5,470 |
| Purchase of Canada Bread shares (Note 23) | (32,643) | (6,521) |
| Other | (40) | 1,521 |
| Cash used in investing activities of continuing operations | $ (281,085) | $ (287,702) |
| Cash provided by investing activities of discontinued operations | — | 503,316 |
| | $ (281,085) | $ 215,614 |
| Increase (decrease) in cash and cash equivalents | 338,247 | (36,987) |
| Net cash and cash equivalents, beginning of year | 18,377 | 55,364 |
| Net cash and cash equivalents, end of year | $ 356,624 | $ 18,377 |

See accompanying Notes to the Consolidated Financial Statements

# Notes to the Consolidated Financial Statements

*Years ended December 31, 2008 and 2007 (Tabular amounts in thousands of Canadian dollars, unless otherwise indicated)*

## 1. The Company

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

## 2. Significant Accounting Policies

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

### (A) PRINCIPLES OF CONSOLIDATION

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

### (B) USE OF ESTIMATES

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

### (C) TRANSLATION OF FOREIGN CURRENCIES

The accounts of the Company are presented in Canadian dollars. The financial statements of foreign subsidiaries whose unit of measure is not the Canadian dollar are translated into Canadian dollars using the exchange rate in effect at the year end for assets and liabilities and the average exchange rates for the period for revenue, expenses and cash flows. Exchange gains or losses on translation of foreign subsidiaries are included in accumulated other comprehensive income, a component of shareholders' equity until realized.

### (D) REVENUE RECOGNITION

The Company recognizes revenues from product sales upon transfer of title to customers. Revenue is recorded at the invoice price for each product net of estimated returns. An estimate of sales incentives provided to customers is also recognized at the time of sale and is classified as a reduction in reported sales. Sales incentives include various rebate and promotional programs provided to the Company's customers. The rebates are primarily based on achievement of specified volume or growth in volume levels.

### (E) FINANCIAL INSTRUMENTS

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

### (F) HEDGE ACCOUNTING

The Company uses derivatives and other non-derivative financial instruments to manage 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 in other comprehensive income, to the extent it is effective, until the hedged item affects the consolidated statement of earnings. The Company uses cash flow hedges primarily to convert fixed-rate U.S. dollar-denominated notes payable to fixed-rate notes denominated in Canadian dollars. The Company also uses cash flow hedges to mitigate the risk from variable cash flows associated with forecasted foreign currency denominated cash flows and forecasted purchases and sales of various agricultural commodities.

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

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

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

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

### (G) INVENTORIES

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

### (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 indicates that their carrying amount may not be recoverable. Recoverability of assets to be held and used is measured by comparing the carrying amount of the asset to the sum of the undiscounted cash flows expected to result from the use and eventual disposal of the asset or asset group. An impairment loss is recognized when the carrying amount is not recoverable and exceeds the fair value of the asset or asset group. Long-lived assets are classified as held for sale when certain criteria are met and the sale is expected to be completed within one year. These assets to be disposed of are separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated.

### (I) PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost including, where applicable, interest capitalized during the construction or development period. Construction in process assets are capitalized during construction and depreciation commences when the asset is available for use. Depreciation is calculated using the straight-line basis at the following rates, which are based on the expected useful lives of the assets:

| | |
|---|---|
| Buildings | 2.5% to 6% |
| Machinery and equipment | 10% to 33% |

### (J) FINANCING COSTS

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

### (K) GOODWILL AND OTHER INTANGIBLES

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

Definite life intangibles are amortized over their estimated useful lives. Goodwill is not amortized and is tested for impairment annually in the second quarter and otherwise as required if events occur that indicate that it is more likely than not that the carrying value of a reporting unit has been impaired. Impairment of goodwill is tested at the reporting unit level by comparing the reporting unit's carrying amount to its fair value. Indefinite life intangibles are tested for impairment annually in the fourth quarter and, as required, if events occur that indicate it is more likely than not the carrying value has been impaired. The impairment tests for indefinite life intangible assets and goodwill were performed in 2008 and no impairments were identified. In 2007, the Company recorded a goodwill impairment of $20.7 million in restructuring and other related costs triggered by the sale of its animal nutrition business.

### (L) INCOME TAXES

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

### (M) EMPLOYEE BENEFIT PLANS

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

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

### (N) STOCK-BASED COMPENSATION

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

### (O) STATEMENT OF CASH FLOWS

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

### (P) ACCOUNTING CHANGES

(i) In May 2007, the Accounting Standards Board issued CICA Handbook Section 3031, "Inventories". The standard introduces changes to the measurement and disclosure of inventory and is consistent with International Financial Reporting Standards. The Company adopted the measurement provisions of the standard effective January 1, 2008. The adoption of the standard did not have a material impact on the results of operations or measurement of inventory.

# Notes to the Consolidated Financial Statements

(ii) In October 2006, the Accounting Standards Board issued CICA Handbook Section 3862, "Financial Instruments – Disclosure" and Section 3863, "Financial Instruments – Presentation", which replace Section 3861, "Financial Instruments – Disclosure and Presentation". The new disclosure standards require increased disclosure of risks associated with recognized and unrecognized financial instruments and how those risks are managed. The standards carry forward the former presentation requirements of Section 3861. The Company has complied with the new disclosure requirements beginning in 2008 and the new disclosure requirements are presented in Note 12.

(iii) In October 2006, the Accounting Standards Board issued CICA Handbook Section 1535, "Capital Disclosures", which establishes standards for disclosing information about an entity's capital and how it is managed. The Company has complied with the new disclosure requirements beginning in 2008 and the new disclosure requirements are presented in Note 12.

(iv) Effective January 1, 2007 the Company adopted new financial instrument accounting standards that were issued by the CICA, including Handbook Section 1530, "Comprehensive Income", Handbook Section 3855, "Financial Instruments – Recognition and Measurement", and Handbook Section 3865, "Hedges".

The following table summarizes the adjustments required to adopt the new standards on January 1, 2007:

| | |
|---|---|
| Increase in other current assets | $ 1,167 |
| Decrease in other assets | (12,889) |
| Increase in future tax asset – long-term | 16,587 |
| Increase in other current liabilities | (3,085) |
| Decrease in long-term debt | 3,123 |
| Increase in other long-term liabilities | (37,101) |
| Increase in unrealized foreign currency adjustment | 9,809 |
| Accumulated other comprehensive loss – cash flow hedges | 32,198 |
| Accumulated other comprehensive loss – cumulative translation account | (9,809) |

### (Q) RECENT ACCOUNTING PRONOUNCEMENTS

In 2008, the CICA issued Handbook Section 3064, "Goodwill and Intangible Assets" ("CICA 3064"). CICA 3064, which replaces Section 3062, "Goodwill and Intangible Assets", and Section 3450, "Research and Development Costs", establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. This new standard is effective for the Company's interim and annual consolidated financial statements commencing January 1, 2009. The Company does not expect the adoption of the new standard will have a material impact on its financial statements.

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

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

In January 2009, the CICA issued EIC Abstract 173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities". The EIC requires the Company to take into account the Company's own credit risk and the credit risk of the counterparty in determining the fair value of financial assets and financial liabilities, including derivative instruments. The Company is currently assessing the impact of the new standard on its financial statements.

### (R) COMPARATIVE FIGURES

Certain 2007 comparative figures have been reclassified to conform with the financial statement presentation adopted in 2008.

## 3. Discontinued Operations

On July 20, 2007, the Company sold its animal nutrition business, retaining two mills in Western Canada to meet future requirements of its hog production operations, for gross proceeds of $524.8 million. As a result, the Company reclassified the portion of its animal nutrition business that was sold as discontinued operations.

The results of discontinued operations were as follows:

| | 2008 | 2007 |
|---|---|---|
| Sales | $ — | $ 342,642 |
| Cost of goods sold | — | 288,657 |
| Gross margin | $ — | $ 53,985 |
| Selling, general and administrative expenses | — | 28,334 |
| Earnings from operations before the following: | $ — | $ 25,651 |
| Restructuring and other related costs | — | (2,672) |
| Other income | — | 162 |
| Earnings from operations before interest and income taxes | $ — | $ 23,141 |
| Interest expense (i) | — | 5,147 |
| Earnings before income taxes | $ — | $ 17,994 |
| Income taxes | — | 7,000 |
| Net earnings from discontinued operations before gain on sale of business | $ — | $ 10,994 |
| Gain on sale of business (net of income taxes of $77.3 million) | — | 207,202 |
| Net earnings from discontinued operations | $ — | $ 218,196 |

(i) In calculating net earnings from discontinued operations, interest expense has been allocated assuming a uniform debt-to-equity ratio.

## 4. Assets Held for Sale

The assets of certain hog production operations in Ontario and Alberta were disposed of in January 2008. These assets were classified as held for sale at the end of 2007.

