Recipe for Success

MAPLE LEAF FOODS INC.

ANNUAL REPORT 2007

The Main Course

At Maple Leaf, we are pursuing a new vision to become a globally admired meat, meals and bakery company.

We have a recipe for success. It involves building on our core strengths in brand marketing, consumer insights and innovation, backed up by world-class plants and distribution capabilities.

Our current focus is on completing the execution of our plan, and delivering step-change growth in profitability. Supported by the passion of 23,000 global employees who share our vision, we are well on our way.

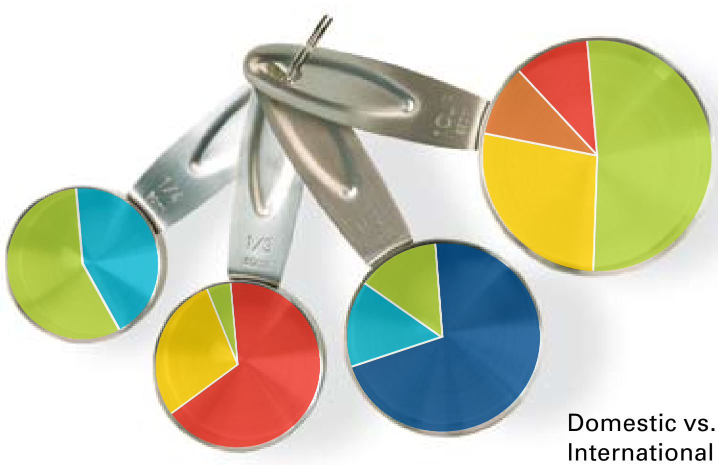
CONTENTS

For years ended December 31 (In millions of Canadian dollars, except share information)	**2007**	2006	2005	2004	2003
CONSOLIDATED RESULTS					
Sales	**5,210**	5,325	5,555	5,425	4,187
Adjusted operating earnings[i]	**199**	173	201	197	83
Net earnings (loss) from continuing operations	**(23)**	(20)	65	68	(3)
Net earnings, as reported[ii]	**207**	5	94	102	30
Return on assets employed[iii]	**6.7%**	5.6%	7.0%	7.7%	4.3%
FINANCIAL POSITION					
Net assets employed[iv]	**2,267**	2,177	2,047	1,893	1,322
Shareholders' equity	**1,161**	994	999	906	654
Net borrowings	**855**	1,213	1,063	1,046	785
PER SHARE					
Net earnings (loss) from continuing operations	**-0.18**	-0.16	0.52	0.60	-0.03
Adjusted net earnings from continuing operations[i]	**0.51**	0.38	0.59	0.60	0.04
Net earnings, as reported[ii]	**1.63**	0.04	0.74	0.90	0.27
Dividends	**0.16**	0.16	0.16	0.16	0.16
Book Value	**8.96**	7.82	7.82	7.24	5.78
NUMBER OF SHARES (MILLIONS)					
Weighted average	**127.3**	127.5	126.8	113.6	113.1
Outstanding at December 31	**129.6**	127.1	127.7	125.2	113.2

(i) Refer to non-GAAP measures on page 20 of (Management's Discussion & Analysis) for definition.
(ii) Includes results of discontinued operations.
(iii) After tax, but before interest, calculated on average month-end net assets employed. Excludes restructuring and other related costs.
(iv) Total assets, less net cash, future tax assets, assets held for sale and non-interest bearing liabilities.

Operating Earnings Before Restructuring and Other Related Costs

- 45.3% Meat Products
- 58.6% Bakery Products
- (3.9%) Agribusiness



Total Assets by Group

- 52.0% Meat Products
- 27.5% Bakery Products
- 10.1% Agribusiness
- 10.4% Not Allocated

Domestic vs. International Sales

- 71.6% Domestic
- 14.7% U.S.
- 13.7% Other International

Sales by Group

- 66.4% Meat Products
- 29.0% Bakery Products
- 4.6% Agribusiness

Transforming Our Company

By 2010 Maple Leaf will be a focused, consumer packaged food company, with significantly higher earnings through growth in our value-added meat, meals and bakery businesses. Here are some highlights of this transformation.

Strategy

1 Refocus Our Business Model

- Consolidate our protein businesses into one meat company
- Sell our animal nutrition business
- Reduce hogs raised by 50%
- Reduce hogs processed annually by 43% consolidating six processing plants into one

Since we began our transformation in late 2006, we have sold our animal nutrition business, closed four sub-scale meat processing plants and largely restructured our hog production operations. By the end of 2009 we will have a tightly integrated protein business, with our fresh pork operations supplying raw materials for our higher margin value-added meat and meals businesses. This will substantially reduce the currency and commodity exposure that have overshadowed the underlying value in this business.

2 Increase Scale and Efficiency

- Double-shift Brandon pork plant to realize economies of scale
- Increase capacity in our value-added meat, meals and bakery businesses
- Invest approximately $280 million in capital improvements in 2008 across our bakery and protein businesses
- Implement shared services structure to reduce complexity and costs

We are stepping up our capital program to raise the efficiency and scale of our plants, ensuring that we are globally competitive regardless of currency influences. This means investing in new plants and warehousing capacity, significant expansions in others, and closing sub-scale facilities. We are also implementing a shared services organization to simplify our overhead structure.

3 Drive Innovation and Market Growth

- Build world-class food innovation centre
- Expand in higher growth, higher margin markets by adding value across all our product lines
- Increase investment in brands to maintain our strong market leadership across all categories

Realizing our transformation requires a step-change in innovation in higher value segments of the market. We will complete construction of our food centre in early 2009, bringing together our product development teams in a world-class facility. We are expanding into new categories like sandwiches and chilled meals, broadening our strong position in premium nutrition and specialty bakery categories, and expect to launch over 120 new products in 2008.

Bakery Products Group

- fresh breads, rolls and ethnic breads
- bagels, croissants and morning goods
- premium artisan bakery products
- frozen par-baked and fully-baked goods
- fresh pasta and sauces

Meat Products Group

- processed meats
- chilled and frozen ready-to-cook products
- chilled ready-to-serve products
- value-added fresh pork, poultry and turkey products

Agribusiness Group

- rendering operations
- biodiesel production
- hog production

Outlook

Incremental Earnings Growth

Our transformation plan for our new protein business model is expected to recover earnings impacts of $100 million related to currency changes by the end of 2009. In addition, we will benefit from earnings growth in our bakery businesses and other cost-reduction initiatives.

"Through this transformation we will unlock significant capital in our balance sheet to re-invest in our core strategies. We will have less exposure to currency and commodities. We will have less volatility in our earnings. Our business will be simpler, more focused and easier for people to understand. We will have the benefit of higher growth rates and stronger brands, backed up by a heavier emphasis on innovation. We will have more control over our destiny, with every intention to pursue a more global growth agenda."

