MAPLE LEAF FOODS INC. ANNUAL REPORT 2006

Maple Leaf Foods Inc.

Building a globally-admired meats, meals and bakery company.

annual report

2006

A simpler, focussed, more profitable business

Big changes are happening at Maple Leaf Foods.

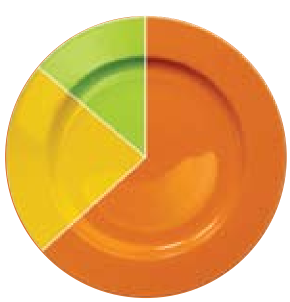
We are simplifying our businesses. We are driving innovation. We are sharpening our focus and transforming our company.

Read on.

financial highlights

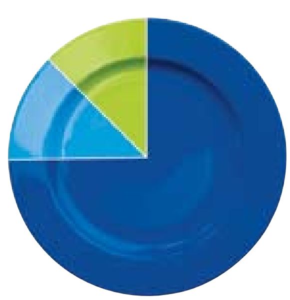
For years ended December 31 (In millions of Canadian dollars, except share information)	2006	2005	2004	2003	2002
CONSOLIDATED RESULTS					
Sales	**5,895**	6,129	6,056	4,841	4,881
Earnings from operations[i]	**224**	263	256	152	204
Net earnings, as reported	**5**	94	102	30	80
Net earnings before restructuring and non-recurring tax adjustment[ii]	**73**	103	102	41	80
Return on assets employed[iii]	**6.5%**	8.2%	8.9%	6.4%	9.2%
FINANCIAL POSITION					
Net assets employed[iv]	**2,405**	2,256	2,105	1,561	1,430
Shareholders' equity	**994**	999	906	654	644
Net borrowings	**1,214**	1,063	1,046	785	667
PER SHARE					
Net earnings, as reported	**0.04**	0.74	0.90	0.27	0.71
Net earnings before restructuring and non-recurring tax adjustment[ii]	**0.57**	0.81	0.90	0.36	0.71
Dividends	**0.16**	0.16	0.16	0.16	0.16
Book value	**7.82**	7.82	7.24	5.78	5.70
NUMBER OF SHARES (MILLIONS)					
Weighted average	**127.5**	126.8	113.6	113.1	112.5
Outstanding at December 31	**127.1**	127.7	125.2	113.2	112.9

(i) Excludes restructuring and other related costs (2006, 2005 and 2003).
(ii) Excludes restructuring and other related costs (2006, 2005 and 2003) and non-recurring tax adjustments (2006).
(iii) After-tax, but before interest, calculated on average month-end net assets employed. Excludes restructuring and other related costs (2006, 2005 and 2003).
(iv) Total assets, less cash, future tax assets and non-interest bearing liabilities.



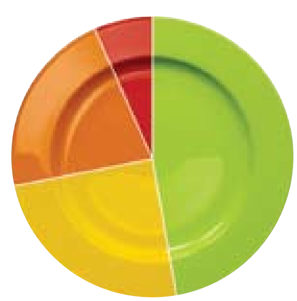
Sales by Group

- 63.5% Meat Products
- 22.6% Bakery Products
- 13.9% Agribusiness



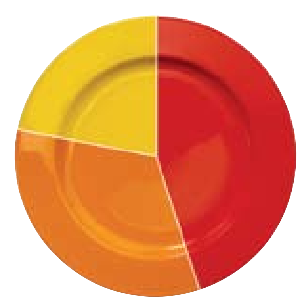
Domestic vs. International Sales

- 72.7% Domestic
- 14.0% U.S.
- 13.3% Other International



Total Assets by Group

- 47.4% Meat Products
- 24.8% Bakery Products
- 21.5% Agribusiness
- 6.3% Not Allocated



Operating Earnings before Restructuring and Other Related Costs

- 45.1% Bakery Products
- 33.2% Meat Products
- 21.7% Agribusiness

segmented operating results

Protein Value Chain

(In millions of Canadian dollars)	2006	2005	% change
MEAT PRODUCTS GROUP			
Sales	**3,746**	4,102	(9) %
Earnings from operations before restructuring and other related costs	**74**	60	24 %
Total Assets	**1,552**	1,550	0 %
AGRIBUSINESS GROUP			
Sales	**816**	801	2 %
Earnings from operations before restructuring and other related costs	**49**	102	(52) %
Total Assets	**703**	640	10 %

TOTAL PROTEIN VALUE CHAIN

(In millions of Canadian dollars)	2006	2005	% change
Sales	**4,562**	4,903	(7) %
Earnings from operations before restructuring and other related costs	**123**	162	(24) %
Total Assets	**2,255**	2,190	3 %

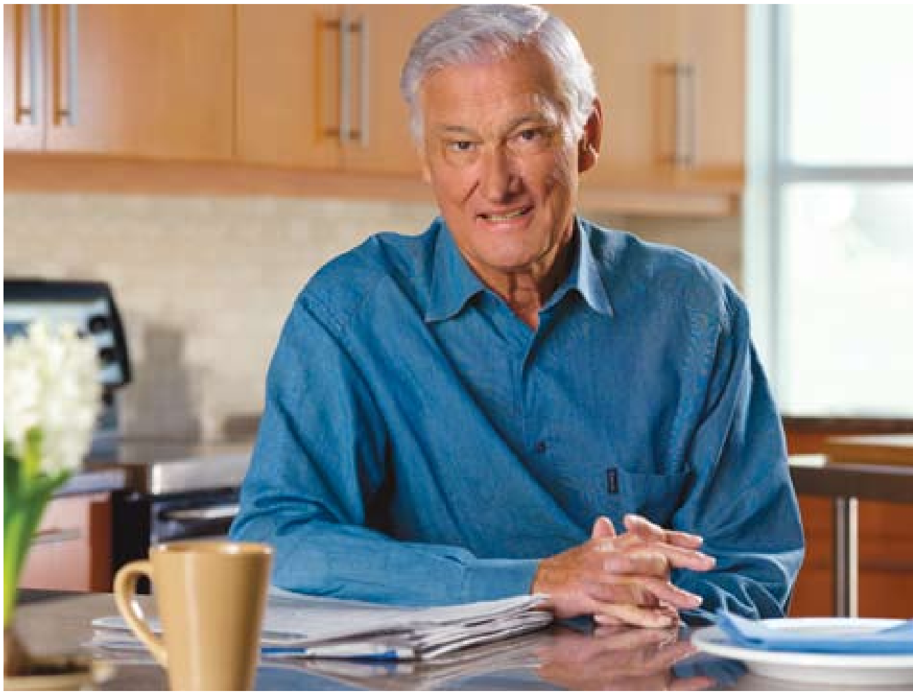
The Meat Products Group includes Consumer Foods, Pork, Poultry and Global operations.
The Agribusiness Group comprises Hog Production, Feed and Rendering operations.

Bakery Products Group

(In millions of Canadian dollars)	2006	2005	% change
Sales	**1,334**	1,226	9 %
Earnings from operations before restructuring and other related costs	**101**	101	0 %
Total Assets	**811**	695	17 %

The Bakery Products Group is comprised of Maple Leaf Foods' 88.0% ownership in Canada Bread Company, Limited, a leading producer and distributor of fresh bakery products, frozen partially-baked or "par-baked" products, and fresh pasta and sauces, with operations across Canada, in the United States and the United Kingdom.

G. Wallace F. McCain
Chairman



letter from the chairman

Dear Fellow Shareholders:

Good corporate governance is about creating lasting shareholder value. Nothing aligns corporate and shareholder interests quite like business success.

Directors are ultimately responsible for ensuring the company has a sound long-term business strategy. Setting the right strategy is fundamental for business success. At Maple Leaf Foods, we discuss strategy at every Board meeting. Every year, we oversee an exhaustive review of competitive positioning and strategy for every business unit.

In 2006, we wrestled with the critical problem of how currency and industry changes were impacting our earnings and global competitiveness. In the spring, to tackle this issue, management initiated the most comprehensive strategic review since the current Company was formed 12 years ago.

We examined every aspect of our protein businesses to determine how best to tap the underlying value of our people, assets, brands, and market positions.

After much scrutiny and debate, it was clear that the best path to generate earnings growth was to build on Maple Leaf's core strengths in further processed, value-added meats and meals, which complements our highly successful bakery business. These businesses are bound together by an excellent track record in product innovation, a depth of experience in consumer packaged goods, and regional, national and international market and brand leadership.

The Board was fully engaged at every step in this critical course correction, bringing the diversity of experience from their distinguished careers to bear in the search for the right solution. The outcome is a new strategic direction that goes well beyond managing the currency issue alone. It will result in a leaner, more focussed and more profitable Company, connecting with customers and consumers in market segments where we can improve our margins and control our destiny.

I thank the directors for overseeing a difficult renewal process. Their business expertise and grasp of global economics, coupled with a willingness to speak up and get involved, were essential to the final outcome. We are confident, as fellow shareholders, that Maple Leaf's new strategic direction will result in strong growth, sustainable profitability and enhanced shareholder value.

Sincerely,

G. Wallace F. McCain
Chairman

fellow shareholders:

We have long held the vision of Maple Leaf Foods as a globally competitive enterprise in the food business. That vision is sustained by great strengths – powerful consumer brands, leading market shares, a strong innovation track record; excellent assets managed with operational discipline; and intense leadership development to deepen the talent pool. These strengths are underpinned by a solid balance sheet and an ability to consistently generate substantial cash.

Our strengths, however, have been overshadowed in recent years by currency shifts that have significantly impacted our profitability and threatened the long-term viability of the business model in the protein side of our operations.

This vulnerability, along with a difficult year in commodities, weakened our 2006 financial performance. Since 2002, Maple Leaf Foods – along with other Canadian manufacturers who compete internationally – has been affected by a 38% rise in the Canadian dollar versus the U.S. dollar. This significant currency shift extracted more than $100 million annually in our cost competitiveness between 2003 and 2006, and impacted earnings accordingly. Put another way, we estimate this currency shift has decreased our earnings by roughly $0.50 per share annually for each of the last three years. The headline story of 2006 is that at the start of the year, we had a $100 million hole to fill, but by the end of the year, we had a plan to recover it and actions were well underway.