Assets held for sale consists of the following:

| As at December 31, | 2008 | 2007 |
|---|---|---|
| Inventories | $ — | $ 4,074 |
| Property and equipment | — | 6,018 |
| | $ — | $ 10,092 |

## 5. Accounts Receivable

Under revolving securitization programs, the Company has sold certain of its trade accounts receivable to financial institutions. The Company retains servicing responsibilities and retains a limited recourse obligation for delinquent receivables. At December 31, 2008, trade accounts receivable being serviced under this program amounted to $181.3 million (2007: $218.5 million).

## 6. Inventories

| | 2008 | 2007 |
|---|---|---|
| Raw materials | **$ 62,014** | $ 63,589 |
| Work in process | **55,933** | 76,613 |
| Finished goods | **197,723** | 152,517 |
| Packaging | **27,208** | 25,447 |
| Spare parts | **34,536** | 32,898 |
| | **$ 377,414** | $ 351,064 |

# Notes to the Consolidated Financial Statements

## 7. Property and Equipment

| | 2008 | 2007 |
|---|---|---|
| Land | $ 62,485 | $ 59,752 |
| Buildings | 715,733 | 625,351 |
| Machinery and equipment | 1,606,725 | 1,472,548 |
| Construction in progress | 132,580 | 165,434 |
| | 2,517,523 | 2,323,085 |
| Less: Accumulated depreciation | 1,348,088 | 1,196,358 |
| | $ 1,169,435 | $ 1,126,727 |

## 8. Other Long-Term Assets

| | 2008 | 2007 |
|---|---|---|
| Deferred pension asset (Note 22) | $ 320,574 | $ 292,798 |
| Financing costs | 2,581 | 4,945 |
| Notes and mortgages receivable | 163 | 1,056 |
| Other | 5,752 | 5,768 |
| | $ 329,070 | $ 304,567 |

## 9. Other Intangible Assets

| | 2008 | 2007 |
|---|---|---|
| Brands | $ 53,672 | $ 53,645 |
| Poultry production quota | 28,567 | 28,396 |
| Customer relationships | 12,478 | 8,424 |
| Other | 2,641 | 2,170 |
| | $ 97,358 | $ 92,635 |

## 10. Long-Term Debt

| | 2008 | 2007 |
|---|---|---|
| Notes payable: | | |
| – due 2009 (US$140.0 million) (a) | $ 169,912 | $ 138,378 |
| – due 2010 (US$75.0 million and CAD$115.0 million) (b) | 205,877 | 189,348 |
| – due 2011 (US$207.0 million) (c) | 249,807 | 205,199 |
| – due 2014 (US$98.0 million and CAD$105.0 million) (c) | 222,157 | 202,148 |
| – due 2016 (US$7.0 million and CAD$20.0 million) (c) | 28,218 | 26,939 |
| – due 2010 (CAD$4.6 million) (d) | 4,941 | 7,195 |
| – due 2016 (CAD$43.5 million) (d) | 48,270 | 53,258 |
| Revolving term facility (e) | 440,000 | 25,000 |
| Other (f) | 10,286 | 25,761 |
| | $ 1,379,468 | $ 873,226 |
| Less: Current portion | 179,244 | 17,945 |
| | $ 1,200,224 | $ 855,281 |

(a) In December 2002, the Company issued US$140.0 million of notes payable, bearing interest at 6.3% per annum and due in 2009. Through the use of cross-currency interest rate swaps entered into in prior years (Note 12), the Company effectively converted US$15.0 million into Canadian dollar-denominated debt of $23.3 million bearing interest at floating interest rates being the three-month bankers' acceptance rate plus 2.6% per annum. In 2006, the Company entered into cross-currency interest rate swaps, which effectively converted the interest on the remaining US$125.0 million notes payable from U.S. dollar-denominated interest at 6.3% per annum into Canadian dollar-denominated interest at 6.2% per annum. At December 31, 2008, the fair value of the swap liability was $4.3 million (2007: $11.1 million) based on year-end exchange rates.

(b) In April 2000, the Company issued notes payable due April 2010. The notes payable include a Canadian dollar-denominated tranche for CAD$115.0 million, bearing interest at 7.7% per annum, and a U.S. dollar-denominated tranche for US$75.0 million, bearing interest at 8.5% per annum. Through the use of cross-currency interest rate swaps (Note 12), the Company effectively converted the U.S. dollar tranche into Canadian dollar-denominated debt, resulting in a Canadian dollar-denominated amount of $110.8 million at an effective fixed interest rate of 7.7% per annum. At December 31, 2008, the fair value of the swap liability was $21.1 million (2007: $37.0 million).

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

Details of the five tranches are as follows:

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

Interest is payable semi-annually. Through the use of cross-currency interest rate swaps (Note 12), the Company effectively converted: US$177.0 million of debt maturing in 2011 into Canadian dollar-denominated debt of $231.0 million bearing interest at an annual fixed rate of 5.4%, US$98.0 million of debt maturing in 2014 into Canadian dollar-denominated debt of $135.3 million 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 of $2.7 million bearing interest at an annual fixed rate of 6.1%. At December 31, 2008, the fair value of the swap liabilities were $48.8 million based on year-end exchange rates (2007: $98.0 million).

(d) Concurrent with the acquisition of Schneider Corporation in April 2004, the Company assumed the liabilities outstanding in respect of debentures previously issued by Schneider Corporation. In April 2004, the debentures provided for principal payments totalling $13.1 million and $60.0 million, bearing interest at fixed annual rates of 10.0% and 7.5%, respectively. The debentures require annual principal repayments over the term of the bonds that have final maturity dates of September 2010 and October 2016, respectively. These debentures were recorded at their fair value on the acquisition closing date. The difference between the acquisition date fair value and the face value of the bonds is amortized over the remaining life of the debentures on an effective yield basis. On December 31, 2008, the remaining book values were $4.9 million for the 2010 debentures (2007: $7.2 million) and $48.3 million for the 2016 debentures (2007: $53.2 million) and the remaining principal payments outstanding were $4.6 million and $43.5 million, respectively (2007: $6.5 million and $47.4 million).

(e) The Company has an unsecured revolving debt facility with a principal amount of $870.0 million. The maturity date is May 31, 2011. This facility can be drawn in Canadian dollars, U.S. dollars, or British pounds, and bears interest based on bankers' acceptance rates for Canadian dollar loans and LIBOR for U.S. dollar and British pound loans. As at December 31, 2008, $559.8 million of the revolving facility was utilized (2007: $136.3 million), of which $119.8 million was in respect of letters of credit and trade finance (2007: $111.3 million). The Company uses interest rate swaps to mitigate the risk from variable cash flows by effectively converting certain variable rate borrowings to fixed-rate borrowings. Through the use of an interest rate swap (Note 12), the Company has effectively fixed the interest rate on $200.0 million of variable rate debt under this facility, at 3.1%. The notional amount of the swap is $200.0 million, maturing in August 2009. This swap had a negative fair value of $2.5 million as at December 31, 2008, which was recorded in other current liabilities.

(f) The Company has other various lending facilities, including capital leases, with interest rates ranging from non-interest bearing to 7.3% per annum. These facilities are repayable over various terms from 2009 to 2016. As at December 31, 2008, $18.8 million (2007: $34.6 million) was utilized of which $8.5 million (2007: $8.8 million) was in respect of letters of credit.

In 2006, the Company established an operating line of credit of £5.0 million ($8.9 million) to provide short-term funding for its U.K. operations. The facility has interest based on LIBOR rates. As of December 31, 2008, £5.0 million ($8.9 million); (2007: £5.0 million; $9.8 million) was outstanding and has been classified as bank indebtedness.

The Company's estimated blended average effective cost of borrowing for 2008 was approximately 6.0% (2007: 6.6%) after taking into account the impact of interest rate hedges.

Required repayments of long-term debt are as follows:

| | |
|---|---|
| 2009 | $ 179,244 |
| 2010 | 218,669 |
| 2011 | 696,444 |
| 2012 | 6,006 |
| 2013 | 6,117 |
| Thereafter | 272,988 |
| Total long-term debt | $ 1,379,468 |

## 11. Other Long-Term Liabilities

| | 2008 | 2007 |
|---|---|---|
| Derivative instruments (Notes 10 and 12) | $ **70,329** | $ 143,604 |
| Pension liabilities (Note 22) | **29,448** | 29,829 |
| Post-retirement benefits (Note 22) | **63,703** | 61,387 |
| Other | **15,559** | 13,628 |
| | $ **179,039** | $ 248,448 |

## 12. Financial Instruments and Risk Management Activities

### CAPITAL

The Company's objective is to maintain a cost effective capital structure that supports its long-term growth strategy and maximizes operating flexibility. The Company has established financial objectives including targets for return on net assets (11.5%) and compound annual earnings per share growth (15%). In allocating capital to investments to support these goals, the Company establishes internal hurdle return rates for capital initiatives. Capital projects are generally financed with senior debt.