Michael McCain,
President and CEO

Long-Term Financial Goals

11.5%
Return on Net Assets

15%
Long Term Earnings Per Share Growth

passionate people;
passionate about food

PROTEIN GROUP

(In millions of Canadian dollars)	2007	2006	% change
MEAT PRODUCTS GROUP			
Sales	**3,458**	3,746	(8%)
Earnings from operations before restructuring and other related costs	**90**	74	21%
Total Assets	**1,560**	1,552	1%
AGRIBUSINESS GROUP			
Sales	**241**	245	(2%)
Earnings from operations before restructuring and other related costs	**(8)**	(2)	(217%)
Total Assets	**303**	703	(57%)

TOTAL PROTEIN GROUP

(In millions of Canadian dollars)	2007	2006	% change
Sales	**3,699**	3,991	(7%)
Earnings from operations before restructuring and other related costs	**82**	72	15%
Total Assets	**1,863**	2,254	(17%)

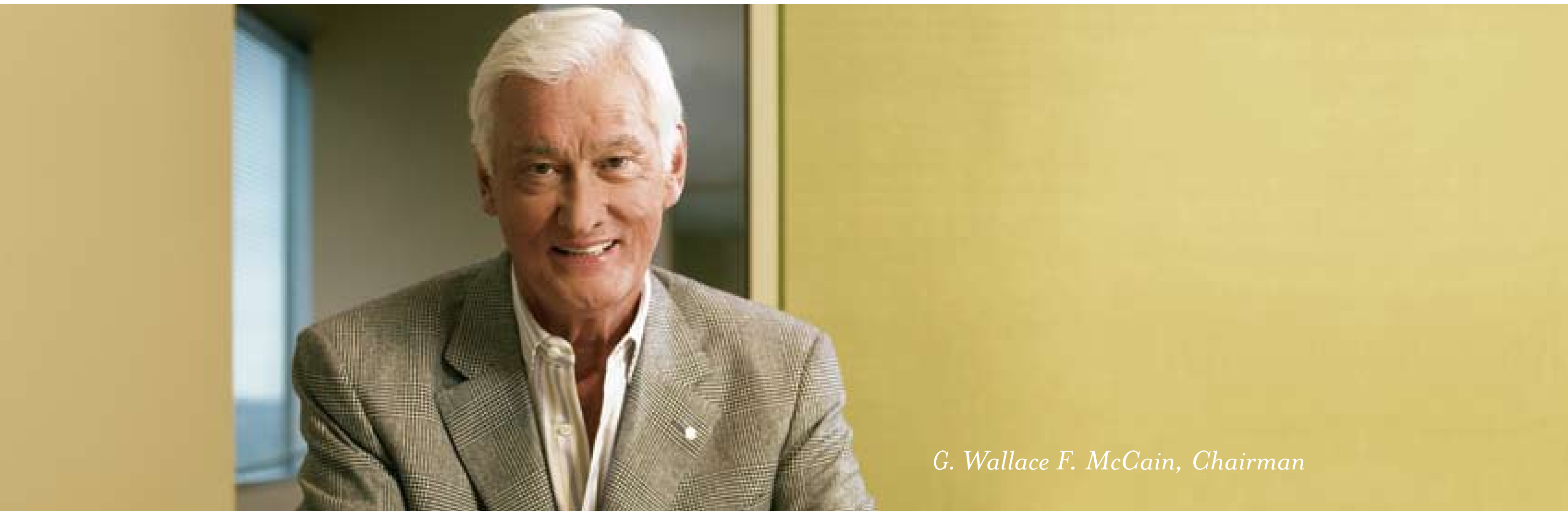
Operating Groups

The Meat Products Group includes consumer foods, value-added pork, poultry and turkey products, and global meat sales operations. The Agribusiness Group comprises hog production and rendering operations.

BAKERY PRODUCTS GROUP

(In millions of Canadian dollars)	2007	2006	% change
Sales	**1,511**	1,334	13%
Earnings from operations before restructuring and other related costs	**117**	101	16%
Total Assets	**823**	811	2%

The Bakery Products Group comprises Maple Leaf's 88.0% ownership in Canada Bread Company, Limited ("Canada Bread") a producer of fresh, frozen and branded value-added bakery products, including frozen par-baked bakery products, and specialty pasta and sauces.



G. Wallace F. McCain, Chairman

DEAR FELLOW SHAREHOLDERS:

I am pleased to report that the Board's strong 'culture of involvement' continued this past year. Through continual communication with management and active participation in Board and Committees meetings and strategy sessions, our Board remains openly and actively engaged in the present and future of our Company.

We count as a major accomplishment our involvement in the complex and fundamental transformation of our protein business that commenced in 2007. Oversight of this significant change initiative was likely our largest and most important contribution last year. By the end of 2009, we expect refocusing this business will step change our earnings and reduce the impact of the high Canadian dollar and commodity markets on our protein business. Management is doing an exceptional job of leading this process with precision. The Board's role as we implement the required changes is as important now as when the strategy was being formed. We receive detailed briefings at every Board meeting on progress and challenges to ensure that initiatives are sufficiently resourced, that issues are resolved, and that we are meeting critical timelines.

Last year we approved a 52% increase in capital investments, which will increase the Company's competitive positioning, drive innovation and fuel growth in new geographic markets and product categories. With the sale of non-core businesses over the past year we have a stronger balance sheet than ever before. Management's execution of the sale of the animal nutrition business and non-core hog production operations has been exceptional. Although we paid down debt in 2007, we plan to redeploy some of this capital to support acquisitions down the road that support our global growth in value-added bakery and protein.

The fact that Maple Leaf was able to achieve steady earnings growth in 2007 – in the face of unprecedented food inflation and major change initiatives – speaks volumes to the correctness of our strategies, careful execution, and the dedication and skill of our thousands of people who live and breathe this business. On behalf of all shareholders, thank you to our 23,000 employees, and to our directors for your diligence, insights, and passion to see our company grow and prosper. 2008 will be another year of major change, drawing on the experience in business transformation that the Board brings to the process. We are well on track to achieve what shareholders want – a stronger more profitable company with exciting growth opportunities ahead.

Sincerely,

G. Wallace F. McCain
CHAIRMAN

In Every Home

Michael H. McCain, President and CEO

FELLOW SHAREHOLDERS

Last year was a year of change, a year of volatility and a year where we laid the foundation for our future. It was also a year where we exceeded our financial targets and accomplished all of our 2007 strategic goals in the midst of a complex business transformation. We made remarkable headway in one of the most unpredictable years the food industry has ever experienced. Climbing wheat (up 37%), corn (up 42%) and soy prices (up 46%) resulted in soaring worldwide input costs and food inflation; further strengthening of the Canadian dollar increased the already monumental challenges faced by domestic manufacturing and export industries; and increased competition in the Canadian retail grocery sector fuelled intense price pressure on suppliers to reduce costs.

So how did Maple Leaf perform? In the midst of turbulent markets and major transformation in our protein business, our stock rose 20% in 2007, outperforming the S&P/TSX Composite Index that rose 7% and the S&P 1500 Food Index that increased 8%. We achieved 15% growth in adjusted operating earnings and a 34% increase in adjusted earnings per share. While a solid performance, it absolutely does not reflect our goals and full potential, nor does it include any benefits to come from the dramatic changes underway in our protein business. We continue to expect this restructuring alone to yield an incremental $100 million in operating earnings by the end of 2009, not including profit growth in our other businesses. So we are satisfied with our 2007 performance and very confident about our ability to step-change shareholder return through the transformational business changes that are part of our “Destination 2010”.