Overall, our financial performance in 2006 looked like this:

- Sales decreased 4% to $5.9 billion
- Earnings from operations before restructuring and other related costs declined 15% to $224 million
- Earnings per share declined to $0.04 from $0.74
- Cash flow from operations declined to $132 million from $265 million
- Capital expenditures increased 11% to $170 million
- Return on net assets was 6.5%, compared with 8.2% in 2005
- Share price at year end was $12.34, underperforming the S&P Food Products Index by 36%

Our Protein Value Chain operations, and particularly our hog production and fresh pork operations, took the brunt of the currency exposure because hogs are valued in U.S. dollars, and fresh pork competes globally in pricing denominated predominantly in U.S. dollars and Japanese yen. In these parts of our business we are price takers, not price makers. When the U.S. dollar or the Japanese yen declines in value relative to the Canadian dollar, we feel that in the form of compressed margins throughout the protein value chain and related segments due to the global nature of the business.

Michael H. McCain
President and CEO

Operating earnings in our Meat Products Group increased by 24% to $74 million in 2006. We offset some of the currency impact with gains in processing efficiency, innovation, and better sales execution. The good news is that our brand focussed, consumer-oriented, packaged meats and meals businesses performed extremely well and will shape our new protein strategy. Our Agribusiness Group, and notably hog production, suffered the most from the currency changes, with a 52% decline in operating earnings from 2005.

In the Bakery Products Group, where we are less exposed to currency fluctuations, we recorded operating earnings of $101 million, despite dramatic flour and energy cost increases. Our fresh bakery business continues to benefit from strong market shares, leading brands and new product innovation that delivers consumers premium nutrition and freshness. Our fresh pasta business in Canada also had a banner year, buoyed by increased consumer demand for pasta and product innovation that delivers healthy product options. Higher distribution costs in our U.S. frozen bakery business, combined with a 10-year high in wheat prices, resulted in lower profits for the year as we were unable to completely pass on price increases. Higher U.K. bakery earnings resulted from increased production at our new Rotherham bagel plant, and acquisitions that have established us as a significant player in the value-added bakery business in the United Kingdom.

Our Company continues to generate good cash flow, with $132 million in operating cash flow in 2006. We invested approximately $170 million in capital in 2006 to improve existing plants or increase future profit potential, and spent roughly $80 million on new business acquisitions. We ended the year with a strong balance sheet, reflected in a Net Debt/EBITDA ratio of 3.2.

revitalizing our global competitiveness

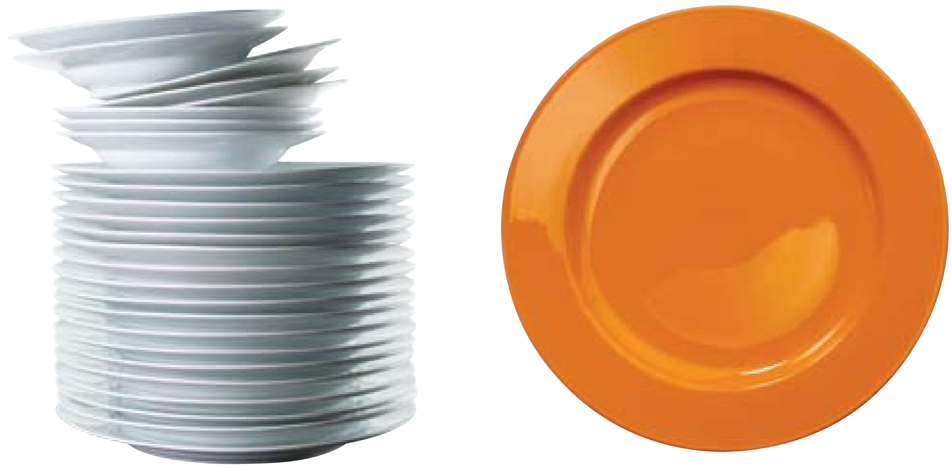
REVITALIZING OUR GLOBAL COMPETITIVENESS

The stark realization we faced in 2006 was that our long-standing vision of producing "fresh pork for the world" was no longer viable. Our protein business model had to change. In the spring of 2006, we set out to determine the best path to manage the impact of currency and recover our lost cost competitiveness. The result, announced in October 2006, was a dramatic shift in strategy and the implementation of a new business model in our protein value chain operations. We will focus on what we can both control and do best – build on our formidable strengths in further processed, branded, value-added meats and meals. As a result, all parts of our protein value chain operations – animal feed, hog production and primary processing – are being scaled to support our core value-added protein business. This change in direction reduces our size in these businesses, and in doing so, is expected to lower our overall exposure to currency and commodity swings. We will focus our resources on markets with higher growth and margins, with a greater emphasis on innovation, brands and consumer focus.

The consequences of this new direction are as follows:

First, we will simplify our organizational structure by integrating the six loosely connected operating companies in our protein value chain into one, vertically integrated, protein organization.

Second, we will focus growth in the value-added fresh and further processed meats and meals businesses, with meal solutions a significant component of this vision. We will sell or exit businesses not aligned to this new business model.



a simpler, more focussed model

Third, we will be cost competitive on a North American basis. This means a renewed effort to drive out costs in the supply chain and organizational structure through better-scaled plants, higher asset utilization, new technology, and increased shared services.

Finally, we are intensifying our consumer orientation and accelerating our investment in product innovation to increase the value of the fresh meat we process and convert these products into nutritious, appetizing and convenient meal solutions.

We have already established significant brand and market leadership in the value-added meals category. In early 2007, we are broadening our penetration of this segment through the launch of a major new product line, *Maple Leaf Simply Fresh*. Using modern, new food processing technologies to preserve freshness and nutritional value, we are able to deliver amazing fresh food taste and texture with "out of the garden" visual appeal, but with product shelf life that makes this freshness both convenient and economical for consumers. We now offer a complete line of these refrigerated complete-meal entrees and soups in single serve and family portion sizes.

Working with national retail customers, we are creating home meal solution *destinations* in visually appealing areas of grocery stores, building market leadership in a category that is growing annually at double digit rates. We are also deepening our foodservice customer relationships, where providing them with fully cooked meats and meals saves them time, labour and equipment costs, and reduces spoilage and food safety issues. We anticipate strong growth in this market, supported by a major expansion of our fully cooked red meats processing capacity in 2007.

transforming our protein business

TRANSFORMING OUR PROTEIN BUSINESS

Our new protein strategy is expected to be transformational for Maple Leaf Foods in fundamental ways:

- We are reducing our hog production operations from partial ownership of 120,000 sows to full ownership of about 40,000 sows.
- We are proceeding to sell our animal nutrition business; keeping only two mills to meet our internal hog production feed requirements.
- We will remain in the fresh pork business to primarily support our internal raw material needs. As a result, we aim to reduce the hogs we process from 7.5 million to 4.3 million annually. While we will still sell fresh meat to strategic, value-added customers in select domestic and global markets, this will be done in balance to complement our internal supply requirements.
- We are consolidating our existing pork processing operations into one double-shifted operation at our plant in Brandon, Manitoba, and plan to sell, convert or close our remaining six plants.

We have achieved a number of milestones since launching this reorganization in October 2006. These include:

- Formally launched the sale process of Maple Leaf Animal Nutrition;
- Commenced the restructuring of our Western hog operations, with a goal to largely complete the restructuring of the entire hog production business by early 2008;
- Established a united leadership team to manage our fresh and further processed meats businesses;
- Exited our non-core global businesses, focussing a smaller team on selling Maple Leaf meat products into international markets;

working the plan

- Announced the closure by mid-2007 of our Eastern poultry processing plant and our fresh pork processing operations in Saskatchewan; and
- Began construction of new wastewater treatment facilities and other expansions necessary to allow us to ramp up a second shift at the Brandon pork plant later this year.

We have much left to do! In 2007, we plan to complete the sale of the animal nutrition business, launch the sale of our Burlington pork plant, integrate our three meat companies into a single organization, close two or more primary processing operations, commence a second shift in Brandon, and largely complete the restructuring of our Manitoba hog production operations.

This renaissance will build a stronger and profitable global enterprise and strengthen shareholder value. Restructuring costs related to the reorganization of our protein business are estimated to be between $100 million and $150 million, of which approximately $50 million was recorded in 2006. We anticipate that these restructuring charges and incremental costs related to the reorganization will impact short-term earnings. However, as a result of these actions we expect to yield more than $100 million in annualized incremental profitability by the end of 2009, from a sustainable and growing base.

creating value

VALUE CREATION IN BAKERY AND ACQUISITION SYNERGIES

We have discussed our protein value chain reorganization at length. It is well underway and we anticipate it will be largely completed in the next two years. But reorganizing the protein value chain is not our only path to value creation. We have yet to fully harvest the value of the Schneider Foods acquisition in 2004, and our very successful Bakery Products Group continues to generate top and bottom line opportunities.

To further realize synergies from the Schneider Foods/Maple Leaf merger, we will begin to execute on plant and distribution network optimization opportunities in 2007. The goal is to further improve operating efficiencies at our 23 further processed manufacturing facilities and seven distribution centres, which will include some consolidation of facilities and investment in new assets, such as the newly-acquired further processed plant in Brampton, Ontario. By 2008, we expect to have consolidated our existing warehousing and distribution facilities in Western Canada into two high efficiency centres.

Our fresh bakery business has achieved outstanding results, benefiting from an emphasis on nutrition, innovation, brand leadership, and continuous cost improvement, while maintaining the discipline to pass through price increases to cover rapidly rising input costs. The focus in 2007 will be growing the top line through more innovation and expansion into new product categories, supported by our strong national distribution capabilities. The strategy includes greater ethnic product offerings, where market growth is outpacing traditional breads and rolls, and expanding into ready-to-eat fresh sandwich and sweet goods. Our successful fresh pasta business fits well into our plans to expand in the meal solutions category, and we anticipate leveraging the strength of the *Olivieri* brand by extending it to other food categories.

taking bakery to new heights

Our U.S. frozen bakery business has lagged behind, affected by increased warehousing and distribution costs related to higher fuel prices, high flour costs and some operating challenges. On the plus side, we grew volumes and rationalized a large number of small product lines to improve plant capacity utilization. We are acting to improve profitability in this business, where we believe we have excellent assets and strong market share. This may require new investments to consolidate our position in key markets, improve our asset network, and reduce freight and distribution costs.

In the past five years, we have grown our U.K. bakery business from a small bagel operation to one of the leading specialty bakeries in the United Kingdom. Through a major investment in our Rotherham bagel plant, the acquisitions of our Walsall bakery and more recently, the French Croissant Company, we have broadened our offerings to include bagels, hand-held snacks, in-store bakery products and croissants. In 2007, we are integrating our four relatively independent bakery companies into one, focussed U.K. bakery organization.