The Company uses leverage in its capital structure to reduce the cost of capital. The Company maintains its primary credit ratios and leverage at levels that provide continued access to investment grade credit pricing and terms. The Company measures its credit profile using a number of metrics, primarily net debt to earnings before interest, income taxes, depreciation, amortization, product recall, restructuring and other related costs and earnings before interest, income taxes, depreciation, amortization, product recall, restructuring and other related costs to interest expense. The Company's various credit facilities, all of which are unsecured, are subject to certain financial covenants. As at December 31, 2008, the Company was in compliance with all of these covenants.

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

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

For the year ended December 31, 2008, total equity decreased by $6.3 million to $1,143.0 million. During the same period, total debt net of cash and cash equivalents increased by $168.0 million to $1,022.8 million.

### FINANCIAL INSTRUMENTS

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

| | |
|---|---|
| Cash and cash equivalents | Held for trading |
| Accounts receivable | Loans and receivables |
| Notes and mortgages 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 | Held for trading [i] |

(i) The Company has derivative instruments, from time to time, that are classified as held for trading. These derivatives 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. Financial assets and liabilities classified as held for trading and all derivative financial instruments are recorded at fair value. The fair value of long-term debt as at December 31, 2008 was $1,358.4 million as compared to its carrying value of $1,379.5 million on the consolidated balance sheet.

The fair value of the Company's long-term debt was estimated based on discounted future cash flows using current rates for similar financial instruments subject to similar risks and maturities. The fair values of the Company's interest rate and foreign exchange derivative financial instruments are 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, substantially all of which are in the grocery and foodservice markets. The Company performs ongoing credit evaluations of new and existing customers' financial condition and reviews the collectibility of its trade and other accounts receivable in order to mitigate any possible credit losses. The Company maintains an allowance for uncollectible accounts that represents its estimate of uncollectible amounts. The components of this allowance include a provision related to specific losses estimated on individually significant exposures and a provision based on historical trends of collections. Days sales outstanding for the year is consistent with historic trends. There are no impaired receivables that have not been provided for in the allowance for uncollectible accounts. As at December 31, 2008, the Company believes that the allowance for uncollectible accounts sufficiently covers any credit risk related to past due or impaired accounts receivable balances.

Management believes concentrations of credit risk with respect to accounts receivable is limited due to the credit quality of the Company's major customers, as well as the large number and geographic dispersion of smaller customers. The Company does, however, conduct a significant amount of business with a small number of large grocery retailers. The Company's five largest customers comprise approximately 30.0% of consolidated accounts receivable at December 31, 2008 and the two largest customers comprise approximately 22.8% 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 contractual undiscounted principal cash flows payable in respect of financial liabilities as at the balance sheet date were as follows:

As at December 31, 2008

| | Due within 1 year | Due between 1 and 2 years | Due between 2 and 3 years | Due after 3 years | **Total** |
|---|---|---|---|---|---|
| Non-derivative financial liabilities | | | | | |
| Bank indebtedness | $ 8,894 | $ — | $ — | $ — | **$ 8,894** |
| Accounts payable and accrued charges | 600,924 | — | — | — | **600,924** |
| Long-term debt | 179,244 | 218,669 | 696,444 | 285,111 | **1,379,468** |
| Total | $ 789,062 | $ 218,669 | $ 696,444 | $ 285,111 | **$1,989,286** |

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 refinancing risk.

As at December 31, 2008, the Company had available undrawn committed credit of $310.2 million under the terms of its principal banking arrangements. These banking arrangements, which mature in 2011, are subject to certain covenants and other restrictions. The Company also had cash balances available of $365.5 million.

### 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, 2008, the Company had variable rate debt of $270.7 million with a weighted average interest rate of 3.9%. In addition, the Company is exposed to floating interest rates on its accounts receivable securitization programs. As at December 31, 2008, the amount sold pursuant to these programs was $181.3 million at a weighted average interest rate of 3.2%.

With respect to interest rate, foreign currency and commodity price market risk, sensitivity analyses discussing the effects of reasonably possible changes in relevant risk variables on net earnings and other comprehensive income on an after-tax basis are disclosed below. The periodic effects are determined by relating the reasonably possible changes in the risk variables to the balance of financial instruments at the reporting date.

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, 2008, 70% of the Company's outstanding debt and revolving accounts receivable securitization program was not exposed to interest rate movements (2007: 75%).

#### 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 Company also uses cross-currency interest rate swaps to effectively convert fixed-rate U.S. dollar notes payable to floating rate Canadian dollar notes. These swaps are accounted for as fair value hedges.

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

(In thousands of currency units)

| Maturity | Notional amount | Receive rate (iii) | Notional amount | Pay rate (iii) |
|---|---|---|---|---|
| | US$ | | CAD$ | |
| 2009 | 15,000 | 6.3% | 23,273 | BA (i) + 2.6% |
| 2009 | 125,000 | 6.3% | 144,606 | 6.2% (ii) |
| 2010 | 75,000 | 8.5% | 110,775 | 7.7% |
| 2011 | 177,000 | 5.2% | 231,025 | 5.4% |
| 2014 | 100,000 | 5.6% | 138,000 | 6.0% |
| 2009 | | BA (i) | 200,000 | 3.1% |

(i) Three-month Canadian bankers' acceptance rate.

(ii) Swap notional amounts are not exchanged at inception and maturity. These swaps hedge the coupon payments on U.S. dollar notes payable by converting the U.S. dollar interest into Canadian dollar interest.

(iii) 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, 2008, this amount of notes payable designated as a hedge of the Company's net investment in U.S. operations was US$160.0 million (December 31, 2007: US$160.0 million). Foreign exchange gains and losses on the designated notes payable are recorded in shareholders' equity in the foreign currency translation component of accumulated other comprehensive income and offset translation adjustments on the underlying net assets of the U.S. operations, which are also recorded in accumulated other comprehensive income. The loss on the net investment hedge recorded in other comprehensive loss for the year ended December 31, 2008 was $37.4 million before taxes (December 31, 2007: gain of $29.9 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, 2008, $182.9 million of anticipated foreign currency-denominated sales have been hedged with underlying foreign exchange forward contracts settling at various dates beginning February 2009. The aggregate fair value of these forward contracts was a loss of $2.6 million at December 31, 2008 (2007: gain of $1.7 million) and was recorded in other current liabilities.

At December 31, 2008, the Company had fixed-rate debt of $1,117.7 million with a weighted average interest rate of 5.8%. Changes in market interest rates cause the fair value of long-term debt with fixed interest rates to fluctuate but do not affect net earnings, as the Company's debt is carried at amortized cost and the carrying value does not change as interest rates change.

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

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

It is estimated that, all else constant, a hypothetical 10% change in the value of the Canadian dollar against all relevant currencies would result in a change in the fair value of the Company's foreign exchange forward contracts of $9.1 million, an offsetting change in net earnings of $6.4 million and a corresponding change in other comprehensive income of $12.7 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 Company also uses futures to minimize the price risk assumed under forward priced contracts with suppliers. The futures contracts are designated and accounted for as fair value hedges.

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

It is estimated that, all else constant, a hypothetical 10% change in market prices of the underlying commodities would result in a change in the fair value of underlying outstanding derivative contracts of $8.6 million, a corresponding change in net earnings of $1.1 million and a corresponding change in other comprehensive income of $4.7 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 by hedge type are shown below:

| | 2008 | | | | | | | 2007 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Notional Amount | | Fair Value Asset | | Fair Value Liability | | Notional Amount | | Fair Value Asset | | Fair Value Liability |
| **Cash flow hedges** | | | | | | | | | | | |
| Cross-currency interest rate swaps | US$ 477,000 | $ | — | $ | 69,327 | US$ | 477,000 | $ | — | $ | 137,307 |
| Interest rate swaps | 200,000 | | — | | 2,520 | | — | | — | | — |
| Foreign exchange forward contracts (i) | 182,905 | | — | | 2,573 | | 59,469 | | 1,388 | | — |
| Commodity futures contracts | 40,537 | | 1,142 | | — | | 34,819 | | 5,627 | | — |
| **Fair value hedges** | | | | | | | | | | | |
| Cross-currency interest rate swaps | US$ 15,000 | $ | — | $ | 4,805 | US$ | 15,000 | $ | — | $ | 8,807 |
| Commodity futures contracts | 37,529 | | 4,891 | | — | | 4,280 | | 371 | | — |
| **Derivatives not designated in a formal hedging relationship** | | | | | | | | | | | |
| Foreign exchange forward contracts (i) | $ 323,255 | $ | — | $ | 12,536 | $ | 117,526 | $ | 285 | $ | — |
| Commodity futures contracts | 16,185 | | 769 | | — | | 8,921 | | 799 | | — |
| **Total** | | $ | 6,802 | $ | 91,761 | | | $ | 8,470 | $ | 146,114 |
| Current | | $ | 6,802 | $ | 21,432 | | | $ | 8,470 | $ | 2,446 |
| Non-current | | | — | | 70,329 | | | | — | | 143,668 |
| **Total** | | $ | 6,802 | $ | 91,761 | | | $ | 8,470 | $ | 146,114 |

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

For the years ended December 31, 2008 and 2007, the amount of hedge ineffectiveness recognized in earnings was not material.