Here are more details as we look back on 2007 (all earnings exclude restructuring and other related costs, certain non-recurring tax adjustments and discontinued operations):

- Sales were $5.2 billion compared with $5.3 billion in 2006
- Adjusted earnings from operations increased 15% to $199 million
- Adjusted earnings per share increased to $0.51 from $0.38 last year
- Operating cash flow from continuing operations increased 14% to $123 million
- Capital expenditures increased 52% to $237 million
- Return on net assets was 6.7% compared to 5.6% last year
- Share price at year end was $14.85; outperforming the S&P Food Products Index by 14%

We are satisfied with our 2007 performance and very confident about our ability to step-change shareholder return through the transformational business changes that are part of our "Destination 2010".

In our Bakery Products Group, adjusted earnings from operations for the year increased by 16% to $117 million compared to $101 million in 2006, including the contribution of acquisitions in the United Kingdom. While commodity prices for wheat and other grains were at historically high levels, the Company successfully implemented cost reduction initiatives and increased pricing to offset the continued rise in input costs.

In our Meat Products Group, adjusted earnings from operations for the year increased by 21% to $90 million, mainly driven by improvements in the fresh pork and poultry businesses. Operating efficiencies in both these businesses combined with improved industry processor margins in pork more than offset the impact of the strengthening Canadian dollar in the year. While this was a positive trend, comparisons are off a low base of earnings in 2006, and protein results have yet to materially benefit from any of the strategic initiatives underway.

In our Agribusiness Group, adjusted earnings from operations for the year declined to a loss of $8 million compared to a loss of $3 million in 2006. Rising feed costs, lower hog prices, a strong Canadian dollar, and increased mortality as a result of an industry outbreak of porcine circovirus resulted in lower hog production margins. Losses in the farming operation were mitigated by the increased contribution of rendering and biodiesel operations, benefiting from strong commodity and oil prices.

Overall, the Company continued to generate strong cash flow, with $123 million in operating cash flow from continuing operations in 2007. We increased our capital expenditures by 52% to $237 million; this is a critical element of our plan to adjust our Canadian operations to the new currency reality. Through these investments we are increasing the efficiency and scale of our plants, reducing costs and improving our competitiveness. Capital projects must pass intense scrutiny and generate satisfactory returns for shareholders, and are an essential part of our transformation. In addition, we invested approximately $50 million on acquisitions in the bakery business to extend our product and geographic diversification, largely in the United Kingdom. We ended the year with a very strong balance sheet reflected in a Net Debt/EBITDA ratio of 2:2, benefiting from the sale of our animal nutrition business for $525 million, the proceeds of which were used to pay down near-term debt. We expect to redeploy this capital in the next few years with significant investments behind our new vision.

Everyday

The progress we made in 2007 attests to our collective skill at managing complex organizational change. We are well down the path to achieve this transformation.

CREATING A GLOBALLY ADMIRED, VALUE-ADDED MEAT, MEALS AND BAKERY COMPANY.

Looking back before the meteoric rise in the Canadian dollar, we had built a business that was well positioned to deliver strong earnings. However the world changed – a 46% rise in the Canadian dollar since 2002 has resulted in an annualized loss of competitiveness of approximately $135 million. In last year's annual report, we wrote about our new vision for the future and how we are making radical changes in our protein business to reposition it for success. We also elaborated on value creation strategies to drive increased top-line growth in our fresh and frozen bakery businesses.

The progress we made in 2007 attests to our collective skill at managing complex organizational change. We are well down the path to achieve this transformation, a journey we call Destination 2010. The focus of these activities is to:

- Restructure our protein operations to secure a low cost supply of high quality meat for our value-added meat and meals businesses and significantly reduce our currency and commodity exposure.
- Drive sales and margin growth in value-added bakery and protein markets through product and packaging innovation and expansion into new categories and geographies.
- Increase capital investment to improve manufacturing and distribution efficiencies and create a cost structure that is competitive with large U.S. food manufacturers.

HERE ARE THE HIGHLIGHTS OF WHAT WE ACHIEVED LAST YEAR:

- Sold our non-core animal nutrition business for gross proceeds of $525 million
- Invested over $237 million in capital projects to reduce costs and add capacity in our manufacturing and distribution network
- Recognized as one of Canada's 10 Most Admired Corporate Cultures
- Launched more than 100 new products in our protein and bakery businesses
- Started construction on our new food innovation centre, expected to be completed in early 2009
- Achieved major growth in our U.K. business, establishing it as a leading specialty bakery
- Materially offset raw material inflation through price increases
- Diversified our fresh bakery business into the sweet goods and sandwich markets
- Double-shifted front-end processing at our Brandon pork plant, enabling the closure of two older facilities
- Established a modern, scale plant in Ontario with capacity to support growth in value-added, packaged meat and meals
- Substantially restructured our hog production operations, which was completed in early 2008
- Increased capacity utilization in our poultry and processed meats network through the closure of four sub-scale facilities
- Laid the groundwork to create a shared services organization to streamline and improve the efficiency of core business processes

Everywhere

Our five key value drivers provide the platform to increase profitability and earnings stability, and drive top-line growth through product and geographic expansion.

We have a clear path to add over $100 million in incremental operating earnings on an annualized basis by the end of 2009 through our protein reorganization. We started down this path in late 2006 and we are on track to achieve our goals. While 2008 will be another year of intense change, we expect the bulk of major projects will be completed this year and to start seeing the financial rewards of our efforts as we head into 2009.

BUILDING VALUE – THE FIVE KEY DRIVERS

Our path to step-change shareholder value consists of five key value drivers. They provide the platform to increase profitability and earnings stability, and drive top-line growth through product and geographic expansion.

- Restructuring our Protein Business
- Driving Growth in Fresh Bakery
- Fix to Grow in Frozen Bakery
- Value Creation in Value-Added Meat and Meals
- Expansion in U.K. Bakery

1. Restructuring our Protein Business.

Our strategy is straightforward – reduce our currency and commodity exposure and increase profitability by downsizing our hog production and fresh pork operations, converting them from independent businesses to an internal supplier of high quality pork to support growth in our more stable and profitable packaged meat and meals business. Last year we sold our animal nutrition business, significantly restructured our hog production operations and improved the scale and efficiency of our pork processing plant in Brandon, Manitoba by doubling the hogs processed.

FIVE KEY DRIVERS

- Restructuring Our Protein Business
- Driving Growth in Fresh Bakery
- Fix to Grow in Frozen Bakery
- Value Creation in Value-Added Meat and Meals
- Expansion in U.K. Bakery

After the first quarter of 2008, we expect to reduce the number of hogs we raise to 750,000 compared to 1.5 million in 2006 and have largely restructured this business. In 2008, we will complete the second-shift expansion at the Brandon pork processing plant, creating one scale facility where five previously existed, and will have sold or transitioned our remaining pork processing operations. We are intensifying our product innovation focus to identify new categories where we can add value to the fresh pork and poultry we process.

2. Driving Growth in Fresh Bakery.

Over the past four years we have realized a compound annual growth rate in operating earnings of 24% in the fresh bakery business. We benefit from a product mix that is weighted towards higher value bakery products, such as whole grains, organics and specialty breads. Our focus is to manage food inflation through cost reduction initiatives and responsible pricing, but also to accelerate top line growth by broadening into new categories. In particular we are focused on expansion in fresh sandwiches – a natural for a company which manufactures meat and bread products – and the sweet goods market. We have significantly increased our expertise, production capabilities, and market penetration through acquisitions in both categories. In 2008 we will be integrating these acquisitions and concentrating our efforts on product innovation to add excitement and consumer appeal to mainstream sandwich and sweet goods products. In our fresh pasta and sauce business, we are continuing our market expansion in the U.S. and Mexico, adding new products like *NutriWise* whole grain pastas under the strong *Olivieri* brand.