Overall, we expect capital expenditures in 2007 to rise 30% to $220 million compared with $170 million in 2006. Investing in our asset base will be critical to reducing our manufacturing costs and bringing them in line with our U.S. competitors. Major projects include the *Simply Fresh* line of chilled meal products, wastewater upgrades and expansion at our Brandon pork processing plant, a new Western Canada distribution system, and capacity expansions to support growth in our U.K. bakery business.

our foundations

Change is painful, particularly when it takes apart something you have invested substantial emotional and intellectual energy to create. We are fortunate to have many strengths on which to build our revitalized vision as a globally-admired, value-added meats, meals and bakery company – strengths that result from years of investment and effort. These include our world-class assets, competitive labour agreements, and brand and market leadership resulting from strategic acquisitions that have consolidated the Canadian protein and bakery industries and established Maple Leaf as one of the leading players. We intend to deploy this strategy globally to guide our growth – ensuring we only participate in businesses and markets where we can establish brand and/or market leadership.

Strengths that are less visible outside the Company include a hard driving culture that fosters individual leadership and ability to attack tough issues head-on; a culture that executes with passion and discipline in search of always higher performance; a culture built on our core foundations of Maple Leaf Leadership Edge and Six Sigma. This culture has and will continue to serve us well as we transform Maple Leaf over the next couple of years.

In 2006, we invested 8,070 days in Leadership and Six Sigma development. Our new frontier is taking this “movement” to the front line of the organization which we are doing with Maple Leaf Six Sigma @ The Edge. Our investment in this DNA of the organization remains vital to our success, as we draw on the talent of all our people to balance the demands of complex change with the everyday management of our businesses.

J. Scott McCain,
Michael H. Vels,
Michael H. McCain,
Richard A. Lan

Workplace safety is always the bellwether of well-run plants. Last year we achieved our sixth consecutive year of improvements in our health and safety record, with a 14.8% decline in lost time accidents. In 2006, our Roanoke and Central Bakery operations received the CEO Gold Award for operating 1,000,000 hours without a lost time injury, joining seven other plants which have received this award since 2001 when the award was first introduced. Four plants received the CEO Silver Award in 2006 for operating 350,000 hours without a lost time injury. In total, 47 plants have received this award since 2001. Congratulations to everyone involved for your personal engagement and commitment to workplace safety leadership!

In summary, our protein business detracted from shareholder value over the past three years, as currency evaporated competitive advantage. Through it all, the steady hand and strong contribution of our Bakery Products Group and value-added meats businesses stabilized our financial performance. A strategy of “hope” would not suffice. In 2006, we faced this challenge head on. We believe, when complete, we will be that globally-admired value-added meats, meals and bakery company we aspire to be; a simpler, more focussed organization, considerably more profitable with lower volatility, less exposure to currency, higher growth rates, more innovation, stronger brands and ultimately more in control of our own destiny…in short, a Renaissance!

Our foundation to accomplish this? Great people and discipline! We are well accustomed to change and we have the organizational depth to achieve our goals. In 2007 we are aggressively working that plan.

Michael H. McCain

Richard A. Lan

J. Scott McCain

Michael H. Vels

financial statements

For the Year 2006

Management's Discussion and Analysis

THE BUSINESS

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

EFFECT OF RESTRUCTURING AND OTHER RELATED COSTS

Except where noted, operating earnings, net earnings, earnings per share ("EPS") and return on net assets ("RONA") comparisons for 2006 exclude $64.6 million before tax ($49.9 million after-tax and minority interest) in restructuring and other related costs incurred in the third and fourth quarters of 2006, and also exclude $21.2 million in non-recurring tax expense recorded in the third quarter. Management believes that this is the most appropriate basis on which to evaluate operating results, as restructuring and other related costs are not representative of continuing operations.

SELECTED FINANCIAL HIGHLIGHTS

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

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

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

RESULTS OF OPERATIONS

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

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

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

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

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

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

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

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

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

OPERATING SEGMENTS

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

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

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

Management's Discussion and Analysis

OPERATING REVIEW

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

SALES:

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

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

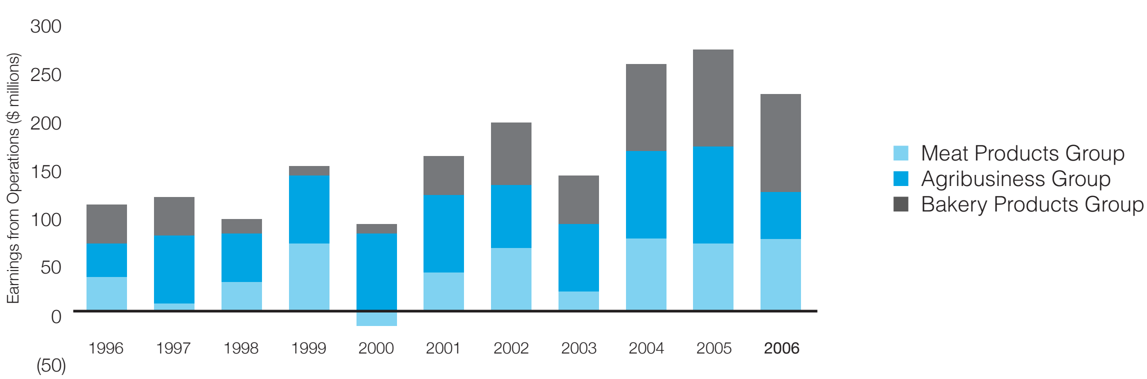
Following are earnings from operations before restructuring and other related costs by business segment for the three years ended December 2006:

EARNINGS FROM OPERATIONS BEFORE RESTRUCTURING AND OTHER RELATED COSTS:

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

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

SEGMENTED OPERATING EARNINGS



MEAT PRODUCTS GROUP

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

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

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

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

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

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

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

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

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

AGRIBUSINESS GROUP

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

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

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

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

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

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

BAKERY PRODUCTS GROUP

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

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

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

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

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

COMPANY REORGANIZATION

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

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

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

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

The new protein strategy will have the following transformational impacts:

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

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

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

RESTRUCTURING AND OTHER RELATED COSTS

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

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

PROTEIN VALUE CHAIN REORGANIZATION

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

BAKERY PLANT CLOSURE

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

POULTRY PLANT CLOSURE

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

IMPAIRMENT OF A NON-CORE EQUITY INVESTMENT

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

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

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

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

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

OTHER INCOME

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

INTEREST EXPENSE

Interest expense for the year increased to $99.1 million compared to $98.3 million last year. The increase is primarily due to an increase in short-term interest rates. At December 31, 2006, 77.0% (2005: 85.8%) of indebtedness was not exposed to interest rate fluctuations.

INCOME TAXES

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

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

ACQUISITIONS AND DIVESTITURES

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

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

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

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

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

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

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

TRANSACTIONS WITH RELATED PARTIES

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

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

CAPITAL RESOURCES AND LIQUIDITY

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

CASH FLOW

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

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

CAPITAL EXPENDITURES

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

DEBT FACILITIES

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

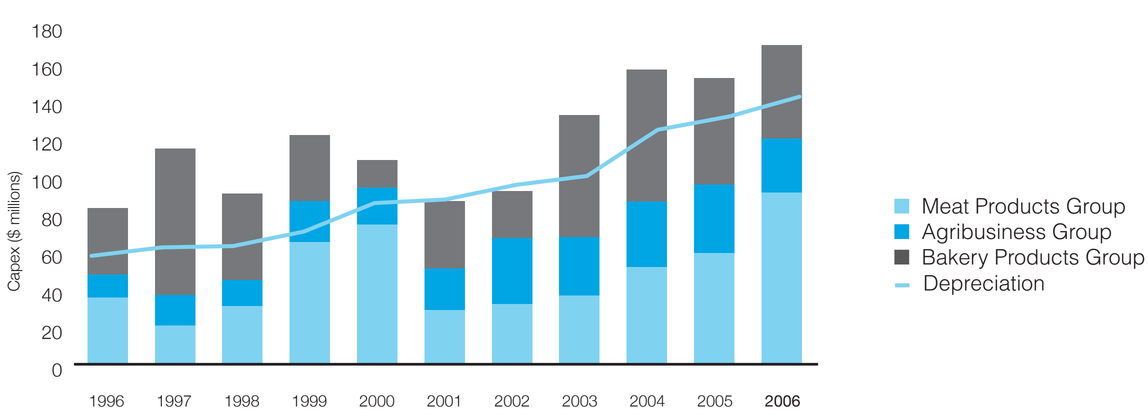
At December 31, 2006, the Company had available undrawn committed credit of $475.6 million. During 2006, a combination of a reduction in lower earnings and investment in business acquisitions resulted in an increase of the Company's leverage ratio, net debt to EBITDA (net debt to earnings before income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

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

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

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

CAPITAL EXPENDITURES



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

CONTRACTUAL OBLIGATIONS

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

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

Management is of the opinion that its cash flow and sources of financing provide the Company with sufficient resources to finance ongoing business requirements and its planned capital expenditure program. Additional details concerning financing are set out in the Notes to the Consolidated Financial Statements. As at December 31, 2006, the Company was in compliance with all debt covenants.

DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

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

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

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

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

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

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

SEASONALITY

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

SHARE CAPITAL AND DIVIDENDS

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

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

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

ENVIRONMENT

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

RISK FACTORS

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

HOG AND PORK MARKET CYCLICALITY

The Company's results of operations and financial condition are partially dependent upon the cost and supply of hogs and the selling prices for its products, both of which are influenced by constantly changing market forces of supply and demand over which the Company has little or no control. These prices, for the most part, are in U.S. dollars which adds further variability due to exchange rates. The North American pork processing markets are highly competitive, with major and regional companies competing in each market. The market prices for pork products regularly experience periods of supply and demand imbalance, and are sensitive to changes in industry processing capacity. Factors contributing to this cyclicality include the substantial capital investment and high fixed costs required to manufacture pork products efficiently and the significant costs associated with plant closures. In addition, the supply and market price of live hogs is dependent upon a variety of factors over which the Company has little or no control, including fluctuations in the size of herds maintained by North American hog suppliers, environmental and conservation regulations, economic conditions, the relative cost of feed for hogs, weather, livestock diseases and other factors. Although the Company's protein value chain strategy is designed to reduce certain of these risks, severe price swings in raw materials, and the resultant impact on the prices the Company charges for its products, have at times had, and may in the future have, material adverse effects on the Company's financial condition and results of operations. There can be no assurance that all or part of any increased costs experienced by the Company from time to time can be passed along to consumers of the Company's products directly or in a timely manner. As a result, there is no assurance that the occurrence of these events will not have a material adverse effect on the Company's financial condition and results of operations.