## 13. Product Recall, Restructuring and Other Related Costs

During 2008, the Company recorded costs of $37.5 million relating to a product recall as well as $65.3 million in restructuring and other related costs for a total of $102.8 million.

### (I) PRODUCT RECALL

During 2008, the Company recorded approximately $37.5 million ($27.4 million after-tax) in direct costs related to a voluntary recall of 191 products produced at its Bartor Road facility in Toronto.

The costs of the recall include the cost of collection and destruction of the recalled product of $17.6 million, losses incurred on product dispositions directly related to the recall of $2.2 million, the cost of shut-down and sanitization of the Bartor Road facility of $6.7 million, incremental media of $4.2 million, the cost of establishing a customer response call centre related to the recall of $1.2 million, and other related costs of $5.6 million.

On December 18, 2008, the Company reached a settlement of the class action lawsuits filed against it related to damages for alleged adverse health impacts experienced by individuals resulting from consumption of the Company's recalled meat products. The settlement agreement requires court approval. The settlement amount will be $25.0 million, increasing by up to $2.0 million to the extent that claims and costs may exceed $25.0 million. The settlement amount will be fully funded by the Company's liability insurers.

### (II) RESTRUCTURING AND OTHER RELATED COSTS

During 2008, the Company recorded restructuring and other related costs of $65.3 million ($47.1 million after-tax). The majority of these costs related to the finalization of the restructuring of the Company's hog production assets, the closure of a primary pork processing facility in Manitoba and the closure of a bagel facility in Toronto, Ontario. During the fourth quarter, the Company also recorded a $15.2 million charge in restructuring and other related costs related to the write-off of assets made redundant by the Company's decision to replace its computer systems with enterprise wide software provided by SAP.

During 2007, the Company recorded restructuring and other related costs of $125.0 million ($103.9 million after-tax). $122.3 million of this related to continuing operations and the balance is disclosed as part of discontinued operations (Note 3). The majority of these costs related to asset impairments on the Company's hog production assets. A goodwill impairment of $20.7 million was recorded in the hog operations due to the sale of the animal nutrition business in the second quarter, $63.1 million of impairments were recorded in the hog production operations in the fourth quarter. $27.0 million of this impairment related to the Ontario and Alberta hog production assets which were disposed of in asset sales closing January 2008. $36.1 million of the impairment related to an impairment on the remaining hog production assets retained by the Company. The balance of restructuring and other related costs related to restructuring in the Meat Products Group, including the closure of two primary pork processing plants and the closure of a red-meat processing facility.

The following table provides a summary of costs recognized and cash payments made in respect of the above-mentioned restructuring initiatives in 2008 and 2007 and the corresponding liability as at December 31, 2008 and 2007, all on a pre-tax basis:

| | Severance | Site closing | Asset impairment and accelerated depreciation | Retention | Pension | Total |
|---|---|---|---|---|---|---|
| Balance at December 31, 2006 | $ 14,172 | $ 5,031 | $ — | $ 3,015 | $ — | $ 22,218 |
| Charges | 8,667 | 5,569 | 97,443 | 9,497 | 3,800 | 124,976 |
| Cash payments | (13,128) | (7,977) | — | (6,983) | — | (28,088) |
| Non-cash items | — | (589) | (97,443) | — | (3,800) | (101,832) |
| Balance at December 31, 2007 | $ 9,711 | $ 2,034 | $ — | $ 5,529 | $ — | $ 17,274 |
| Charges | 3,513 | 13,871 | 42,830 | 2,792 | 2,300 | 65,306 |
| Cash payments | (8,487) | (10,653) | — | (8,096) | — | (27,236) |
| Non-cash items | — | — | (42,830) | — | (2,300) | (45,130) |
| **Balance at December 31, 2008** | **$ 4,737** | **$ 5,252** | **$ —** | **$ 225** | **$ —** | **$ 10,214** |

## 14. Shareholders' Equity

Shareholders' equity consists of the following:

| | **2008** | 2007 |
|---|---|---|
| Share capital | **$ 800,734** | $ 797,658 |
| Retained earnings | **314,649** | 378,604 |
| Contributed surplus | **48,117** | 38,462 |
| Subscription receipts (i) | **66,936** | — |
| Accumulated other comprehensive loss (Note 15) | **(52,331)** | (35,423) |
| Treasury stock (ii) | **(35,135)** | (30,054) |
| | **$ 1,142,970** | $ 1,149,247 |

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

(ii) During 2008, the Company repurchased 919,100 common shares (2007: 2,169,000) through a trust for cash consideration of $11.3 million (2007: $30.0 million) for the purpose of funding grants under the Restricted Share Unit Plan (Note 16).

The authorized share capital of Maple Leaf Foods consists of an unlimited number of common shares and an unlimited number of non-voting common shares. As at December 31, 2008, there were 107,258,681 voting common shares issued and outstanding (2007: 107,600,271) and 22,000,000 non-voting common shares issued and outstanding (2007: 22,000,000). The non-voting common shares carry rights identical to those of the common shares, except that they have no voting rights other than as specified in the Canada Business Corporations Act. Each non-voting common share is convertible at any time into one common share at the option of the holder. Holders of non-voting common shares have a separate class vote on any amendment to the articles of the Company, if the non-voting common shares would be affected by such amendment in a manner that is different from the holders of common shares.

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

| | Number of shares | Share capital |
|---|---|---|
| Balance, December 31, 2006 | 127,135,866 | $ 769,696 |
| Issued for cash on exercise of options (Note 16) | 2,464,405 | 27,962 |
| Balance, December 31, 2007 | 129,600,271 | $ 797,658 |
| Repurchased for cancellation (i) | (1,023,000) | (6,298) |
| Issued for cash on exercise of options (Note 16) | 681,410 | 9,374 |
| **Balance, December 31, 2008** | **129,258,681** | **$ 800,734** |

(i) During 2008, the Company repurchased for cancellation 1,023,000 common shares pursuant to a normal course issuer bid at an average exercise price of $11.55. The excess of the purchase cost over the book value of the shares was charged to retained earnings.

## 15. Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss consists of the following:

| Years ended December 31, | **2008** | 2007 |
|---|---|---|
| Balance at the beginning of the year – net (i) | **$ (35,423)** | $ (9,809) |
| Transition adjustment as of January 1, 2007 (Note 2(p)) | **—** | (32,198) |
| Adjusted balance at the beginning of the year | **$ (35,423)** | $ (42,007) |
| Change in accumulated foreign currency translation adjustment – net (i) | **(6,579)** | (16,036) |
| Change in unrealized derivative loss on cash flow hedges – net (ii) | **(10,329)** | 22,620 |
| Other comprehensive income (loss) for the year | **$ (16,908)** | $ 6,584 |
| Balance at end of year | **$ (52,331)** | $ (35,423) |

(i) Balance at the beginning of the current year is net of tax of $1.5 million. The change in accumulated foreign currency translation adjustment is net of taxes of $5.8 million for the 12 months ended December 31, 2008 (2007: $10.6 million).

(ii) Change in unrealized derivative loss on cash flow hedges is net of tax of $4.3 million for the 12 months ended December 31, 2008 (2007: $11.5 million).

The Company estimates that $5.2 million of net unrealized derivative losses included in other comprehensive loss will be reclassified into net earnings within the next 12 months. The actual amount of this reclassification will be impacted by future changes in the fair value of financial instruments designated as cash flow hedges and the actual amount reclassified could differ from this estimated amount. During the year, a loss of approximately $2.4 million (net of taxes $1.1 million) was released to income from accumulated other comprehensive loss, which is included in the net change for the year.

The ending balance of accumulated other comprehensive loss comprises accumulated unrealized foreign currency translation losses of $32.4 million, net of taxes of $7.3 million (2007: $25.8 million, net of taxes of $1.5 million) and unrealized derivative loss on cash flow hedges of $19.9 million, net of taxes of $9.3 million (2007: $9.6 million, net of taxes of $5.0 million).

## 16. Stock-Based Compensation

Under the Maple Leaf Foods Share Incentive Plan as at December 31, 2008, the Company may grant additional options to its employees and employees of its subsidiaries to purchase up to 7,950,014 shares of common stock and may grant additional Restricted Share Units (RSUs) entitling employees to receive up to 1,605,100 in common shares. Options and RSUs are granted from time to time by the Board of Directors on the recommendation of the Human Resources and Compensation Committee. The vesting conditions are specified by the Board of Directors and may include continued service of the employee with the Company and/or other criteria based on measures of the Company's performance.