Every taste

3. Fix to Grow in Frozen Bakery. The North American frozen bakery industry, including products like bagels, hearth breads, artisan breads, rolls and croissants that are sold mostly through in-store bakeries, is an attractive market where we have important strengths. These include high speed lines, scale plants, leadership in par-baked breads and rolls, and large retail and foodservice customers. However there are challenges, including industry fragmentation, low capacity utilization, and rising input costs that have impacted our profitability. We have made huge strides in reducing our cost structure, the results of which were reflected in improved financial results last year. In 2008, we will be implementing more network changes and sharpening our customer focus to build relationships that complement our product expertise, geographic and product innovation capabilities – in short, better deeper relationships with fewer customers. Once we have restored profitability in the base business we plan to grow this business through capital investment and acquisitions.

4. Value Creation in Value-Added Meat and Meals. As the growth engine of our Protein Group, we are placing our emphasis on increasing top-line growth and margins in processed meat and the chilled meals market, which is growing at a rate of over 20%. First, we are investing to establish a low cost, efficient manufacturing and distribution network with the capacity to support growth. In 2007 this involved the construction or expansion of five plants/distribution centres and the closure of four sub-scale meat processing facilities. Last year over 31% of our capital investment was in this business. Second, we are vastly accelerating our innovation goals.

New products typically deliver higher sales and margins and we are targeting the launch of over 50 new products in 2008. While our major focus is on the chilled meals category and developing products that add value to the fresh pork and poultry we process internally, our innovation activities also include new packaging ideas and working closely with our customers to develop exciting new products that differentiate them with consumers. Finally, in the face of ongoing food inflation, we are working with our customers to prudently raise prices.

5. Expansion in U.K. Bakery.

Our U.K. Bakery business is now a material earnings contributor and an important global growth platform for our Bakery Products Group. Over the past two years we have quadrupled the size of this business through acquisitions and organic growth. With three more acquisitions in 2007, we further consolidated the specialty bakery industry and expanded our presence in new markets – premium hearth and artisan breads. We now have leading market shares in several specialty bakery categories including bagels, croissants, artisan breads and in-store bakery breads and rolls, supported by eight plants across England. We invested $19 million in 2007 to expand our manufacturing capacity in croissants, bagels and in-store bakery products to support market expansion in the U.K. and Europe. While this business has also been impacted by the sharp rise in wheat and dairy input costs, it is mitigating these influences through a combination of cost reduction initiatives and increased pricing. In 2008, the focus will be on organizational integration, driving costs out, and tapping into the breadth of our significantly larger business to deliver more products and services to our customers.

Everyway

Attracting and developing leaders at all levels of the organization lies at the heart of building an agile culture where people are empowered to think and act to drive positive change.

Successfully completing these five major initiatives will add incremental value well beyond the $100 million resulting from the protein reorganization and position our Company for stable, higher returns.

INVESTING IN OUR DNA

While our businesses must be flexible to changing market dynamics, our commitment to building a values-focused culture through leadership development and continuous improvement is unwavering. We are a company that prides itself on attracting and developing leaders at all levels in the organization. It lies at the heart of building an agile culture where people are empowered to think and act to drive positive change. In 2007, we invested in over 7,500 person days of learning and development in Direct Personal Leadership, Leading Innovation, Manufacturing Excellence, Sales Excellence, Six Sigma, and Project Leadership. Our workplace safety record continued its seventh consecutive year of improvement in lost time accidents. Since establishing a comprehensive workplace health and safety scorecard in 2005, we have benchmarked our performance annually and in 2007 achieved a 33% improvement across all Maple Leaf operations. We are also rigorously tracking employee engagement and responding to issues to create a better workplace. Our Six Sigma professionals are at the forefront of leading change projects to success employing their expertise in analysis, project and change management.

HEALTH, ENVIRONMENTAL AND SOCIAL IMPERATIVES

As a large food company, there are major health, environmental and social issues that go beyond short-term profitability that must shape our business if we are to realize a sustainable future. On the environmental front, we are undertaking multiple initiatives in conjunction with key customers to reduce packaging and improve its recyclability, track our greenhouse gas emissions and the miles it takes to produce and deliver food products. Increasingly and importantly, sound environmental practices are becoming a key component of competitive advantage. In 2008, we are undertaking a comprehensive planning process to measure our environmental footprint, coordinate cross-company mitigation activities and define our longer-term environmental objectives. In short – moving beyond compliance to self-directed environmental action.

On the health front, nutrition is a fundamental element of our innovation strategies. Across our portfolios we have a range of products that provide consumers with added nutritional benefits including reduced sodium and the additional of healthy ingredients like inulin, fibre and Omega 3. Our *Dempster's* brand is synonymous with premium nutrition in the fresh bread market; our *Maple Leaf Simply Fresh* products deliver reduced sodium choices; and we are providing consumers the benefit of whole grains in fresh pasta and in-store bakery products under our respective *NutriWise* and *Wholesome Harvest* brands. Aligning with our philanthropy strategy to leverage our capabilities and expertise to deliver nutritious food products to those in need, we generously donated meat and bread products last year and supported the positive contributions of our employees to local community initiatives.

We are a significantly stronger company than a year ago, with solid and achievable value creation strategies that will step-change our financial results.

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

SUMMARY

We are a significantly stronger company than a year ago, with solid and achievable value creation strategies that will step-change our financial results. While Maple Leaf currently trades at a discount to our peer group in the consumer packaged goods sector, we believe that our transformation will result in market valuations more in line with the expectations of a consumer packaged goods company focused in meat, meals and bakery products. It is up to us to complete the changes underway and deliver the earnings potential that our plan is capable of.

In the year to come, we are going to substantially complete most of the large remaining projects in our protein transformation. While 2007 was a year of improved profitability and major accomplishments, the passion of thousands of amazing people and their disciplined approach to management and change gives us the confidence to look for much greater things ahead. Destination 2010!

Michael H. McCain
President and Chief Executive Officer

Richard A. Lan
Chief Operating Officer, Food Group

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

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

Maple Leaf
Dempster's
Schneiders

Olivieri – Share Your Passion
Maple Leaf Prime Naturally
Shopsy's
Dempster's WholeGrains
Smart
POM
Hygrade
Parma
Dempster's Stays Fresh to the Last Slice
New York Bakery Co.
Olafson's
Olivieri NutriWise
Larsen
Bon Matin
Tenderflake
Holiday
Ben's The Baker's Best
Swift
Villaggio
Mitchell's

Financial Statements

FOR THE YEAR 2007

Management's Discussion and Analysis

THE BUSINESS

Maple Leaf Foods Inc. ("Maple Leaf" or the "Company") is a leading Canadian value-added meat, meals and bakery company committed to delivering quality food products to consumers around the world. Headquartered in Toronto, Canada, the Company employs approximately 23,000 people at its operations across Canada and in the United States, Europe and Asia.