FOOD SAFETY AND CONSUMER HEALTH

The Company is subject to risks that affect the food industry in general, including risks posed by food spoilage, accidental contamination, product tampering, consumer product liability, and the potential costs and disruptions of a product recall. The Company actively manages these risks by maintaining strict and rigorous controls and processes in its manufacturing facilities and distribution systems.

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

LIVESTOCK

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

CREDIT RISK OF CUSTOMERS

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

FOREIGN CURRENCIES

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

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

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

COMMODITIES

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

INTERNATIONAL TRADE

The Company exports significant amounts of its products to customers outside Canada and certain of its inputs are affected by global commodity prices. As a result, the Company can be affected, both positively and adversely, by international events that affect the price of food commodities or the free flow of food products between countries. Examples of such events are animal disease in other countries, trade actions and tariffs on food products, and government subsidies of competing agricultural products.

REGULATION AND LEGAL MATTERS

The Company's operations are subject to extensive regulation by government agencies in the countries in which it operates, including the Canadian Food Inspection Agency and the Ministry of Agriculture in Canada. These agencies regulate the processing, packaging, storage, distribution, advertising and labelling of the Company's products, including food safety standards. The Company's manufacturing facilities and products are subject to inspection by federal, provincial and local authorities. The Company strives to maintain material compliance with all laws and regulations and maintains all material permits and licences relating to its operations. Nevertheless, there can be no assurance that the Company is in compliance with such laws and regulations or that it will be able to comply with such laws and regulations in the future. Failure by the Company to comply with applicable laws and regulations could subject the Company to civil remedies, including fines, injunctions, recalls or seizures, as well as potential criminal sanctions, which could have a material adverse effect on the Company. Various governments throughout the world are considering regulatory proposals relating to genetically modified organisms, drug residues or food ingredients, food safety and market and environmental regulation that, if adopted, may increase the Company's costs. If any of these or other proposals are enacted, the Company could experience a disruption in supply and may be unable to pass on the cost increases to its customers without incurring volume loss as a result of higher prices.

In the normal course of its operations, the Company becomes involved in various legal actions. The Company believes that the resolution of these claims will not have a material effect on the Company. However, the final outcome with respect to actions outstanding, pending or with respect to future claims cannot be predicted with certainty. Therefore, there can be no assurance that their resolution will not have a material adverse effect on the Company's financial position or results of operations.

ENVIRONMENTAL REGULATION

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

CONSOLIDATING CUSTOMER ENVIRONMENT

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

LEVERAGE

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

ANIMAL DISEASE AND HUMAN HEALTH

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

EMPLOYMENT MATTERS

The Company and its subsidiaries have approximately 24,000 full and part-time employees, which includes salaried and union employees, many of whom are covered by collective agreements. These employees are located in various jurisdictions around the world, each of which with differing employment laws and practices and differing liabilities for punitive or extraordinary damages. While the Company maintains systems and procedures to comply with the applicable requirements, there is a risk that failures or lapses by individual managers could result in a violation or cause of action that could have an adverse effect on the Company's financial condition and results of operations. Furthermore, if a collective agreement covering a significant number of employees or involving certain key employees was to expire leading to a work stoppage, there can be no assurance that such work stoppage would not have a material adverse effect on the Company's financial condition and results of operations.

CRITICAL ACCOUNTING ESTIMATES

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

GOODWILL VALUATION

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

RESERVE FOR BAD DEBTS

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

PROVISIONS FOR INVENTORY

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

TRADE MERCHANDISE ALLOWANCES AND OTHER TRADE DISCOUNTS

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

EMPLOYEE BENEFIT PLANS

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

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

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

TAXES

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

RESTRUCTURING AND OTHER RELATED COSTS RESERVES

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

CHANGES IN ACCOUNTING POLICIES

SALES CLASSIFICATION

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

RECENT ACCOUNTING PRONOUNCEMENTS

CAPITAL DISCLOSURES

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

FINANCIAL INSTRUMENTS

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

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

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

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

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

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

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Company's disclosure controls and procedures were designed to provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, is made known to management in a timely manner so that information required to be disclosed by the Company under securities legislation is recorded, processed, summarized and reported within the time periods specified in applicable securities legislation. The Company's management, under the direction and supervision of the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures as at December 31, 2006, and has concluded that such disclosure controls and procedures are effective.

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

SUMMARY OF QUARTERLY RESULTS

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

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

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

For an explanation and analysis of quarterly results, refer to Management's Discussion & Analysis for each of the respective quarterly periods filed on SEDAR and also available on the Company's website at www.mapleleaf.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. Words such as "expect," "anticipate," "intend," "attempt," "may," "will," "plan," "believe," "seek," "estimate," and variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve assumptions and risks and uncertainties that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed, implied or forecasted in such forward-looking statements. The Company does not intend, and the Company disclaims any obligation to update any forward-looking statements, whether written or oral, or whether as a result of new information, future events or otherwise except as required by law.

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

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

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

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

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

February 20, 2007

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 20, 2007

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, 2006 and 2005 and the consolidated statements of earnings, 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, 2006 and 2005 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
Toronto, Canada
February 20, 2007

Consolidated Balance Sheets

As at December 31 (In thousands of Canadian dollars)	2006	2005
ASSETS		
Current assets		
Cash and cash equivalents	$ 64,494	$ 80,502
Accounts receivable (Note 3)	263,806	247,014
Inventories (Note 4)	427,846	400,848
Future tax asset – current (Note 18)	2,321	15,329
Prepaid expenses and other assets	11,986	12,104
	770,453	755,797
Investments in associated companies	22,110	61,939
Property and equipment (Note 5)	1,187,398	1,137,317
Other long-term assets (Note 6)	282,091	261,907
Future tax asset – non-current (Note 18)	23,464	38,499
Goodwill	902,663	847,853
Other intangibles (Note 7)	87,547	86,468
	$3,275,726	$3,189,780
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued charges	$ 665,886	$ 669,941
Income and other taxes payable	20,457	31,727
Current portion of long-term debt (Note 8)	91,490	110,428
	777,833	812,096
Long-term debt (Note 8)	1,186,538	1,032,829
Future tax liability (Note 18)	29,475	56,183
Other long-term liabilities (Note 9)	197,201	202,576
Minority interest	90,237	87,425
Shareholders' equity (Note 13)	994,442	998,671
	$3,275,726	$3,189,780

Contingencies and commitments (Note 22)

See accompanying Notes to the Consolidated Financial Statements

On behalf of the Board:

Michael H. McCain
Director

Robert W. Hiller
Director

Consolidated Statements of Earnings

Years ended December 31 (In thousands of Canadian dollars, except share amounts)	2006	2005
		As restated (Note 2(n))
Sales	$5,895,218	$6,129,243
Earnings from operations before restructuring and other related costs	$ 223,898	$ 263,034
Restructuring and other related costs (Note 11)	(64,618)	(13,157)
Earnings from operations	159,280	249,877
Other income (Note 16)	3,026	6,977
Earnings before interest and income taxes	162,306	256,854
Interest expense, net (Note 17)	99,104	98,317
Earnings before income taxes	63,202	158,537
Income taxes (Note 18)	52,469	51,308
Earnings before minority interest	10,733	107,229
Minority interest, net of tax	6,208	12,987
Net earnings	$ 4,525	$ 94,242
Basic earnings per share (Note 15)	$ 0.04	$ 0.74
Diluted earnings per share (Note 15)	$ 0.03	$ 0.72
Weighted average number of shares (millions)	127.5	126.8

See accompanying Notes to the Consolidated Financial Statements

Consolidated Statements of Retained Earnings

Years ended December 31 (In thousands of Canadian dollars)	2006	2005
Retained earnings, beginning of year	$ 231,807	$ 159,129
Net earnings	4,525	94,242
Dividends declared ($0.16 per share; 2005: $0.16 per share)	(20,387)	(20,327)
Premium on repurchase of share capital (Note 13)	(11,530)	(1,237)
Retained earnings, end of year	$ 204,415	$ 231,807

See accompanying Notes to the Consolidated Financial Statements

Consolidated Statements of Cash Flows

Years ended December 31 (In thousands of Canadian dollars)	2006	2005
		As restated (Note 2(o))
CASH PROVIDED BY (USED IN)		
Operating activities		
Net earnings	$ 4,525	$ 94,242
Add (deduct) items not affecting cash		
Depreciation and amortization	143,105	132,489
Stock-based compensation (Note 14)	10,384	8,425
Minority interest	6,208	12,987
Future income taxes	75	(8,921)
Undistributed (earnings) loss of associated companies	770	(7,620)
Loss on repayment of convertible debenture	—	1,108
Gain on sale of property and equipment	(2,199)	(5,814)
Loss (gain) on sale of investments	202	(363)
Other	7,090	(2,300)
Change in other long-term receivables	4,546	6,840
Change in restructuring and other related costs (Note 11)	20,621	5,500
Increase in net pension asset	(55,322)	(39,226)
Change in non-cash operating working capital	(7,994)	67,368
	132,011	264,715
Financing activities		
Dividends paid	(20,387)	(20,327)
Dividends paid to minority interest	(1,602)	(1,031)
Increase in long-term debt	247,311	592
Decrease in long-term debt	(128,098)	(122,948)
Increase in share capital (Note 13)	15,556	19,421
Shares repurchased for cancellation (Note 13)	(23,056)	(1,989)
Other	2,357	(13,454)
	92,081	(139,736)
Investing activities		
Additions to property and equipment	(169,527)	(152,130)
Proceeds from sale of property and equipment	7,836	9,746
Purchase of Canada Bread shares (Note 20)	—	(7,004)
Purchase of net assets of businesses, net of cash acquired (Note 21)	(80,986)	(3,621)
Other	2,577	(3,238)
	(240,100)	(156,247)
Decrease in cash and cash equivalents	(16,008)	(31,268)
Cash and cash equivalents, beginning of year	80,502	111,770
Cash and cash equivalents, end of year	$ 64,494	$ 80,502
Supplemental cash flow information:		
Net interest paid	$ 96,222	$ 103,342
Net income taxes paid	67,072	54,053

See accompanying Notes to the Consolidated Financial Statements

1. THE COMPANY

Maple Leaf Foods Inc. ("Maple Leaf Foods" or the "Company") is a leading Canadian-based food processing company, serving wholesale, retail, foodservice, industrial and agricultural 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.