### STOCK OPTIONS

A summary of the status of the Company's outstanding stock options as at December 31, 2008 and 2007, and changes during these years are presented below:

| | **2008** | | 2007 | |
|---|---|---|---|---|
| | **Options outstanding** | **Weighted average exercise price** | Options outstanding | Weighted average exercise price |
| Outstanding, beginning of year | **6,278,250** | **$ 12.84** | 9,619,529 | $ 12.45 |
| Exercised | **(481,610)** | **10.68** | (2,069,305) | 10.15 |
| Expired and terminated | **(1,347,190)** | **12.13** | (1,271,974) | 14.24 |
| Outstanding, end of year | **4,449,450** | **$ 13.29** | 6,278,250 | $ 12.84 |
| Options currently exercisable | **3,387,900** | **$ 12.63** | 5,172,400 | $ 12.30 |

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

The number of options outstanding at December 31, 2008, together with details regarding time and performance vesting conditions of the options, is as follows:

| | Options outstanding | | | Options currently exercisable | | Options subject to time vesting only | |
|---|---|---|---|---|---|---|---|
| Range of exercise prices | Number outstanding | Weighted average exercise price | Weighted average remaining term (in years) | Number exercisable | Weighted average exercise price | Number outstanding | Weighted average exercise price |
| $10.15 to $10.97 | 1,463,700 | $ 10.34 | 1.6 | 1,456,700 | $ 10.34 | 7,000 | $ 10.85 |
| $11.64 to $13.76 | 1,074,500 | 13.06 | 2.5 | 769,500 | 13.00 | 305,000 | 13.22 |
| $14.56 to $14.90 | 798,750 | 14.74 | 0.6 | 786,600 | 14.74 | 12,150 | 14.75 |
| $15.60 to $16.88 | 1,112,500 | 16.35 | 3.7 | 375,100 | 16.38 | 737,400 | 16.34 |
| $10.15 to $16.88 | 4,449,450 | $ 13.29 | 2.2 | 3,387,900 | $ 12.63 | 1,061,550 | $ 15.39 |

The fair value of options issued was determined using the Black-Scholes option-pricing model and is being amortized to income over the vesting period of the related options. The amortization of the fair value of options in 2008 is $0.4 million (2007: $2.2 million) and is recorded in contributed surplus.

### RESTRICTED STOCK UNITS

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

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

A summary of the status of the Company's RSU plan as at December 31, 2008 and 2007 and changes during these years are presented below:

| | 2008 | | | 2007 | | |
|---|---|---|---|---|---|---|
| | RSUs outstanding | | Weighted average price at grant | RSUs outstanding | | Weighted average price at grant |
| Outstanding, beginning of year | **4,308,100** | **$** | **13.81** | 3,458,435 | $ | 13.28 |
| Granted | **2,509,520** | | **8.22** | 1,586,525 | | 14.88 |
| Issued | **(666,825)** | | **13.39** | (395,100) | | 13.13 |
| Expired and terminated | **(166,805)** | | **14.14** | (341,760) | | 14.11 |
| Outstanding, end of year | **5,983,990** | **$** | **11.51** | 4,308,100 | $ | 13.81 |

The fair value of the RSUs granted in 2008 on the date of grant was $16.6 million (2007: $18.8 million), after taking account of forfeiture due to performance, which is amortized to income on a pro rata basis over the vesting periods of the related RSUs. The amortization of the fair value of the RSUs in 2008 is $16.7 million (2007: $13.2 million).

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

| | 2008 | 2007 |
|---|---|---|
| Expected RSU life (in years) | **2.5** | 2.5 |
| Forfeiture rate | **15.0%** | 15.0% |
| Discount rate | **2.2%** | 4.0% |
| Dividend yield | **1.4%** | 1.2% |

## 17. Earnings per Share

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

| Years ended December 31, | 2008 | | | | | 2007 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Net earnings | Weighted average number of shares (ii) | | EPS | | Net earnings | Weighted average number of shares (ii) | | EPS |
| Basic | | | | | | | | | | |
| Continuing operations | **$** | **(36,857)** | **126.7** | **$** | **(0.29)** | $ | (23,232) | 127.3 | $ | (0.18) |
| Discontinued operations | | **—** | **126.7** | | **—** | | 218,196 | 127.3 | | 1.71 |
| | **$** | **(36,857)** | **126.7** | **$** | **(0.29)** | $ | 194,964 | 127.3 | $ | 1.53 |
| Stock options (i) | | **—** | **—** | | **—** | | — | 2.8 | | (0.04) |
| Diluted | | | | | | | | | | |
| Continuing operations | **$** | **(36,857)** | **126.7** | **$** | **(0.29)** | $ | (23,232) | 130.1 | $ | (0.18) |
| Discontinued operations | | **—** | **126.7** | | **—** | | 218,196 | 130.1 | | 1.68 |
| | **$** | **(36,857)** | **126.7** | **$** | **(0.29)** | $ | 194,964 | 130.1 | $ | 1.50 |

(i) Excludes the effect of approximately 20.7 million options, restricted stock units, warrants and subscription receipts (2007: 9.0 million) to purchase common shares that are anti-dilutive.
(ii) In millions.

## 18. Goodwill Impairment

The Company entered into an agreement to sell its animal nutrition business in the second quarter of 2007 and the terms and conditions of sale placed certain restrictions on the operations of the two retained feed mills. This resulted in a change in the Company's assessment of future cash flows of its remaining feed and hog operations. Consequently, the Company determined, in the second quarter of 2007, that the goodwill related to the remaining feed and hog operations was fully impaired and recorded an impairment charge of $20.7 million, which is included in restructuring and other related costs (Note 13).

## 19. Other Income

| | 2008 | 2007 |
|---|---|---|
| Gain on sale of property and equipment | $ 4,724 | $ 2,341 |
| Recovery from insurance claims | 19,396 | 1,854 |
| Other | 744 | 383 |
| | $ 24,864 | $ 4,578 |

## 20. Interest Expense

| | 2008 | 2007 |
|---|---|---|
| Interest expense on long-term debt | $ 79,169 | $ 88,758 |
| Other interest expense, net | 9,482 | 5,364 |
| | $ 88,651 | $ 94,122 |

## 21. Income Taxes

Income tax expense (recovery) 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:

| | 2008 | 2007 |
|---|---|---|
| Income tax recovery according to combined statutory rate of 33.0% (2007: 36.0%) | $ (12,615) | $ (4,612) |
| Increase (decrease) in income taxes resulting from: | | |
| Difference between current rates and future enacted rates | 5,267 | (9,913) |
| Rate differences in other jurisdictions | (3,463) | (7,285) |
| Manufacturing and processing credit | (96) | 208 |
| Non-taxable (gains) losses | (731) | 1,893 |
| Stock-based compensation | 1,044 | 2,559 |
| Dividends not taxable | (20) | (199) |
| Outside basis differences on investments | — | 1,605 |
| Impairment of goodwill | — | 7,134 |
| Non-deductible expenses | 106 | 2,018 |
| Valuation allowance on U.S. tax losses | 3,540 | 5,704 |
| Other | (1,570) | 1,689 |
| | $ (8,538) | $ 801 |

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

| | 2008 | 2007 |
|---|---|---|
| Future tax assets: | | |
| Losses carried forward | $ 131,566 | $ 94,995 |
| Accrued liabilities | 34,231 | 44,418 |
| Tax on intra-subsidiary asset transfer | 22,409 | 19,814 |
| Other | 14,466 | 9,766 |
| Valuation allowance | (38,893) | (27,138) |
| | $ 163,779 | $ 141,855 |
| Future tax liabilities: | | |
| Property and equipment | $ 36,055 | $ 48,029 |
| Cash basis farming | 1,929 | 12,959 |
| Investments in associated companies | — | 1,135 |
| Net pension asset | 79,657 | 70,232 |
| Goodwill and other intangible assets | 30,176 | 16,583 |
| Unrealized foreign exchange gain on long-term debt | 6,336 | 12,407 |
| Other | 2,888 | 6,379 |
| | $ 157,041 | $ 167,724 |
| Classified in the consolidated financial statements as: | | |
| Future tax asset – current | $ 19,787 | $ 25,409 |
| Future tax asset – non-current | 24,854 | 22,837 |
| Future tax liability – non-current | (37,903) | (74,115) |
| Net future tax liability | $ 6,738 | $ (25,869) |

In accordance with CICA Handbook Section 3465, "Accounting for Income Taxes", the Company reviews all available positive and negative evidence to evaluate the recoverability of future tax assets. This includes a review of the Company's cumulative losses in recent years, the carry forward period related to the tax losses, and the tax planning strategies available to the Company. Upon applying these accounting rules to the Company's accumulated tax losses in the U.S. frozen bakery business, there continues to be sufficient uncertainty surrounding the timing and amount of losses that will be utilized. Accordingly, during the year the Company recorded an additional valuation allowance of US$3.5 million (CAD$3.8 million) (2007: US$5.4 million (CAD$5.7 million)) against current year U.S. tax losses and a valuation allowance has been recorded for all the accumulated tax losses in the U.S. frozen bakery business.