OVERVIEW

In 2007 earnings from continuing operations before restructuring and other related costs ("Adjusted Operating Earnings") (i) increased by 15.2% to $199.1 million (2006: $172.8 million) and adjusted earnings per share from continuing operations ("Adjusted EPS from Continuing Operations") (i) increased 34.2% to $0.51 per share (2006: $0.38 per share). Basic earnings (loss) per share from continuing operations ("Basic EPS from Continuing Operations") (i) decreased 12.5% to $(0.18) per share (2006: $(0.16) per share). All figures are reported in Canadian dollars except as otherwise specified.

In 2006 the Company announced and began execution of a new strategic direction to refocus on its value-added meat, meals and bakery business. This strategy, formulated in response to changes in the Company's competitive position as a result of the strengthening of the Canadian dollar, is expected to be materially complete by the end of 2009. Results of operations during 2007 include significant costs, investments and other impacts related to the first full year of execution of the new strategy. These impacts have been separately disclosed, where appropriate, in order to provide a clearer assessment of underlying Company results. This has required the use of non-GAAP measures in the Company's disclosures which Management believes to provide the most appropriate basis on which to evaluate operating results.

During 2007, in addition to significant internal change activities related to execution of its strategy, the Company was materially affected by unprecedented increases in the price of key inputs to its manufacturing operations, including wheat, corn, other grains and fuel costs. Management believes that these impacts, which must be offset by increasing the prices of the Company's products or reducing costs, reinforce the new strategy including downsizing or exiting from product categories in which the Company has limited pricing power, or is unduly exposed to commodity and currency effects.

SELECTED FINANCIAL INFORMATION

Following is a summary of audited financial information for the three years ended December 31, 2007:

(Millions of dollars except "EPS" information)	**2007**	2006	2005
Sales	**$ 5,209.6**	$ 5,324.8	$ 5,554.8
Adjusted operating earnings (i)	**$ 199.1**	$ 172.8	$ 201.0
Net earnings (loss) from continuing operations	**(23.2)**	(20.0)	65.4
Net earnings	**207.1**	4.5	94.2
Basic EPS	**$ 1.63**	$ 0.04	$ 0.74
Diluted EPS	**1.59**	0.03	0.72
Basic EPS from continuing operations, as reported	**(0.18)**	(0.16)	0.52
Diluted EPS from continuing operations, as reported	**(0.18)**	(0.16)	0.50
Adjusted EPS from continuing operations (i)	**0.51**	0.38	0.59
Total assets	**$ 2,998**	$ 3,276	$ 2,928
Net debt (i)	**855**	1,213	1,062
Return on net assets (RONA) (i)	**6.7%**	5.6%	7.0%
Cash flow from continuing operations	**$ 122.8**	$ 107.4	$ 217.9
Cash dividends per share	**$ 0.16**	$ 0.16	$ 0.16

(i) Refer to non-GAAP measures on Page 20.

NON-GAAP MEASURES

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

A) ADJUSTED OPERATING EARNINGS

"Adjusted Operating Earnings" is defined as earnings from continuing operations before restructuring and other related costs. 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. Following is a reconciliation of earnings from operations as reported in the Company's consolidated financial statements to Adjusted Operating Earnings.

Operating Earnings Reconciliation

(Millions of dollars)	**2007**	2006	2005
Earnings from operations, as reported	**$ 76.8**	$ 109.6	$ 187.8
Restructuring and other related costs	**122.3**	63.2	13.2
Adjusted Operating Earnings	**$ 199.1**	$ 172.8	$ 201.0

B) ADJUSTED EPS FROM CONTINUING OPERATIONS

"Adjusted EPS from Continuing Operations" excludes restructuring and other related costs, net of taxes and minority interest, and certain non-recurring taxation adjustments. Management believes that this is the most appropriate basis on which to evaluate financial results, as the taxation adjustment and restructuring and other related costs are not representative of continuing operations.

EPS Reconciliation

(Per share)	**2007**	2006	2005
Reported Basic EPS from continuing operations	**$ (0.18)**	$ (0.16)	$ 0.52
Restructuring and other related costs, net of tax	**0.81**	0.37	0.07
Tax benefit from lower future tax rates (i)	**(0.08)**	—	—
Tax benefit related to animal nutrition business (ii)	**(0.04)**	—	—
U.S. tax adjustment, net of minority interest (iii)	—	0.17	—
Adjusted EPS from continuing operations	**$ 0.51**	$ 0.38	$ 0.59

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

(ii) In Q2 2007 the Company recorded a non-recurring tax benefit of $5.1 million related to the sale of its animal nutrition business.

(iii) In Q3 2006 the Company recorded a non-recurring tax expense of $21.2 million to write-down future tax assets that originated in 2006 and earlier years related to its U.S. frozen bakery business.

C) RETURN ON NET ASSETS ("RONA")

RONA is calculated by dividing tax-effected earnings from continuing operations before restructuring and other related costs and before interest by average monthly net assets. Net assets are defined as total assets less cash, future tax assets and non-interest bearing liabilities. Management believes that this is the most appropriate way to reflect financial performance relative to assets employed.

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

EBITDA is calculated as earnings from operations before restructuring and other related costs and before interest and income taxes plus depreciation and intangible amortization. EBITDA also includes a pro forma adjustment to reflect prior 12 months earning for acquisitions.

E) NET DEBT

Net debt is calculated as long-term debt and bank indebtedness, less cash of $28.2 million.

Management's Discussion and Analysis

RISING INPUT PRICES

"Food for fuel" initiatives sponsored by the United States Government have resulted in increasing demand for grains, in particular corn, that are used for ethanol production and diminishing land set aside for other crops such as wheat. Combined with strong demand from export markets and shortfalls in world crops, this has resulted in unprecedented increases in the prices of commodities including wheat, corn, barley and soybeans, all of which are inputs into or affect the Company's operations. Consequently in 2007 the input costs for a number of the Company's businesses have increased dramatically.

Increased corn and barley prices result in higher feed costs and therefore cost of production in the Company's hog production operations. The market price of hogs has not increased at the same rate as inputs, and as a result hog production earnings have declined significantly during 2007. The cost of meat and poultry has increased as a result of increased demand in North America, exports to areas such as Asia and increases in poultry feed costs, but livestock prices have not yet responded fully to the increased cost of grains. The Company has limited ability to offset cost increases in the prices of its fresh meat as these prices are influenced by world commodity markets.

Increased fresh meat and poultry prices affect the Company's further processed meat and meals businesses, but the Company in general has the ability to recover these cost increases in the price of its finished products. These price increases do not always precisely track increases in input and inflationary costs, but over time the Company is generally able to fully offset these increases.

The scale and speed of wheat price increases in 2007 that have continued during 2008, have materially increased the cost of production in the Company's bakery operations. When combined with inflationary cost increases related to the fixed costs of the bakery and distribution operations, Management has had to increase prices significantly and find ways to improve efficiencies in the Bakery Products Group to offset these cost increases.