(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 using the cost method.

(b) USE OF ESTIMATES

The preparation of periodic financial statements necessarily involves the use of estimates and approximations. Should the underlying assumptions change, the actual amounts could differ from those 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 provisions, stock-based compensation and contingencies.

(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 deferred and included as a separate component in shareholders' equity until realized.

(d) HEDGING ARRANGEMENTS

The Company enters into hedging arrangements to manage its exposure to currency, commodity price and interest rate fluctuations. The Company uses hedge accounting for its significant derivative transactions.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedged transactions. This process includes assigning all derivatives to specific assets and liabilities on the balance sheet or to specific firm commitments or anticipated transactions. The Company formally assesses, using regression analysis, both at the inception of the hedge and on a quarterly basis, whether the derivatives that are used in hedging transactions are effective in offsetting the changes in the fair values or the cash flows of hedged items.

The Company uses currency forward contracts and options to hedge its exposures to transactions denominated in foreign currencies. The Company also uses futures and options to hedge its exposures to commodity based transactions (wheat, live hogs, grains). When the criteria for hedge accounting are met, the gains and losses on the currency and/or commodity hedging instruments are recognized in the consolidated financial statements in the same period as the underlying transaction are recorded in net earnings. Any accrued amounts receivable and payable under the terms of such contracts are included in accounts receivable and accounts payable, respectively. When the criteria for hedge accounting are not met, the Company records the fair value of the hedging items as other liabilities or assets on the balance sheet. Any resulting gains or losses are recorded in operating earnings. Where the Company enters into forward exchange contracts to hedge the principal and/or interest on related debt payable in foreign currencies, unrealized losses or gains on such contracts are matched with exchange gains or losses on the debt and/or interest payable.

The Company enters into interest rate and cross-currency swaps to reduce the impact of fluctuating interest rates and exchange rates on short-term and long-term debt. The Company designates its interest rate and cross-currency swaps relating to debt as hedges of the underlying principal and/or interest payments. Interest expense on the debt is adjusted to include the payments made or received on the swaps. The related amount payable to or receivable from counterparties is included as an adjustment to accrued interest. Any exchange gain or loss arising on the designated borrowings is offset against the unrealized exchange gain or loss arising on translation of the foreign exchange component of the swaps. The liability or receivable for the foreign exchange component of the swap is included in other liabilities or other assets respectively.

The Company designates certain of its U.S. dollar borrowings as a hedge of its net investment in its U.S. operations. At December 31, 2006, the amount of debt designated as a hedge of the Company's net investment in its U.S. operations was US$160.0 million (2005: US$160.0 million). Any exchange gain or loss on such designated borrowings is offset against the unrealized exchange gain or loss arising on translation of the U.S. dollar financial statements of these businesses and is included in the unrealized foreign currency adjustment account in shareholders' equity.

Realized and unrealized gains or losses associated with derivative instruments that have been terminated or cease to be effective prior to maturity are recorded as deferred liabilities or assets on the balance sheet and recognized in income in the period in which the underlying hedged transaction is recognized. In the event the designated hedged item is sold, extinguished or matures prior to the termination of the related derivative instrument, any unrealized gain or loss on such derivative instrument is recognized immediately in income as part of the loss or gain, if any, recognized on the related hedged item.

(e) 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 with the Company's customers, primarily rebates based on achievement of specified volume or growth in volume levels.

(f) INVENTORIES

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

(g) PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost including, where applicable, interest capitalized during the construction or development period. Depreciation is calculated on a straight-line basis at the following rates, which are based on the expected useful lives of the assets:

Buildings	2½% to 6%
Machinery and equipment	10% to 33%

(h) DEFERRED FINANCING COSTS

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

(i) 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, poultry 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 fair 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.

(j) 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 generally recognized against future tax assets when it is more likely than not that all or some part of the asset will not be realized.

(k) 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 market 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.

(l) 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 share units ("RSUs") are measured based on the fair value of the underlying shares on grant date with an assumed forfeiture rate. 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.

(m) 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.

(n) ACCOUNTING CHANGES

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

(o) COMPARATIVE FIGURES

Certain 2005 comparative figures have been reclassified to conform with the financial statement presentation adopted in 2006.

Notes to the Consolidated Financial Statements

3. 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, 2006, trade accounts receivable being serviced under this program amounted to $241.5 million (2005: $230.1 million).

4. INVENTORIES

	2006	2005
Material held for production	$ 238,593	$ 216,588
Finished products	189,253	184,260
	$ 427,846	$ 400,848

5. PROPERTY AND EQUIPMENT

	2006	2005
Land	$ 71,564	$ 72,233
Buildings	646,742	594,651
Machinery and equipment	1,534,057	1,447,956
Construction in progress	128,613	90,456
Land held for development or sale	70	1,993
	2,381,046	2,207,289
Less: Accumulated depreciation	1,193,648	1,069,972
	$ 1,187,398	$ 1,137,317

6. OTHER LONG-TERM ASSETS

	2006	2005
Pension assets (Note 19)	$ 251,959	$ 220,540
Deferred financing costs	20,663	22,985
Notes and mortgages receivable	4,457	9,003
Other	5,012	9,379
	$ 282,091	$ 261,907

7. OTHER INTANGIBLES

	2006	2005
Brands	$ 58,769	$ 59,232
Poultry production quota	24,442	24,442
Other	4,336	2,794
	$ 87,547	$ 86,468

Notes to the Consolidated Financial Statements

8. LONG-TERM DEBT

	2006	2005
Notes payable:		
– due 2007 (US$60 million)[a]	$ 69,918	$ 69,954
– due 2009 (US$140 million)[a]	163,142	163,226
– due 2010 (US$75 million and CAD$115 million)[b]	202,398	202,443
– due 2011 (US$207 million)[c]	241,217	241,341
– due 2014 (US$98 million and CAD$105 million)[c]	219,199	219,258
– due 2016 (US$7 million and CAD$20 million)[c]	28,157	28,161
– due 2010 – (CAD$8 million)[d]	9,458	11,726
– due 2016 – (CAD$51 million)[d]	58,028	62,577
Bank debt – due 2006[e]	—	87,750
Revolving term facility[f]	237,778	—
Other[g]	48,733	56,821
	$ 1,278,028	$ 1,143,257
Less: Current portion	91,490	110,428
	$ 1,186,538	$ 1,032,829

(a) In December 2002, the Company issued US$200.0 million of notes payable. The notes payable include a US$140.0 million tranche, bearing interest at 6.3% per annum and due in 2009, and a US$60.0 million tranche, bearing interest at 5.6% per annum and due in 2007. Through the use of cross-currency swaps entered into in prior years (Note 10), the Company effectively converted US$75.0 million into Canadian dollar-denominated debt of $116.5 million bearing interest at floating interest rates being the three-month bankers' acceptance rate plus 2.5% per annum. In 2006, the Company entered into cross-currency swaps, which effectively converted the interest of 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. The financial impact of currency rate changes on the swap is reported as other liabilities. At December 31, 2006, the swap liability was $29.1 million (2005: $29.1 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 swaps (Note 10), 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. The financial impact of currency rate changes on the swap is reported as other liabilities. At December 31, 2006, the swap liability was $23.4 million (2005: $23.3 million) based on year-end exchange rates.

(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 12 years and bearing interest at fixed annual coupon rates. Details of the five tranches are:

Principal	Maturity Date	Annual Coupon
US$207 million	2011	5.2%
US$98 million	2014	5.6%
US$7 million	2016	5.8%
CAD$105 million	2014	6.1%
CAD$20 million	2016	6.2%

Interest is payable semi-annually. Through the use of cross-currency swaps (Note 10), 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 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 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%. The financial impact of currency rate changes on the swaps is reported as other liabilities. At December 31, 2006, the swap liabilities were $46.2 million based on year-end exchange rates (2005: $46.1 million).

(d) Concurrent with the acquisition of Schneider Corporation in April 2004, the Company assumed the liabilities outstanding under previously issued debentures by Schneider Corporation. On the closing date, the debentures provided for principal payments totalling $13.1 million and $60.0 million, respectively, and bear 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, 2006, the remaining book values were $9.5 million for the 2010 debentures (2005: $11.7 million) and $58.0 million for the 2016 debentures (2005: $62.6 million) and the remaining principal payments outstanding are $8.3 million and $51.0 million, respectively (2005: $10.0 million and $54.3 million).

(e) In 1999, the Company entered into agreements, including a conditional sales agreement, to finance $130.0 million of the construction cost of a new hog processing facility in Brandon, Manitoba. Effective January 1, 2005, pursuant to accounting guideline AcG-15, the Brandon facility is recorded as an asset of the Company with its related obligations. In August 2006, the Company exercised the option to purchase the facility for $78.0 million and repaid the loan in full. At December 31, 2005, long-term debt related to this facility totalled $87.8 million.

(f) In May 2006, the Company renegotiated its unsecured revolving debt facility. The principal changes were (i) an increase in the size of the facility from $700 million to $870 million; (ii) an extension of the maturity date from December 6, 2007 to May 31, 2011; and (iii) a modest reduction in drawn debt pricing and commitment fees on the unutilized amount. 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, 2006, $345.0 million of the revolving facility was utilized, of which $107.2 million was in respect of letters of credit and trade finance (2005: $69.5 million).

(g) Subsidiaries of the Company have various lending facilities, including capital leases, with interest rates ranging from non-interest bearing to 10.0% per annum. These facilities are repayable over various terms from 2007 to 2012. As at December 31, 2006, $48.7 million (2005: $56.8 million) was outstanding.

The Company's various facilities with Canadian chartered banks and other lenders, all of which are unsecured, are subject to certain financial covenants.

The Company's blended average effective cost of borrowing for 2006 was approximately 6.5% (2005: 6.2%) after taking into account the impact of interest rate hedges.

Required repayments of long-term debt are as follows:

2007	$ 91,490
2008	12,260
2009	174,435
2010	216,235
2011	487,843
Thereafter	295,765
Total long-term debt	$ 1,278,028

9. OTHER LONG-TERM LIABILITIES

	2006	2005
Foreign currency hedge liability (Note 10)	$ 98,729	$ 98,474
Pension liabilities (Note 19)	32,338	36,535
Post-retirement benefits (Note 19)	61,783	61,135
Other	4,351	6,432
	$ 197,201	$ 202,576

10. DERIVATIVE FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

In the ordinary course of business, the Company enters into derivative financial instruments to reduce underlying fair value and cash flow risks associated with foreign currency, interest rates and commodity prices.