## 22. Pensions and Other Post-Retirement Benefits

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

| | Post-retirement benefits | Total pensions | **2008 Total** | 2007 Total |
|---|---|---|---|---|
| Accrued benefit obligation: | | | | |
| Balance, beginning of year | $ 77,533 | $ 1,103,090 | **$ 1,180,623** | $ 1,182,344 |
| Current service cost | 676 | 17,033 | **17,709** | 23,061 |
| Interest cost | 4,019 | 56,861 | **60,880** | 59,339 |
| Benefits paid | (2,925) | (68,220) | **(71,145)** | (79,041) |
| Actuarial gains | (11,570) | (165,606) | **(177,176)** | (27,447) |
| Employee contributions | — | 4,261 | **4,261** | 4,734 |
| Plan amendments | — | — | **—** | 16,133 |
| Contractual termination benefits | — | 1,300 | **1,300** | 1,900 |
| Curtailments | — | 362 | **362** | (400) |
| Settlements | — | (15,218) | **(15,218)** | — |
| Balance, end of year | $ 67,733 | $ 933,863 | **$ 1,001,596** | $ 1,180,623 |
| Plan assets: | | | | |
| Fair value, beginning of year | $ — | $ 1,362,404 | **$ 1,362,404** | $ 1,446,074 |
| Actual return on plan assets | — | (195,318) | **(195,318)** | (15,825) |
| Employer contributions | 2,925 | 7,383 | **10,308** | 22,706 |
| Employee contributions | — | 4,261 | **4,261** | 4,734 |
| Benefits paid | (2,925) | (68,220) | **(71,145)** | (79,041) |
| Asset transfer to Company defined contribution plan | — | (17,400) | **(17,400)** | (16,244) |
| Settlements | — | (15,218) | **(15,218)** | — |
| Fair value, end of year | $ — | $ 1,077,892 | **$ 1,077,892** | $ 1,362,404 |
| Funded status – plan surplus (deficit) | $ (67,733) | $ 144,029 | **$ 76,296** | $ 181,781 |
| Unamortized transition amount | — | (114,614) | **(114,614)** | (134,594) |
| Unamortized actuarial losses | 1,105 | 247,350 | **248,455** | 136,538 |
| Unamortized prior service costs | — | 12,836 | **12,836** | 13,970 |
| Other | — | (262) | **(262)** | (239) |
| Accrued benefit asset (liability), end of year | $ (66,628) | $ 289,339 (i) | **$ 222,711** | $ 197,456 |

(i) Includes three defined benefit plans with accrued benefit liabilities of $20.9 million (2007: $20.2 million).

Amounts recognized in the consolidated balance sheet consist of:

| | **2008** | 2007 |
|---|---|---|
| Other long-term assets | **$ 320,574** | $ 292,798 |
| Accounts payable and accrued charges | **4,712** | 4,126 |
| Other long-term liabilities | **93,151** | 91,216 |

# Notes to the Consolidated Financial Statements

Pension benefit income:

| | | 2008 | | 2007 |
|---|---|---|---|---|
| Current service cost – defined benefit | $ | **17,056** | $ | 22,020 |
| Current service cost – defined contribution | | **26,197** | | 25,112 |
| Interest cost | | **56,861** | | 55,917 |
| Actual return on plan assets | | **195,318** | | 15,825 |
| Difference between actual and expected return | | **(294,202)** | | (122,544) |
| Actuarial gains recognized | | **(165,606)** | | (34,450) |
| Difference between actual and recognized actuarial losses in the year | | **167,401** | | 35,025 |
| Amortization of transitional amount | | **(18,580)** | | (18,580) |
| Difference between amortization of prior service costs and actual plan amendments in the year | | **735** | | (15,438) |
| Plan amendments | | **249** | | 16,133 |
| Curtailment loss | | **512** | | 2,000 |
| Contractual termination benefits | | **1,300** | | 1,900 |
| Settlement loss | | **1,300** | | — |
| Net benefit plan income | $ | **(11,459)** | $ | (17,080) |

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

| | 2008 | 2007 |
|---|---|---|
| Discount rate used to calculate net benefit plan expense | **5.25%** | 5.00% |
| Discount rate used to calculate year-end benefit obligation | **6.50%** | 5.25% |
| Expected long-term rate of return on plan assets | **7.50%** | 7.50% |
| Rate of compensation increase | **3.50%** | 3.50% |

Other post-retirement benefits expense:

| | | 2008 | | 2007 |
|---|---|---|---|---|
| Current service cost | $ | **676** | $ | 1,041 |
| Interest cost | | **4,019** | | 3,422 |
| Actuarial (gains) losses recognized | | **(11,570)** | | 7,003 |
| Difference between actual and expected actuarial gain | | **12,184** | | (7,003) |
| | $ | **5,309** | $ | 4,463 |

Impact of 1% change in health care cost trend:

| | | 1% Increase | | 1% Decrease |
|---|---|---|---|---|
| Effect of end-of-year obligation | $ | 2,860 | $ | (3,239) |
| Aggregate of 2008 current service cost and interest cost | | 203 | | (234) |

Measurement dates:

| | |
|---|---|
| 2008 expense | December 31, 2007 |
| Balance sheet | December 31, 2008 |

The pension assets are invested in the following asset categories at December 31, 2008 and December 31, 2007:

| Asset category: | 2008 | 2007 |
|---|---|---|
| Equity securities | **54%** | 62% |
| Debt securities | **46%** | 38% |
| | **100%** | 100% |

## 23. Acquisitions and Divestitures

2008

(a) In December 2008, the Company disposed of its hog genetics business. The loss on this disposal is included in restructuring and other related costs (Note 13).

(b) On July 17, 2008, the Company purchased 458,800 additional shares in Canada Bread Company, Limited ("Canada Bread") for cash consideration of $32.6 million, increasing the Company's ownership interest in Canada Bread from 88.0% to 89.8%. The Company has allocated $11.9 million of the purchase price to the net identifiable assets of Canada Bread at the acquisition date and $20.7 million to goodwill. The Company has not yet finalized the purchase equation for this acquisition.

(c) On January 29, 2008, the Company acquired the shares of Aliments Martel Inc. ("Martel"), a leading manufacturer and distributor of sandwiches, meals and sweet goods based in Quebec for a purchase price of $44.2 million plus contingent consideration of up to $22.6 million based on financial performance over the three years following the acquisition date. The Company has allocated $18.2 million of the purchase price to the net identifiable assets of Martel at the acquisition date and $26.0 million to goodwill, which is included in the Bakery Products Group segment. The Company has not yet finalized the purchase equation for this acquisition.

(d) On January 14, 2008, the Company purchased the assets of Central By-Products ("CBP"), a rendering business located near London, Ontario for $18.1 million. The Company has allocated $5.7 million to the net identifiable assets of CBP at the acquisition date and $12.4 million to goodwill, which is included in the Agribusiness Group segment. The Company has not yet finalized the purchase equation for this acquisition.

(e) In the first quarter of 2008, the Company sold most of its Ontario hog production operations and all of its wholly-owned production investments in Alberta. The loss on these disposals had previously been recognized in the fourth quarter of 2007.

Details of net assets acquired and purchase adjustments made in 2008 are as follows:

| | Martel | CBP | Other (i) | 2008 Total |
|---|---|---|---|---|
| Net working capital | 3,997 | — | (998) | **2,999** |
| Future tax assets – non-current | 164 | — | — | **164** |
| Property and equipment | 14,474 | 6,665 | (11) | **21,128** |
| Intangible assets | — | — | 6,312 | **6,312** |
| Goodwill | 25,962 | 12,387 | (3,742) | **34,607** |
| Future tax liability – non-current | (356) | — | (1,444) | **(1,800)** |
| Other long-term liabilities | — | (917) | 469 | **(448)** |
| Total purchase cost | $ 44,241 | $ 18,135 | $ 586 | **$ 62,962** |

(i) Other includes the impact of the finalization of the purchase equations for La Fornaia and Chevalier in 2008.

2007

(a) On August 31, 2007, the Company purchased the remaining interest in its subsidiary Cold Springs Farms Limited ("Cold Springs"), for $10.0 million.

(b) On August 17, 2007, the Company acquired La Fornaia Ltd. ("La Fornaia") a leading producer of a range of specialty Italian breads for total consideration of £19.1 million ($40.7 million). During 2008, the Company finalized the purchase price equation allocating £2.6 million ($5.8 million) of the purchase price to the identifiable net assets of La Fornaia at the acquisition date, and £16.5 million ($34.9 million) to goodwill and intangible assets. The acquired intangible assets include £3.0 million ($5.7 million) allocated to customer relationships that are being amortized on a straight-line basis over their useful lives to a maximum of 25 years.

(c) On July 20, 2007, the Company completed the sale of its animal nutrition business (Note 3).