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

	At December 31 (i)	Annual Averages			
	2007	**2007**	2006	Change	2005
Price of a Market Hog (CAD per hog) (ii)	**$ 93.32**	**$ 125.76**	$ 131.14	(4.1)%	$ 148.52
Price of a Market Hog (USD per hog) (ii)	**$ 94.50**	**$ 116.94**	$ 115.62	1.1 %	$ 122.50
Wheat (USD per bushel) (iii)	**$ 10.36**	**$ 6.41**	$ 4.67	37.2 %	$ 3.55
Corn (USD per bushel) (iii)	**$ 4.56**	**$ 3.80**	$ 2.67	42.2 %	$ 2.14
Soybeans (USD per bushel) (iii)	**$ 12.14**	**$ 8.72**	$ 6.00	45.5 %	$ 6.13

(i) Spot prices for the week ended December 28, 2007 based on CME or WCB depending on region (Source: USDA).

(ii) % change in live hog price calculated using 5-day average of CME or WCB depending on region (Source: USDA).

(iii) % change in average price calculated using daily close prices (Source: Bloomberg, CBOT).

IMPACT OF CURRENCY

Since 2005 the Canadian dollar has materially strengthened against most world currencies, and in particular the U.S. dollar, and in 2007 reached parity with the U.S. dollar. This change has had significant impacts on the Company's relative competitiveness, particularly in its export, international and domestic commodity-based businesses, when compared with its U.S.-based competitors. The principal effects of these changes were experienced in 2005 through 2007. The businesses most affected by these changes in currency are the hog production and fresh pork operations as the value of hogs is pegged to the U.S. dollar and fresh pork products compete on a relative price basis with U.S.-based competitors.

Conversely, the Company's domestic branded and private label meat and meals business, and its Bakery Products Group (as defined under "Operating Segments" below), while affected by these currency changes, have the advantage of strong brands and market shares, which provide the ability to react to changes in relative competitiveness by reducing costs and investing in brand and innovation support. As a result, in November 2006, the Company announced a redirection of strategy to reorganize its protein operations to focus on growth in the higher margin, value-added meat, meals and bakery businesses where the Company has brand and market leadership.

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

	Average rate change (i)	
	Between 2007 and 2006	Between 2007 and 2002
Canadian dollar strengthened against the U.S. dollar by:	**5.6%**	46.2%
Canadian dollar strengthened against the Japanese yen by:	**7.4%**	38.0%

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

Since 2002, the Canadian dollar has appreciated 46% against the U.S. dollar. The Company estimates that in isolation this represented an annualized loss of competitiveness of approximately $100.0 million in primary pork processing business and more than $35.0 million in hog production business.

OPERATING SEGMENTS

The Company reports in three segments: the Meat Products Group, the Agribusiness Group and the Bakery Products Group. The combination of the Company's Meat Products Group and the Agribusiness Group comprises the Protein Group, which is involved in producing and marketing animal protein-based products. The Meat Products Group comprises value-added processed packaged meats; chilled meal entrees and lunch kits; value-added pork, poultry and turkey products; and global meat sales.

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

The Bakery Products Group comprises Maple Leaf's 88.0% ownership in Canada Bread Company, Limited ("Canada Bread"), a producer of fresh, frozen and branded value-added bakery products, including frozen par-baked bakery products and specialty pasta and sauces.

OPERATING REVIEW

Following are sales from continuing operations by business segment for the three years ended December 2007:

SALES

($ millions)	Full Year			
	2007	2006	Change	2005
Meat Products Group	**$ 3,458.0**	$ 3,745.7	(7.7)%	$ 4,102.4
Agribusiness Group (i)	**241.0**	245.4	(1.8)%	226.4
Protein Group	**3,699.0**	3,991.1	(7.3)%	4,328.8
Bakery Products Group	**1,510.6**	1,333.7	13.3 %	1,226.0
	$ 5,209.6	$ 5,324.8	(2.2)%	$ 5,554.8

(i) Agribusiness Group excludes the sales of the animal nutrition business which are reported as discontinued operations.

Management's Discussion and Analysis

Sales for the year decreased 2.2% to $5.2 billion. Although price increases and acquisitions generated higher sales, sales in total are lower than the prior year due to the sale or exit of non-core protein operations, and the impact of a stronger Canadian dollar. The non-core businesses that were sold or exited include international meat trading, soybean trading, and an interest in a joint-venture hog operation in Quebec.

Following are Adjusted Operating Earnings by business segment for the three years ended December 2007:

ADJUSTED OPERATING EARNINGS

($ millions)	Full Year			
	2007	2006	Change	2005
Meat Products Group	$ **90.2**	$ 74.4	21.2 %	$ 59.9
Agribusiness Group (i)	**(7.8)**	(2.5)	(216.8)%	39.8
Protein Group	**82.4**	71.9	14.6 %	99.7
Bakery Products Group	**116.7**	100.9	15.7 %	101.3
	$ **199.1**	$ 172.8	15.2 %	$ 201.0

(i) Agribusiness Group excludes the results of the animal nutrition business which are reported as discontinued operations.

MEAT PRODUCTS GROUP

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

Meat Products Group sales for the year declined 7.7% to $3.5 billion compared to $3.7 billion last year. This decrease was due primarily to the exit of global businesses, currency changes, and a reduction in the number of hogs processed to 6.6 million in 2007, down from 6.8 million in 2006.

Adjusted Operating Earnings for the year increased by 21.2% to $90.2 million from $74.4 million in 2006. The increase was principally due to improved returns in the fresh pork and poultry businesses, benefiting from higher industry processor margins on average throughout the year, compared to 2006. Following is a summary of publicly quoted North American and Canadian industry pork and poultry processor margins for the three years ended December 2007. Although the Company's results are affected by changes in industry processing margins, differences in the mix of products sold by the Company, such as branded chicken or pork exports, can result in fresh meat returns differing from industry margins.

	Annual Averages			
	2007	2006	Change	2005
Pork Industry Processor Margins (USD per cwt) (i)	$ **3.17**	$ 3.12	1.5%	$ 3.25
Poultry Industry Processor Margins (CAD per kg) (ii)	$ **1.45**	$ 1.25	15.4%	$ 1.15

(i) % change in average pork industry processor margins calculated using daily margins (Source: USDA).

(ii) % change in average poultry industry processor margins calculated using daily margins (Source: EMI Composite Market Indicator).

Note the measurement was revised in 2007 from using the AOCP Indicator, resulting in the revision of 2006 comparable.

The net benefit of industry processor margins, principally in fresh poultry, was further reinforced by improved operating efficiencies and together offset the impact of the strengthening Canadian dollar during 2007. These operating improvements were driven by benefits related to the closure of a poultry primary processing facility in Atlantic Canada in the second quarter of 2007, the closure of the Saskatoon and Winnipeg pork processing plants in the second and fourth quarters of 2007, respectively, and efficiencies from double-shifting front-end processing at the Brandon, Manitoba primary pork processing plant in the fourth quarter of 2007.

In the value-added further processed meat business, although price increases implemented during 2007 offset rising raw material and inflationary costs, lags in the timing of such pricing together with significantly increased investment in product development and marketing resulted in lower earnings compared to 2006. The Company has made significant investments in 2006 and 2007 to fuel expansion in the chilled meals category, and over the past year has established market leadership in this higher growth market segment. In the first quarter of 2007, the Company launched *Maple Leaf Simply Fresh*, a new line of fresh, nutritious ready meal solutions. Manufactured at its newly constructed Brampton, Ontario facility, these products include pork, chicken or beef and vegetables, and carry the Heart and Stroke Foundation's Health Check™ symbol. The products are developed using technology that significantly extends shelf life while delivering fresh taste, low sodium and fat, and high nutrition. Continued rationalization and efficiency improvements in the Company's value-added manufacturing and distribution network, including the closure of a red meat facility in Etobicoke, Ontario and consolidation of these products into the Brampton facility, and consolidation and upgrades of its Western distribution network, are expected to contribute to future earnings.