FOREIGN CURRENCY RISK MANAGEMENT

The Company uses foreign currency forward, swap and option contracts to reduce exchange fluctuations on its existing assets and liabilities and on future revenue and expenditure exposures. These currency exposures relate primarily to U.S. dollar and Japanese yen-denominated export sales and, to a lesser extent, sales and expenditures denominated in other foreign currencies.

The following table summarizes the Company's commitments to buy and (sell) foreign currency at December 31, 2006:

(In thousands of currency units) 2006 Contracts	Currency	Notional amount buy	Notional amount (sell)	Notional amount net	Average exchange rate	Maturity
U.S. dollar	USD	29,517	(100,655)	(71,138)	1.1352	2007
U.S. dollar	USD	—	(609)	(609)	1.1359	2008
Japanese yen	JPY	921	(3,098,593)	(3,097,672)	0.0098	2007
British pound	GBP	24,000	—	24,000	2.2720	2007
Australian dollar	AUD	—	(10,468)	(10,468)	0.8630	2007
Mexican pesos	MXN	—	(7,130)	(7,130)	0.1056	2007
New Zealand dollar	NZD	—	(1,019)	(1,019)	0.7580	2007

(In thousands of currency units) 2005 Contracts	Currency	Notional amount buy	Notional amount (sell)	Notional amount net	Average exchange rate	Maturity
U.S. dollar	USD	20,088	(62,344)	(42,256)	1.1682	2006
Japanese yen	JPY	14,145	(2,307,928)	(2,293,783)	0.0099	2006

INTEREST RATE RISK MANAGEMENT

The Company uses a variety of interest rate derivative instruments to manage a portion of its exposure to interest rate fluctuations.

As at December 31, 2006, the Company has the following outstanding swap contracts used to hedge floating rate debt and notes payable (Note 8):

Canadian dollar fixed interest rate swaps
(In thousands of currency units)

Maturity	Notional amount	Effective interest rate
2008	$ 200,000	6.29%
2009	$ 60,000	6.10%

Cross-currency interest rate swaps
(In thousands of currency units)

Maturity	Notional amount	Notional amount	Effective interest rate
	US$	CAD$	
2007 (Note 8 (a))	60,000	93,240	BA[1] + 2.5%
2009 (Note 8 (a))	15,000	23,273	BA[1] + 2.6%
2009 (Note 8 (a))	125,000	144,606	6.2%[2]
2010 (Note 8 (b))	75,000	110,775	7.7%
2011 (Note 8 (c))	177,000	231,025	5.4%
2014 (Note 8 (c))	100,000	138,000	6.0%

(1) Three-month Canadian bankers' acceptance rate.
(2) Swap notional amounts are not exchanged at inception and maturity. These swaps hedge the coupon payments on USD notes payable by converting the U.S. dollar interest into Canadian dollar interest.

In prior years, the Company had terminated a series of swaps and foreign currency contracts that were used to hedge interest rate and currency exposure on anticipated and existing note issues. The termination cost has been deferred in other long-term assets and is being amortized as interest expense over the life of the hedged debt (five to 10 years). At December 31, 2006, the remaining deferred financing cost balance is $15.1 million (2005: $17.9 million).

COMMODITY PRICE RISK MANAGEMENT

The Company uses a variety of derivative instruments to manage the exposure to commodity price fluctuations.

FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value of current assets and liabilities, including the current portion of long-term debt, approximates their carrying value due to their short-term nature. The following table illustrates the carrying and fair values of the Company's long-term debt and financial instruments:

	2006		2005	
Asset / (Liability)	**Carrying amount**	**Fair value**	Carrying amount	Fair value
Long-term debt	**(1,186,538)**	**(1,203,042)**	(1,032,829)	(1,062,400)
Derivative financial instruments:				
Interest rate and cross-currency swaps[1]	**—**	**(138,896)**	—	(146,600)
Commodity contracts	**—**	**2,915**	—	1,500
Foreign currency contracts	**—**	**(2,432)**	—	330

(1) Of the total fair value amount ($138.9 million), $98.7 million (2005: $98.5 million) is related to currency revaluation which has been recorded in other liabilities (Note 9).

11. RESTRUCTURING AND OTHER RELATED COSTS

2006

During the fourth quarter, the Company recorded restructuring and other related costs of $44.9 million ($34.8 million after-tax). The majority of these restructuring and other related costs relate to the protein value chain reorganization, the closure of a poultry plant in Nova Scotia and the closure of a fresh bakery plant in British Columbia.

During the third quarter, the Company recorded restructuring and other related costs of $19.7 million ($15.6 million after-tax). These restructuring and other related costs related to the write-down of certain hog investments, the costs to exit certain non-core trading businesses, and restructuring costs related to the combination of the fresh pork and poultry businesses.

The following table provides a summary of costs recognized and cash payments made in respect of the above restructuring initiatives in 2006 and the corresponding liability as at December 31, 2006.

	Severance	Site closing	Asset impairment	Retention	Total
2006 Restructuring and other related costs					
Charges during third quarter	$ 4,400	$ 1,481	$ 13,811	$ —	$ 19,692
Cash draw-downs	(211)	(659)	—	—	(870)
Non-cash items	—	—	(13,811)	—	(13,811)
Balance at September 30, 2006	$ 4,189	$ 822	$ —	$ —	$ 5,011
Charges during fourth quarter	11,634	4,836	25,406	3,050	44,926
Cash draw-downs	(1,651)	(627)	—	(35)	(2,313)
Non-cash items	—	—	(25,406)	—	(25,406)
Balance at December 31, 2006	$ 14,172	$ 5,031	$ —	$ 3,015	$ 22,218

2005

During the first quarter of 2005, the Company recorded $13.2 million in restructuring and other related costs ($8.8 million after-tax) in respect of certain plant closures and operational restructuring for several of its businesses associated with the integration of Schneider Corporation ("Schneider Foods"), the closure of the Company's bakery in Peterborough, England, and certain other operational restructuring items. Of the $13.2 million, $5.0 million represents the write-down of certain capital assets that were disposed of or that have become impaired as a result of the restructuring and $8.2 million relates to provisions for employee terminations, facility exit costs, and other restructuring costs. Of the $8.2 million in provisions, $1.6 million was paid in 2006 (2005: $2.7 million) and $2.5 million was returned to earnings.

12. CONVERTIBLE DEBENTURES

In 1998, the Company issued $91.3 million in convertible unsecured subordinated debentures for net proceeds, after costs, of $90.0 million with an interest rate of 6% and a maturity date of December 31, 2005. The debentures could be converted by the debenture holders into common shares of the Company at a conversion price of $15.00 per share at any time prior to maturity or the day immediately preceding the date fixed for redemption.

On January 7, 2005, certain of the debenture holders exercised their conversion rights and the Company issued 763,933 common shares for a reduction in the total cash to be paid by the Company upon redemption of approximately $11.5 million. Accordingly, in 2005 the Company paid $79.8 million to redeem the remaining debentures outstanding, resulting in a net loss on redemption of $1.1 million.

13. SHAREHOLDERS' EQUITY

Shareholders' equity consists of the following:

	2006	2005
Share capital	$ 769,696	$ 765,666
Retained earnings	204,415	231,807
Contributed surplus	30,140	19,756
Unrealized foreign currency adjustment	(9,809)	(18,558)
	$ 994,442	$ 998,671

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, 2006, there were 105,135,866 voting common shares issued and outstanding (2005: 105,704,812) and 22,000,000 non-voting common shares issued and outstanding (2005: 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, 2004	125,174,627	$ 731,291
Issued for cash on exercise of options (Note 14)	1,678,802	19,421
Issued on conversion of convertible debentures (Note 12)	763,933	12,218
Issued to purchase additional shares in Canada Bread Company, Limited (Note 20)	214,450	3,495
Repurchased for cancellation[(a)]	(127,000)	(759)
Balance, December 31, 2005	127,704,812	$ 765,666
Issued for cash on exercise of options (Note 14)	1,340,654	15,556
Repurchased for cancellation[(a)]	(1,909,600)	(11,526)
Balance, December 31, 2006	**127,135,866**	**$ 769,696**

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

14. STOCK-BASED COMPENSATION

Under the Maple Leaf Foods Share Incentive Plan as at December 31, 2006, the Company may grant options to its employees and employees of its subsidiaries to purchase up to 10,500,929 shares of common stock and may grant Restricted Share Units (RSUs) entitling employees to receive up to 2,200,000 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 a measure of the Company's performance.

STOCK OPTIONS

A summary of the status of the Company's outstanding stock options as at December 31, 2006 and 2005, and changes during these years is presented below:

	2006		2005	
	Options outstanding	**Weighted average exercise price**	Options outstanding	Weighted average exercise price
Outstanding, beginning of year	**11,448,616**	**$ 12.37**	12,393,454	$ 12.02
Exercised	**(1,340,654)**	**11.60**	(1,678,802)	11.57
Granted	**119,000**	**15.04**	1,355,000	16.34
Expired and terminated	**(607,433)**	**13.31**	(621,036)	16.27
Outstanding, end of year	**9,619,529**	**$ 12.45**	11,448,616	$ 12.37
Options currently exercisable	**6,424,579**	**$ 11.63**	7,872,396	$ 11.66

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 ten years.

The number of options outstanding at December 31, 2006, 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		Options subject to performance vesting	
Range of exercise prices	Number outstanding	Weighted average exercise price	Weighted average remaining term (in years)	Number exercisable	Weighted average exercise price	Number outstanding	Weighted average exercise price	Number outstanding	Weighted average exercise price
$ 8.36 to $10.73	3,187,400	$ 9.90	2.6	2,515,300	$ 9.79	18,000	$ 10.30	654,100	$ 10.32
$10.77 to $13.21	3,047,173	11.96	2.8	2,335,173	11.61	48,800	12.44	663,200	13.16
$13.47 to $15.60	2,054,956	14.57	2.2	1,539,806	14.52	45,800	13.85	469,350	14.77
$16.16 to $18.47	1,330,000	16.39	5.6	34,300	17.47	32,700	16.37	1,263,000	16.36
$ 8.36 to $18.47	9,619,529	$ 12.45	3.0	6,424,579	$ 11.63	145,300	$ 13.50	3,049,650	$ 14.13

During 2006, the Company granted 119,000 stock options (2005: 1,355,000) at a weighted average exercise price per share of $15.04 (2005: $16.34). The fair value of the total options issued is determined using the Black-Scholes option pricing model with the following weighted average assumptions:

	2006	2005
Expected option life (in years)	**4.4**	4.2
Risk-free interest rate	**4.0%**	4.3%
Expected annual volatility	**27.0%**	29.5%
Dividend yield	**1.2%**	1.0%

The estimated fair value of options granted during the year was $0.3 million (2005: $4.4 million). This value is amortized to income over the vesting period of the related options. The amortization of the fair value of options in 2006 is $4.0 million (2005: $5.2 million) and is recorded in contributed surplus.