(d) On February 26, 2007, the Company acquired 100% ownership in Pâtisserie Chevalier Inc. ("Chevalier") for $8.4 million. Chevalier is a producer of single-portion snack cake products in Quebec. During 2008, the Company finalized the purchase equation allocating $6.5 million of the purchase price to the identifiable net tangible assets of Chevalier at the acquisition date, $0.6 million to intangible assets and $1.3 million to goodwill.

(e) On January 16, 2007, the Company purchased 122,900 additional shares in Canada Bread for $6.5 million, increasing the Company's ownership interest in Canada Bread from 87.5% to 88.0%.

(f) During 2007, the Company completed several transactions comprising both the purchase and sale of interests in certain hog investment companies related to the realignment of its hog production business. These transactions did not have a significant impact on the financial position of the Company.

Details of net assets acquired and purchase adjustments made in 2007 are as follows:

| | La Fornaia | Chevalier | Other [i] | 2007 Total |
|---|---|---|---|---|
| Cash (bank indebtedness) | $ (25) | $ (15) | $ — | $ **(40)** |
| Non-cash working capital | 2,349 | 780 | 955 | **4,084** |
| Investments | — | — | (5,979) | **(5,979)** |
| Property and equipment | 5,953 | 5,827 | 12,525 | **24,305** |
| Goodwill | 32,419 | 1,787 | (2,943) | **31,263** |
| Other intangible assets | — | — | 12,727 | **12,727** |
| Other long-term assets | — | 148 | (130) | **18** |
| Future tax liability – non-current | 104 | (85) | (630) | **(611)** |
| Long-term debt | — | — | (10,318) | **(10,318)** |
| Other long-term liabilities | (469) | (221) | (322) | **(1,012)** |
| Non-controlling interest | — | — | 10,536 | **10,536** |
| Total purchase cost | $ 40,331 | $ 8,221 | $ 16,421 | **$ 64,973** |

(i) Other includes the impact of the finalization of prior period purchase equations as well as other small acquisitions in 2007.

## 24. Contingencies and Commitments

(a) The Company has been named as defendant in several legal actions, including the actions described in Note 13, 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 which have an estimated fair value of $9.3 million (2007: $10.6 million). The Company believes that these contracts serve to reduce risk, and does not anticipate that losses will be incurred on these contracts.

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

| | |
|---|---|
| 2009 | $ 59,063 |
| 2010 | 46,237 |
| 2011 | 35,633 |
| 2012 | 29,004 |
| 2013 | 22,979 |
| Thereafter | 54,819 |
| | $ 247,735 |

## 25. Supplemental Cash Flow Information

| | 2008 | 2007 |
|---|---|---|
| Net interest paid | $ **92,079** | $ 102,455 |
| Net income taxes paid | **36,762** | 62,574 |

## 26. Related Party Transaction

On December 16, 2008, the Company issued 7,368,421 equity units each consisting of one subscription receipt and 0.4 common share purchase warrant for net proceeds of $69.1 million. Ontario Teachers' Pension Plan Board, a related shareholder, subscribed for 5,484,784 units and McCain Capital Corporation, a related shareholder, subscribed for 1,694,737 units.

## 27. Subsequent Event

On February 24, 2009, the Company declared a dividend of $0.04 per share, payable to shareholders of record as of March 10, 2009, on March 31, 2009.

## 28. Segmented Financial Information

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

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

(b) Agribusiness Group includes the Company's swine production and animal by-products recycling operations. Results and financial position of the animal nutrition business sold in 2007 and previously disclosed in the Agribusiness Group are disclosed as discontinued operations (Note 3).

(c) Bakery Products Group comprises the Company's 89.8% ownership in Canada Bread Company, Limited, a producer of fresh and frozen bakery products including breads, rolls, bagels, artisan and sweet goods, sandwiches and fresh pasta and sauces.

# Notes to the Consolidated Financial Statements

| | 2008 | 2007 |
|---|---|---|
| Sales to customers | | |
| Meat Products Group | $ 3,303,694 | $ 3,458,055 |
| Agribusiness Group | 232,999 | 240,956 |
| Bakery Products Group | 1,705,909 | 1,510,629 |
| | $ 5,242,602 | $ 5,209,640 |
| Earnings from operations before product recall, restructuring and other related costs and other income | | |
| Meat Products Group | $ 29,455 | $ 94,087 |
| Agribusiness Group | 30,132 | (6,620) |
| Bakery Products Group | 82,979 | 119,297 |
| Non-allocated costs | (14,151) | (7,708) |
| | $ 128,415 | $ 199,056 |
| Capital expenditures | | |
| Meat Products Group | $ 133,238 | $ 132,220 |
| Agribusiness Group | 11,577 | 15,068 |
| Bakery Products Group | 61,405 | 89,372 |
| | $ 206,220 | $ 236,660 |
| Depreciation and amortization | | |
| Meat Products Group | $ 75,712 | $ 68,806 |
| Agribusiness Group | 16,221 | 20,536 |
| Bakery Products Group | 57,286 | 51,839 |
| | $ 149,219 | $ 141,181 |
| Total assets | | |
| Meat Products Group | $ 1,677,671 | $ 1,560,244 |
| Agribusiness Group | 318,387 | 302,999 |
| Bakery Products Group | 922,158 | 823,137 |
| Non-allocated assets | 533,885 | 311,464 |
| | $ 3,452,101 | $ 2,997,844 |
| Goodwill | | |
| Meat Products Group | $ 450,431 | $ 450,929 |
| Agribusiness Group | 14,445 | 2,058 |
| Bakery Products Group | 411,385 | 364,490 |
| | $ 876,261 | $ 817,477 |

During the year, total sales to customers outside of Canada were $1,350.4 million (2007: $1,478.3 million) of which $663.9 million (2007: $764.7 million) were sales to customers in the U.S.

# Corporate Governance and Board of Directors

## Corporate Governance

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

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

## Composition of the Board of Directors

The Board is comprised of experienced directors with a diversity of relevant skills and competencies. The Board of Directors has assessed each of the Company's 12 non-management directors to be independent. These 12 directors are also considered independent under the relevant securities regulations.

A more comprehensive analysis of the Company's approach to corporate governance matters is included in the Management Proxy Circular for the April 29, 2009 annual meeting of shareholders.

## Board of Directors

### W. GEOFFREY BEATTIE

*President and CEO, The Woodbridge Company (Investment company)*

Mr. Beattie, 49, is the Chief Executive Officer of The Woodbridge Company Limited (1998), the Thomson family's principal holding company, Deputy Chairman of Thomson Reuters and Chairman of CTVglobemedia Inc. Mr. Beattie is a director of The Royal Bank of Canada, the Canadian Council of Chief Executives and the Dean's Advisory Board of the Joseph L. Rotman School of Management at The University of Toronto. Mr. Beattie is also a trustee of the University Health Network.

Director since: 2008

### JOHN L. BRAGG O.C.

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

Mr. Bragg, 68, founded Oxford Frozen Foods, an international frozen foods supplier, in 1968 and Bragg Communications, Canada's fifth largest cable television provider and a major Maritimes Internet and wireline telephone service provider, in 1970. Mr. Bragg is an Officer of the Order of Canada, and the Chancellor of Mount Allison University. Mr. Bragg was appointed a Canadian Business Hall of Fame Laureate in 2003, and was one of the original four members inducted into the Nova Scotia Business Hall of Fame in 1993.

Director since: 2008

### PURDY CRAWFORD C.C.

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

Mr. Crawford, 77, is a director of several Canadian companies. Until February 2000, he was the non-Executive Chairman of Imasco Limited and CT Financial Services. Mr. Crawford is a Companion of the Order of Canada and a member of the Canadian Business Hall of Fame.

Director since: 1995

### JEFFREY GANDZ

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

Dr. Gandz, 64, has been a consultant for many Canadian and multinational corporations and government ministries, and is the author of several books, many articles and government reports on a variety of subjects, including leadership and organizational effectiveness.

Director since: 1999

### JAMES F. HANKINSON

*President and Chief Executive Officer, Ontario Power Generation (Electric generation company)*

Mr. Hankinson, 65, is a director of several Canadian companies. Mr. Hankinson retired as President and Chief Executive Officer of New Brunswick Power Corporation in 2002. He was President and Chief Operating Officer of Canadian Pacific Limited until 1995.

Director since: 1995

### ROBERT W. HILLER

*Corporate Director*

Mr. Hiller, 72, has served as a director and senior officer of a number of large multinational food companies in the United States and in Canada. Until 1991, he was Senior Vice-President and Chief Financial Officer of the Campbell Soup Company Limited.

Director since: 1995

### CHAVIVA M. HOŠEK, O.C.

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

Dr. Hošek, 62, received her Ph.D. from Harvard University in 1973. She was Director of Policy and Research from 1993 to 2000 in the Prime Minister's Office. Her career has included a term as Minister of Housing for the Province of Ontario and a 13-year period as an academic at the University of Toronto. Dr. Hošek serves as a director of the Central European University and AllerGen NCE.