A cornerstone of Maple Leaf's new protein strategy is to reduce the volume of fresh pork it processes to a level that supports internal raw material requirements for further processed products, consolidated in one scale plant in Brandon, Manitoba. Supporting this strategy, the Company double shifted the front-end processing at Brandon in early September 2007, reaching its target of 75,000 hogs per week during the fourth quarter. In 2007 the Company closed two pork plants in Saskatoon and Winnipeg, which processed a combined total of approximately 1.7 million hogs per year. These changes were significant milestones in the execution of the Company's strategy. During 2008 Management intends to invest further capital in the Brandon facility to expand and double-shift the back-end 'cut' operations, invest in further processing ham operations in Winnipeg and proceed with the divestiture of its primary processing facility in Burlington, Ontario. It is anticipated that once these initiatives are complete by 2009 the Company will process approximately 4.3 million hogs annually.

AGRIBUSINESS GROUP

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

Agribusiness Group sales for the year decreased 1.8% to $241.0 million from $245.4 million, as the impact of restructuring the hog production operations more than offset the impact of rising commodity prices on by-product recycling revenues.

Adjusted Operating Earnings in the Agribusiness Group for the year were a loss of $7.8 million compared to a loss of $2.5 million in 2006. Sharp increases in feed prices and the continuing strength of the Canadian dollar created a very difficult environment and significant operating losses for hog producers in 2007. Hog production results were also impacted in the first half of the year by an industry-wide outbreak of porcine circovirus, a disease that affects growth rates and mortality rates of hogs. In 2006, results from hog production operations were negatively impacted by a one-time adjustment to inventory values of work-in-progress hogs. Hog production earnings benefited from the effects of short-term hedging, but this was not sufficient to offset the higher cost of feed.

Earnings for the by-products recycling business for 2007 benefited from higher volumes and higher prices for finished products that correlate to rising commodity prices, particularly soybeans. The Company's biodiesel operations improved outputs and efficiencies and benefited from further capital upgrades in 2007.

An element of the Company's new protein strategy is to restructure the Manitoba hog production operations towards wholly-owned balanced operations concentrated in proximity to the Brandon primary processing plant, reducing both the total number of hogs produced and the cost and complexity of the existing operations. This goal was materially achieved in Manitoba in 2007, and during 2008 and 2009 Management will focus on further reducing costs in this business.

In January 2008 the Company sold most of its Ontario hog production operations and almost all of its hog production investments in Alberta. This, combined with progress in restructuring its operations in Manitoba, represents a significant milestone in the Company's strategic plans. This marks the effective completion of the Company's exit from Alberta and Ontario hog production operations and the concentration of its production assets into Manitoba. The balance of the hog inventory in Ontario and Alberta will be marketed in the first quarter of 2008. As a result, after the first quarter of 2008, the annualized number of finished pigs produced by the Company is expected to reduce to approximately 750,000 hogs compared to 1.3 million produced in 2007. At the end of 2007, the Company effectively owned 20.0% of the hogs that it processed in its facilities.

Financial results for the animal nutrition business, divested during 2007, have been reported as discontinued operations. Maple Leaf has retained ownership of two feed mills in Western Manitoba and the operating results and the net assets related to these mills are included in the Agribusiness Group.

BAKERY PRODUCTS GROUP

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

Bakery Products Group sales for the year increased 13.3% to $1.5 billion. Excluding acquisitions, sales increased by 5.3%, reflecting increased volumes in the U.K. and price increases across all the bakery businesses.

Adjusted Operating Earnings in the Bakery Products Group for the year increased by 15.7% to $116.7 million compared to $100.9 million in 2006. This improvement was due primarily to the contribution of acquisitions in the U.K. and improvements in the North American frozen bakery operations.

Profitability in the fresh bakery and pasta operations decreased slightly over the prior year. The business experienced an unprecedented rise in wheat costs that was partially mitigated by forward flour purchases earlier in the year and a weaker U.S. dollar. While the Company was able to secure price increases to largely offset these rising direct input costs, increased spend on marketing initiatives, inflationary increases in manufacturing costs and an industry-wide volume decline in the fresh bread category had a negative impact on earnings. Since the beginning of 2008, wheat prices have continued to increase. In order to offset these impacts, further price increases during 2008 will be necessary. The timing of such price increases may not match the increase in wheat prices and other inflationary increases, but over the medium-term the Company expects to recover these increased costs through increased prices and operating efficiencies.

For the U.K. bakery operations, the benefits of price increases were not sufficient to offset the impact of higher input costs and investments in promotion and advertising. However, these headwinds were offset by the positive contribution of acquisitions and organic growth in bagel and other specialty bakery categories. During 2007 the U.K. business, responding to customer needs, invested significantly in new capacity and operational efficiencies, including installation of a new high speed croissant line at the Maidstone bakery, and increases in cold storage and production capacity at the Rotherham bagel facility.

The North American frozen bakery operations recorded a solid improvement in Adjusted Operating Earnings against a low prior year comparative by increasing volumes and prices to offset input cost increases. It also benefited from improved operating efficiencies, mainly at the Roanoke, Virginia bakery and also completed a large warehouse expansion in Roanoke that has optimized storage capacity and reduced third-party storage costs and freight.

SALE OF ANIMAL NUTRITION BUSINESS

On July 20, 2007 Maple Leaf completed the sale of its animal nutrition business to Nutreco Holding BV for gross proceeds of $524.8 million. Including the impact of a $20.7 million goodwill impairment charge related to the retained operations of the animal nutrition business and a $5.1 million tax benefit required to be recorded in earnings from continuing operations in the second quarter and the impact of final closing adjustments, the after-tax adjusted gain on the sale of the business was $204.0 million ($1.60 per share).

Proceeds from the sale of the animal nutrition business were used to pay down long-term debt, strengthening the Company's balance sheet to support future expansion of core business lines and potential acquisitions.

The operating results of the animal nutrition business that were sold have been classified as discontinued operations and prior year amounts have been restated on a comparable basis. Earnings per share from discontinued operations were $1.81 for the year (2006: $0.19). Included in 2007 earnings were restructuring and other related costs of $2.7 million. In calculating net earnings from discontinued operations, interest expense has been allocated to these operations assuming a uniform debt-to-equity ratio.

COMPANY REORGANIZATION

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

Management's Discussion and Analysis

To achieve its objective, the Company is focusing 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 meats that it processes 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.

All components of the protein group, including the feed, hog production and primary processing operations will be sized to support its value-added fresh and further processed meat businesses. This will result in reducing the number of hogs processed from 7.5 million to approximately 4.3 million annually. It will result in reducing the number of hogs produced from approximately 1.5 million hogs in 2006 to 750,000 hogs annually. The Company is selling or exiting operations and businesses that do not support this balanced, aligned and vertically integrated model.