RESTRICTED SHARE 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 via 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 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. All outstanding RSUs vest over a period of 1.5 years and three years from the date of grant.

A summary of the status of the Company's RSU plan as at December 31, 2006 and 2005 and changes during these years is presented below:

	2006		2005	
	RSUs outstanding	Weighted average price at grant	RSUs outstanding	Weighted average price at grant
Outstanding, beginning of year	**1,578,625**	**$ 14.82**	783,125	$ 12.73
Granted[(a)]	**2,017,060**	**12.10**	811,750	16.33
Expired and terminated[(b)]	**(137,250)**	**14.13**	(16,250)	13.50
Outstanding, end of year	**3,458,435**	**$ 13.28**	1,578,625	$ 14.82

(a) In 2006, the Company granted 60,500 (2005: 811,750) RSUs under the Share Incentive Plan and 1,956,560 under the Restricted Share Unit Plan.

(b) In 2006, the options expired and terminated consist of 128,250 (2005: 16,250) under the Share Incentive Plan and 9,000 under the Restricted Share Unit Plan.

The fair value of the RSUs on the date of grant was $22.4 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 2006 is $6.4 million (2005: $3.2 million).

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

	2006	2005
Expected RSU life (in years)	**2.8**	3.3
Forfeiture rate	**15.4%**	30.0%
Discount rate	**4.0%**	4.0%
Dividend yield	**1.2%**	1.1%

15. EARNINGS PER SHARE

The following table sets forth the calculation of basic and diluted earnings per share:

	2006	2005
Earnings available to common shareholders – basic and diluted	$ 4,525	$ 94,242
Denominator:		
Weighted average common shares outstanding (in millions)	127.530	126.813
Effect of dilutive securities (in millions):		
Employee stock options(i)	1.822	3.244
Weighted average shares – diluted (in millions)	129.352	130.057

(i) Excludes the effect of approximately 9.5 million options and restricted share units (2005: 10.3 million) to purchase common shares that are anti-dilutive.

	2006	2005
Earnings per share:		
Basic	$ 0.04	$ 0.74
Diluted	0.03	0.72

16. OTHER INCOME (EXPENSE)

	2006	2005
Gain on sale of property and equipment	$ 2,199	$ 3,498
Earnings from real estate operations	1,047	283
Dividends received	458	510
Rental income	294	300
Gain (loss) on sale of investments, net	(202)	363
Earnings (loss) from associated companies	(770)	3,131
Loss on conversion of debenture (Note 12)	—	(1,108)
	$ 3,026	$ 6,977

17. INTEREST EXPENSE

	2006	2005
Interest expense on long-term debt	$ 90,924	$ 90,154
Other net interest expense	8,180	8,163
	$ 99,104	$ 98,317

Notes to the Consolidated Financial Statements

18. INCOME TAXES

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

	2006	2005
Income tax expense according to combined statutory rate of 33.7% (2005: 35.1%)	$ 21,304	$ 54,770
Increase (decrease) in income taxes resulting from:		
Adjustment to net future tax liabilities for changes in tax laws and rates	(3,389)	(167)
Rate differences in foreign subsidiaries	(4,690)	(3,853)
Manufacturing and processing credit	(813)	(1,961)
Non-taxable gains	5,119	(398)
Share option expense	3,173	2,928
Equity in earnings of associated companies	(316)	(1,562)
Dividends not taxable	—	(181)
Large corporations tax	—	1,947
Non-deductible expenses	956	—
Pre-acquisition tax liability	5,500	—
Valuation allowance on U.S. tax losses	21,434	—
Other	4,191	(215)
	$ 52,469	$ 51,308

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:

	2006	2005
Future tax assets:		
Non-capital loss carryforwards	$ 130,200	$ 113,199
Accrued liabilities	43,116	22,476
Tax on intra-subsidiary asset transfer	21,574	18,620
Valuation allowance	(21,434)	—
Other	6,691	12,111
	$ 180,147	$ 166,406
Future tax liabilities:		
Property and equipment	$ 60,195	$ 80,419
Cash basis farming	21,622	8,440
Investments in associated companies	1,135	1,135
Net pension asset	71,335	49,551
Goodwill and other intangibles	15,691	16,273
Other	13,859	13,350
	$ 183,837	$ 169,168
Classified in the consolidated financial statements as:		
Future tax asset – current	$ 2,321	$ 15,329
Future tax asset – non-current	23,464	38,499
Future tax liability – current	—	(407)
Future tax liability – non-current	(29,475)	(56,183)
Net future tax liability	$ (3,690)	$ (2,762)

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 carryforward 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 is now sufficient uncertainty surrounding the timing and amount of losses that will be utilized that in the third quarter the Company recorded a valuation allowance of US$19.2 million ($21.2 million) against the full amount of the related net future tax asset related to tax losses in the U.S.

19. 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 benefit	Schneider Foods pension	Other pension	**2006 Total**	2005 Total
Accrued benefit obligation:					
Balance, beginning of year	$ 66,237	$ 459,339	$ 609,562	**$ 1,135,138**	$ 1,013,200
Current service cost	956	48	25,800	**26,804**	19,983
Interest cost	3,290	22,398	30,935	**56,623**	57,776
Benefits paid	(2,724)	(24,846)	(39,994)	**(67,564)**	(64,621)
Actuarial losses	1,164	9,003	15,755	**25,922**	103,258
Employee contributions	—	—	5,421	**5,421**	5,542
Balance, end of year	$ 68,923	$ 465,942	$ 647,479	**$ 1,182,344**	$ 1,135,138
Plan assets:					
Fair value, beginning of year	$ —	$ 391,382	$ 929,922	**$ 1,321,304**	$1,191,755
Actual return on plan assets	—	49,784	113,030	**162,814**	175,439
Employer contributions	2,724	32,483	4,717	**39,924**	26,677
Employee contributions	—	—	5,421	**5,421**	5,542
Benefits paid	(2,724)	(24,846)	(39,994)	**(67,564)**	(64,621)
Asset transfer to Company defined contribution plan	—	—	(15,825)	**(15,825)**	(13,488)
Fair value, end of year	$ —	$ 448,803	$ 997,271	**$ 1,446,074**	$1,321,304
Funded status – plan surplus (deficit)	$ (68,923)	$ (17,139)	$ 349,792	**$ 263,730**	$ 186,166
Unamortized transition amount	—	—	(153,174)	**(153,174)**	(171,754)
Unamortized actuarial losses	6,285	16,668	19,054	**42,007**	82,729
Unamortized prior service cost	—	—	932	**932**	1,028
Other	—	—	(198)	**(198)**	(194)
Accrued benefit asset (liability)	$ (62,638)	$ (471)	$ 216,406	**$ 153,297**	$ 97,975

Amounts recognized in the consolidated balance sheet consist of:

	2006	2005
Other long-term assets	**$ 251,959**	$ 220,540
Accounts payable and accrued charges	**4,541**	24,895
Other long-term liabilities	**94,121**	97,670

Pension benefit expense (income):

	2006	2005
Current service cost – defined benefit	$ 25,849	$ 19,204
Current service cost – defined contribution	25,306	18,049
Interest cost	53,333	54,394
Actual return on plan assets	(162,814)	(175,439)
Difference between actual and expected return	65,351	87,801
Actuarial losses recognized	24,758	97,044
Difference between actual and recognized actuarial losses in the year	(23,447)	(96,028)
Amortization of transitional obligation	(18,580)	(18,580)
Amortization of prior service cost	96	96
Net benefit plan income	$ (10,148)	$ (13,459)

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

	2006	2005
Discount rate used to calculate net benefit plan expense	5.00%	5.75%
Discount rate used to calculate year end benefit obligation	5.00%	5.00%
Expected long-term rate of return on plan assets	7.50%	7.50%
Rate of compensation increase	3.50%	4.00%

Other post-retirement benefit expense:

	2006	2005
Current service cost	$ 956	$ 779
Interest cost	3,290	3,382
Actuarial losses recognized	1,164	6,214
Difference between actual and expected actuarial gain	(1,183)	(6,214)
	$ 4,227	$ 4,161

Impact of 1% change in health care cost trend:

	1% Increase	1% Decrease
Effect of end-of-year obligation	$ 2,780	$ (3,431)
Aggregate of 2006 current service cost and interest cost	211	(237)

Measurement dates:

2006 expense	December 31, 2005
Balance sheet	December 31, 2006

The pension assets are invested in the following asset categories at December 31, 2006 and December 31, 2005:

Asset category:	2006	2005
Equity securities	61%	72%
Debt securities	39%	28%
	100%	100%

20. INVESTMENT IN CANADA BREAD COMPANY, LIMITED ("CANADA BREAD")

During 2005, the Company acquired 225,300 shares in Canada Bread for $10.5 million comprised of cash of $7.0 million and shares of $3.5 million, increasing its ownership to 87.5%.

The allocation of the acquisition of shares is as follows:

	2005
Property and equipment	$ 138
Goodwill	6,081
Other intangibles	195
Future income taxes	(75)
Minority interest	4,161
Total purchase cost	$ 10,500

21. ACQUISITIONS AND DIVESTITURES

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

(b) On November 27, 2006, Canada Bread purchased the French Croissant Company Ltd. ("FCC") and Avance (U.K.) Limited ("Avance"), two related bakeries in the U.K. for a total consideration of £29.1 million ($63.9 million). FCC markets croissants and specialty goods across the U.K., and Avance is a leading supplier of fresh, frozen and long-life specialty bakery items. The Company has not yet finalized the purchase equation for these acquisitions.

(c) On October 2, 2006, Canada Bread acquired the remaining interest in Royal Touch Foods Inc. ("Royal Touch"), a pre-packaged sandwich supplier based in Etobicoke, Ontario. The Company paid $3.5 million, net of estimated cash acquired of $0.8 million for the shares of Royal Touch. The investment in Royal Touch had been accounted for on an equity basis prior to this purchase. The purchase price is subject to an adjustment based on the net assets of Royal Touch as at the acquisition date. As at December 31, 2006 the purchase price adjustment has not yet been determined.