Director since: 2002

### WAYNE A. KOZUN

*Senior Vice President, Public Equities, Ontario Teachers' Pension Plan (public sector pension fund)*

Mr. Kozun, 43, joined Teachers' in 1995 and was most recently Vice-President, Tactical Asset Allocation. Prior to joining Teachers', Mr. Kozun was with Imperial Oil Limited and Northern Telecom. He received the Chartered Financial Analyst designation from the CFA Institute. Mr. Kozun has completed the Directors Education Program of the Institute of Corporate Directors and his ICD.D designation is pending.

Director since: 2009

# Corporate Governance and Board of Directors

### CLAUDE R. LAMOUREUX

*Corporate Director*

Mr. Lamoureux, 66, was Chief Executive Officer of the Ontario Teachers' Pension Plan Board (a public sector pension fund with $106 billion in assets) until his retirement in 2007. He was appointed to the position in 1990, when the Ontario government established the new independent corporation to replace the Ontario Teachers' Superannuation Fund. An actuary by profession, Mr. Lamoureux joined Teachers' from Metropolitan Life, where he had a successful career in their New York and Ottawa offices.

Director since: 2008

### DONALD E. LOADMAN

*Corporate Director and Business Consultant*

Mr. Loadman's career includes service in Canada and the United States with three multinational food and packaged goods companies. Until 1991, Mr. Loadman was Chairman of Pillsbury International. Mr. Loadman, 76, is a resident of California. Until 1996, Mr. Loadman was Chairman of Ault Foods Limited.

Director since: 1995

### G. WALLACE F. MCCAIN C.C.

*Chairman, Maple Leaf Foods Inc.*

Mr. McCain, 78, was appointed Chairman following the acquisition of the Company in April 1995. Mr. McCain co-founded McCain Foods Limited in 1956 which has grown to become one of the largest frozen food companies in the world. Mr. McCain was President and Co-Chief Executive Officer of McCain Foods Limited until 1994 and is currently its Vice-Chairman and director of other associated companies within the McCain Foods Group. Mr. McCain is a Companion of the Order of Canada.

Director since: 1995

### J. SCOTT MCCAIN

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

Before joining Maple Leaf Foods Inc. in April 1995, Mr. McCain was Vice-President for Production of McCain Foods Limited in Canada, a company he joined in 1978 and where he held progressively senior positions in manufacturing and operations. He is a director of Canada Bread Company, Limited and McCain Capital Corporation. Mr. McCain, 52, is a director of McCain Foods Group.

Director since: 1995

### MICHAEL H. MCCAIN

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

Mr. McCain, 50, joined Maple Leaf Foods Inc. in April 1995 as President and Chief Operating Officer and was appointed its Chief Executive Officer in 1999. Prior to joining Maple Leaf Foods, Mr. McCain spent 16 years with McCain Foods Limited in Canada and the United States. He is the Chairman and director of Canada Bread Company, Limited, a director of McCain Foods Group Ltd., the American Meat Institute, and Royal Bank of Canada. He is a past director of American Frozen Food Institute and Bombardier Inc.

Director since: 1995

### DIANE E. MCGARRY

*Corporate Director*

Ms. McGarry, 59, has over 30 years' experience with Xerox including five years in Canada as Chairman, President and Chief Executive Officer of Xerox Canada from 1993 to 1998. Prior to retiring in 2005, Ms. McGarry held the position of Chief Marketing Officer, Xerox Corporation.

Director since: 2005

### J. EDWARD NEWALL O.C.

*Chairman, Newall & Associates (Consulting firm)*

Mr. Newall, 73, is also Chairman Emeritus of both NOVA Chemicals Corporation and Canadian Pacific Railway Ltd. He was Chairman of NOVA Chemicals Corporation from 1999 to 2007, when he retired. He served as a director of Alcan Inc. until December 2004 and as a director of Royal Bank Financial Group until January 2005. Mr. Newall is an Officer of the Order of Canada.

Director since: 1997

### GORDON RITCHIE

*Chairman of Public Affairs, Hill & Knowlton Canada (Government and public relations company)*

Mr. Ritchie, 65, is also Chief Executive Officer of Strategico Inc. and has been a director of a number of leading Canadian corporations. Mr. Ritchie had 22 years of distinguished public service. As Ambassador for Trade Negotiations, Mr. Ritchie was one of the principal architects of the Canada/United States Free Trade Agreement.

Director since: 1995

### WILLIAM T. ROYAN

*Vice President, Relationship Investing, Ontario Teachers' Pension Plan (public sector pension fund)*

Mr. Royan, 41, joined Ontario Teachers' in 2008 as Vice President, Relationship Investing. He joined Ontario Teachers' from Lehman Brothers in New York, where he held senior roles in its mergers group and its equity strategies unit, Lehman's principal investing arm. Previously, he worked in mergers and acquisitions at J.P. Morgan in New York and RBC Dominion Securities in Toronto.

Director since: 2009

Note: Ages of the Board of Directors provided as at March 2009.

# Senior Management and Officers

## Committees of the Board of Directors

AUDIT COMMITTEE
D.E. McGarry, Chair
R.W. Hiller
J.F. Hankinson
D.E. Loadman

CORPORATE GOVERNANCE COMMITTEE
J.F. Hankinson, Chairman
P. Crawford
C.M. Hošek
D.E. McGarry
G. Ritchie

ENVIRONMENT, HEALTH AND SAFETY COMMITTEE
J. Gandz, Chairman
R.W. Hiller
C.M. Hošek
D.E. Loadman
J.E. Newall

HUMAN RESOURCES AND COMPENSATION COMMITTEE
G. Ritchie, Chairman
P. Crawford
J. Gandz
J.E. Newall

## Corporate Council

G. WALLACE F. MCCAIN
Chairman

MICHAEL H. MCCAIN
President and Chief Executive Officer

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

RICHARD A. LAN
Chief Operating Officer, Food Group

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

DOUGLAS W. DODDS
Chief Strategy Officer

WAYNE JOHNSON
Senior Vice-President and Chief Human Resources Officer

ROCCO CAPPUCCITTI
Senior Vice-President, Transactions & Administration
and Corporate Secretary

LYNDA J. KUHN
Senior Vice-President, Communications & Consumer Affairs

## Executive Council

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

MARYANNE CHANTLER
Vice-President, Purchasing and Supply Chain

KEVIN P. GOLDING
President, Rothsay

RANDALL D. HUFFMAN
Chief Food Safety Officer

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

C. BARRY MCLEAN
President, Canada Bread Fresh Bakery

RÉAL MENARD
President, Canada Bread Frozen Bakery

BRUCE Y. MIYASHITA
Vice-President, Six Sigma

RAY I. SHEI
Chief Information Officer

DEBORAH K. SIMPSON
Vice-President, Finance

PETER C. SMITH
Vice-President, Corporate Engineering

RICHARD YOUNG
President, Maple Leaf Consumer Foods

## Other Corporate Officers

J. NICHOLAS BOLAND
Vice-President, Finance Projects

NATALIE M. MARCHE
Vice-President and Treasurer

DIANNE SINGER
Assistant Corporate Secretary

# Corporate Information

## Capital Stock
The Company's authorized capital consists of an unlimited number of voting common and an unlimited number of non-voting common shares. At December 31, 2008, 107,258,681 voting shares and 22,000,000 non-voting shares were issued and outstanding, for a total of 129,258,681 outstanding shares. There were 794 shareholders of record of which 760 were registered in Canada, holding 98.6% of the issued voting shares. All of the issued non-voting shares are held by Ontario Teachers' Pension Plan Board. These non-voting shares may be converted into voting shares at any time.

## Ownership
The Company's major shareholders are McCain Capital Corporation holding 41,518,153 voting shares representing 32% of the total issued and outstanding shares and Ontario Teachers' Pension Plan Board holding 20,728,371 voting shares and 22,000,000 non-voting shares representing 33.1% of the total issued and outstanding shares. The remainder of the issued and outstanding shares are publicly held.

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

## Annual Meeting
The annual meeting of shareholders of Maple Leaf Foods Inc. will be held on Wednesday, April 29, 2009 at 11:00 a.m. at ThinkFOOD! Centre, 6897 Financial Drive, Mississauga, Ontario, Canada.

## Dividends
The declaration and payment of quarterly dividends are made at the discretion of the Board of Directors. Anticipated payment dates in 2009: March 31, June 30, September 30 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
Toronto, Ontario, Canada M5J 2Y1
Tel: (514) 982-7555
or 1-800-564-6253 (toll-free North America)
or service@computershare.com

## Company Information
For investor relations inquiries, please contact our Senior Vice-President, Communications & Consumer Affairs at (416) 926-2000.

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

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

## Auditors
KPMG LLP
Toronto, Ontario

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

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

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