(d) In August 2006, the Company purchased an additional 17% interest in its subsidiary Cold Springs Farm Limited ("Cold Springs") for $5.0 million in cash, thereby increasing its ownership to 66%. The Company has not yet finalized the purchase equation for this acquisition. The Company has an obligation to purchase the remaining 34% of Cold Springs shares at a total cost of $10.0 million, with $5.0 million payable in each of July 31, 2007 and July 31, 2008.

(e) On March 24, 2006 Canada Bread Company, Limited ("Canada Bread") acquired Harvestime Limited ("Harvestime"), a bakery in Walsall, England for £1.0 million ($2.0 million). Harvestime is a producer of par-baked breads, rolls and specialty bakery products. As at December 31, 2006, the Company has finalized the purchase price allocation and goodwill of $0.7 million resulting from the transaction has been included in the total assets of the Bakery Products group.

(f) On January 27, 2006, the Company purchased the assets of a hatchery in Quebec that supplies chick embryos for the production of influenza vaccines for $2.8 million. As at December 31, 2006 the Company has finalized the purchase price allocation and has allocated $2.2 million of the purchase price to a customer contract acquired with the business.

Details of net assets acquired and purchase adjustments made in 2006 and 2005 are as follows:

	Royal Touch	FCC and Avance	Other	**2006 Total**	2005 Total
Cash (bank indebtedness)	$ 812	$ —	$ (945)	**$ (133)**	$ —
Net working capital (deficit)	822	(862)	4,071	**4,031**	(4,443)
Investments	(1,134)	—	(3,521)	**(4,655)**	—
Property and equipment	574	14,293	10,274	**25,141**	(2,976)
Other assets	—	—	—	**—**	(1,977)
Goodwill	3,220	50,512	1,052	**54,784**	29,653
Other intangibles	—	—	2,162	**2,162**	—
Future income taxes	(44)	—	(1,228)	**(1,272)**	19,886
Pension benefit liability	—	—	—	**—**	(250)
Post-employment benefit liability	—	—	—	**—**	(53)
Other long-term liabilities	—	—	—	**—**	(38,336)
Minority interest	—	—	5,000	**5,000**	2,074
Retained earnings	—	—	—	—	82
Total purchase cost	$ 4,250	$ 63,943	$ 16,865	**$ 85,058**	$ 3,660
Consideration:					
Cash	4,250	63,943	12,660	**80,853**	3,621
Accounts payable, accrued charges, and long-term debt	—	—	4,205	**4,205**	39
	$ 4,250	$ 63,943	$ 16,865	**$ 85,058**	$ 3,660

22. CONTINGENCIES AND COMMITMENTS

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

(b) In the normal course of business, the Company and its subsidiaries enter into sales commitments with customers, and purchase commitments with suppliers. These commitments are for varying terms and can provide for fixed or variable prices. With respect to certain of its contracts, the Company has the right to acquire at fair value, and the suppliers have the right to sell back to the Company, certain assets which have an estimated fair value of $12.4 million (2005: $14.3 million). The Company believes that these contracts serve to reduce risk, and it is not anticipated 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:

2007	$ 45,507
2008	36,862
2009	27,956
2010	21,291
2011	17,304
Thereafter	70,989
	$ 219,909

23. SUBSEQUENT EVENTS

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%.

24. 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) Meat Products Group includes the Company's meat and meat-related businesses, comprising the primary pork and poultry processing, prepared meats, and global food marketing operations.

(b) Agribusiness Group includes the Company's feed and pet food businesses, animal by-products recycling, swine production, poultry growing and hatching operations.

(c) Bakery Products Group comprises the Company's 87.5% ownership in Canada Bread Company, Limited, a producer of fresh and frozen par-baked bakery products, and fresh pasta and sauces.

	2006	2005
Sales to customers (Note 2(n))		
Meat Products Group	$3,745,654	$4,102,383
Agribusiness Group	815,899	800,820
Bakery Products Group	1,333,665	1,226,040
	$5,895,218	$6,129,243
Earnings from operations, before restructuring and other related costs		
Meat Products Group	$ 74,400	$ 59,881
Agribusiness Group	48,621	101,862
Bakery Products Group	100,877	101,291
	$ 223,898	$ 263,034
Capital expenditures		
Meat Products Group	$ 91,271	$ 59,287
Agribusiness Group	28,802	36,266
Bakery Products Group	49,454	56,577
	$ 169,527	$ 152,130
Depreciation and amortization		
Meat Products Group	$ 66,987	$ 62,788
Agribusiness Group	29,691	24,502
Bakery Products Group	46,427	45,199
	$ 143,105	$ 132,489
Total assets (Note 2(o))		
Meat Products Group	$1,551,502	$1,550,439
Agribusiness Group	702,534	639,622
Bakery Products Group	810,940	694,519
Non-allocated assets	210,750	305,200
	$3,275,726	$3,189,780
Goodwill		
Meat Products Group	$ 452,139	$ 452,815
Agribusiness Group	97,807	97,376
Bakery Products Group	352,717	297,662
	$ 902,663	$ 847,853

The Agribusiness Group operating earnings include the Company's share of earnings from equity-accounted hog investments in the year in the amount of $(0.4) million (2005: $4.5 million).

During the year, total sales to customers outside of Canada were $1,608.1 million (2005: $1,671.0 million) of which $823.8 million (2005: $872.9 million) were sales to customers in the United States.

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

COMPOSITION OF THE BOARD OF DIRECTORS

The Board is comprised of experienced directors with a diversity of relevant skills and competencies. The Board of Directors has assessed each of the Company's 10 non-management directors to be independent. These 10 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 26, 2007 Annual and General Meeting of Shareholders.

BOARD OF DIRECTORS

PURDY CRAWFORD O.C.

Counsel, Osler, Hoskin & Harcourt (Law firm)

Mr. Crawford, 75, is a director of a number of U.S. and Canadian companies. Until February 2000, he was the non-Executive Chairman of Imasco Limited and CT Financial Services. Mr. Crawford is an Officer 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, 62, 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, 63, is a director of several Canadian companies. Mr. Hankinson retired as President and CEO 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, 70, 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. HOSEK

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

Dr. Hosek, 60, 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. Hosek serves as a director of the Central European University and AllerGen NCE.

Director since: 2002

Corporate Governance and Board of Directors

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, 74, is a resident of California. Until 1996, Mr. Loadman was Chairman of Ault Foods Limited.

Director since: 1995

G. WALLACE F. MCCAIN O.C.

Chairman, Maple Leaf Foods Inc.

Mr. McCain, 76, 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-CEO 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 an Officer 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, 50, is a director of McCain Foods Group.

Director since: 1995

MICHAEL H. MCCAIN

President and Chief Executive Officer, Maple Leaf Foods Inc.

Mr. McCain, 48, joined Maple Leaf Foods Inc. in April 1995 as President and Chief Operating Officer. Prior to joining Maple Leaf Foods, Mr. McCain spent 16 years with McCain Foods Limited in Canada and the United States and was, at the time of leaving in March 1995, President and Chief Executive Officer of McCain Foods USA Inc. In January 1999, Mr. McCain was appointed Chief Executive Officer of Maple Leaf Foods. 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. Mr. McCain also serves on the Board of Trustees of The Hospital for Sick Children.

Director since: 1995

DIANE E. MCGARRY

Corporate Director

Ms. McGarry, 57, is a director of Omnova Solutions Inc. Her career includes over 30-years' experience with Xerox including five years in Canada as Chairman, President and CEO 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, 71, is also Chairman and Director of NOVA Chemicals Corporation and Chairman Emeritus of Canadian Pacific Railway Ltd. In 1998 he retired as Vice-Chairman and CEO of NOVA Corporation. 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, 63, is also CEO of Strategico Inc. and 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

ROBERT T. STEWART

Corporate Director

Mr. Stewart, 74, is a director of a number of large North American companies in various industries. Mr. Stewart had a 40-year career with Scott Paper Limited, retiring in 1995 as Chairman and CEO.

Director since: 1995

Note: Ages of the Board of Directors provided as at March 2007.

Senior Management and Officers

COMMITTEES OF THE BOARD OF DIRECTORS

AUDIT COMMITTEE
R.W. Hiller, Chairman
J.F. Hankinson
D.E. Loadman
D.E. McGarry
R.T. Stewart

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

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

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

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
Executive Vice-President and 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
Vice-President, Public & Investor Relations

EXECUTIVE COUNCIL

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

MICHAEL E. DETLEFSEN
President, Maple Leaf Global Foods

BROCK J. FURLONG
President, Canada Bread Frozen Bakery

KEVIN P. GOLDING
President, Rothsay and Elite Swine Inc.

ANNALISA KING
Senior Vice-President, Transformation

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

C. BARRY MCLEAN
President, Canada Bread Fresh Bakery

PETER G. MAYCOCK
Managing Director, Maple Leaf Bakery U.K.

BRUCE Y. MIYASHITA
Vice-President, Six Sigma

PATRICK A. RESSA
Chief Information Officer

PETER C. SMITH
Vice-President, Corporate Engineering

MARYANNE CHANTLER
Vice-President, Purchasing & Supply Chain

JERRY VERGEER
President, Maple Leaf Animal Nutrition

RICHARD YOUNG
President, Maple Leaf Consumer Foods

OTHER CORPORATE OFFICERS

J. NICHOLAS BOLAND
Vice-President, Finance

NATALIE M. MARCHE
Vice-President and Treasurer

CONNIE FULLERTON
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, 2006, 105,135,866 voting shares and 22,000,000 non-voting shares were issued and outstanding, for a total of 127,135,866 outstanding shares. There were 1,188 shareholders of record of which 1,146 were registered in Canada, holding 99.2% 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 32.6% 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 33.6% 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 AND GENERAL MEETING
The annual and general meeting of shareholders of Maple Leaf Foods Inc. will be held on Thursday, April 26, 2007 at 11:00 a.m. at the Design Exchange, 234 Bay Street, Toronto, Canada.

DIVIDENDS
The declaration and payment of quarterly dividends are made at the discretion of the Board of Directors. Anticipated payment dates in 2007: March 29, June 29, September 28 and December 31.

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

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

COMPANY INFORMATION
For public and investment analysis inquiries, please contact our Vice-President, Public & Investor Relations 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.

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

www.mapleleaf.com

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