The strategy goes beyond addressing currency challenges alone by seeking to provide significant value creation for the Company and its shareholders. The goal of the restructuring is to create a simpler, more focused and profitable meat, meals and bakery company, with significantly less exposure to foreign currency fluctuations and commodity markets. The Company is seeking to build off its considerable strengths in the higher margin, fresh and further processed meat, meals and bakery businesses through innovation, investment, and acquisitions.

In 2007 and early 2008, the Company achieved the following milestones towards the transformation:

- Substantially restructured its Manitoba hog production operations towards wholly-owned and balanced operations concentrated in proximity to the Brandon processing plant.
- Entered into transactions to sell all of its wholly-owned hog investments in Alberta and most of its hog production operations in Ontario. These transactions were completed in Q1 2008.
- Sold the animal nutrition business, except for two feed mills required to meet internal hog requirements, for proceeds of $524.8 million.
- Double-shifted the front-end "kill" processing at the Brandon pork plant enabling the closure of two older facilities in Saskatoon and Winnipeg.
- Started construction of a new $12.0 million food innovation centre in Toronto, Ontario, expected to be completed in early 2009.
- Established a modern scale plant in Brampton, Ontario with capacity to support growth in value-added, packaged meats and meals, involving investment of approximately $25.0 million in 2007.
- Invested over $40.0 million in capital projects to reduce costs and add capacity in the manufacturing distribution network.
- Increased capacity utilization in the poultry and processed meats networks through closing four sub-scale facilities.
- Laid the groundwork for a shared services organization to streamline and improve the efficiency of the Company's core business processes.

In 2008 and 2009, the following milestones relating to the protein transformation are expected to be completed:

- Divestiture of the Burlington and Lethbridge pork processing plants and consolidation of all primary pork operations into one fully double-shifted "cut and kill" facility in Brandon, Manitoba.
- Further manufacturing network optimization in the further processed meats business.
- Complete the distribution network optimization.
- Implement the Company's shared services structure.

RESTRUCTURING AND OTHER RELATED COSTS

During 2007, the Company recorded restructuring and other related costs of $125.0 million before taxation and $103.7 million after-tax and minority interest (2006: $64.6 million, $49.9 million after-tax and minority interest) primarily related to the reorganization of its protein value operations, and including other initiatives in the bakery and value-added meats businesses. Details of these restructuring and other related costs are as follows:

($ millions)		**2007**		2006		**Total-to-date**
Protein Group restructuring	**$**	**19.6**	$	27.6	**$**	**47.2**
Impairment of Ontario and Alberta hog production assets		**27.0**		18.6		**45.6**
Impairment of long-lived hog production assets		**36.1**		—		**36.1**
Goodwill impairment related to retained operations of the animal nutrition business		**20.7**		—		**20.7**
Retention payments		**8.7**		2.0		**10.7**
Poultry plant closure		**6.3**		2.3		**8.6**
Impairment of a non-core equity investment		**—**		7.3		**7.3**
Bakery plant closure		**3.9**		5.5		**9.4**
		122.3		63.3		**185.6**
Discontinued operations		**2.7**		1.3		**4.0**
Total restructuring	**$**	**125.0**	$	64.6	**$**	**189.6**
Cash incurred and to be incurred	**$**	**23.2**	$	25.4	**$**	**48.6**
Non-cash		**101.8**		39.2		**141.0**
	$	**125.0**	$	64.6	**$**	**189.6**

(i) **Protein Group restructuring** Includes costs of closure of two primary pork processing plants in Saskatoon and Winnipeg, the closure of a red meat processing facility in Etobicoke, Ontario, severances related to salaried headcount reductions, the exit of non-core protein operations including international meat trading, soybean trading, and a joint-venture hog production operation in Quebec.

(ii) **Impairment of Ontario and Alberta hog production assets** In the fourth quarter of 2007, the Company entered into transactions to sell most of its Ontario hog production operations and its wholly-owned hog production investments in Alberta. These transactions resulted in a combined impairment loss of $27.0 million to reduce the carrying value of these assets to fair value less costs to sell. These sale transactions closed in January 2008 (2006: $18.6 million).

(iii) **Impairment of long-lived hog production assets** The strengthening of the Canadian dollar, escalating input costs and losses on divestitures of hog production assets in Alberta and Ontario have caused Management to assess the carrying value of its remaining hog production operations in Manitoba. The Company has concluded that the long-lived assets related to the Manitoba hog operations have been impaired and consequently recorded an impairment charge of $36.1 million in the fourth quarter of 2007.

(iv) **Goodwill impairment related to retained operations of the animal nutrition business** When the assets of the animal nutrition business were sold, a further $20.7 million of goodwill was, as required by Canadian accounting rules, allocated to Maple Leaf's remaining feed and hog operations. The sale of the animal nutrition business placed certain restrictions in the operations of the two feed mills that were retained by Maple Leaf to supply feed to the Company's owned hog production operations in Manitoba. This reduced the assessment of future cash flows related to these remaining feed and hog operations. As a result, the Company determined that the goodwill allocated to the remaining feed and hog operations was impaired and recorded an impairment charge of $20.7 million in the second quarter of 2007.

(v) **Retention payments** These represent incremental compensation incentives put in place to retain certain key personnel in operating businesses that are impacted by restructuring activities.

(vi) **Poultry plant closure** These charges are the costs of closure, including severance, decommissioning and asset write-downs, of a primary poultry processing plant in Canard, Nova Scotia.

(vii) **Impairment of a non-core equity investment** In 2006, the Company wrote down an investment in a non-core flour, feed and rice milling company in the Caribbean to net realizable value.

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

As a result of actual experience and costs of completed projects, Management have revised their estimates of total restructuring and other related costs for 2006 to 2009 to between $275 million and $325 million (of which the cash component is $90.0 million to $110.0 million). As at December 31, 2007, $189.6 million has been recorded to date. This compares to a range of $140.0 million to $190.0 million estimated during 2006 (of which the cash component was $50.0 million to $75.0 million). The increase is primarily due to three factors, namely, the impairment of hog production assets classified as held for sale in Alberta and Ontario, the impairment of long-lived hog production assets in Manitoba, and the goodwill impairment related to retained operations of the animal nutrition business.

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. These estimates include restructuring and other related charges for projects that are anticipated to occur before the end of 2009, for which the plans are both known to Management and the amounts of restructuring and other related charges are reasonably quantifiable. These estimates do not include all restructuring projects that will occur during this time period and may change as the Company implements its restructuring initiatives. As a result, actual restructuring and other related costs over the next two years may differ materially from what is expressed.

OTHER INCOME

Other income increased to $4.6 million from $2.6 million in 2006, mainly due to receipt of insurance proceeds in the first quarter.

INTEREST EXPENSE

Interest expense for the year increased to $94.1 million compared to $90.2 million last year. The increase is primarily due to an increase in short-term interest rates. At December 31, 2007, 75.0% of indebtedness was not exposed to interest rate fluctuations (2006: 77.0%).

INCOME TAXES

Income tax expense decreased to $0.8 million from $35.8 million in 2006. A reconciliation between statutory tax rates and the Company's effective tax rate is set out in Note 21 of the Consolidated Financial Statements. Following is a discussion of certain reconciling amounts:

- During the year, the Company recorded reductions of $9.9 million (2006: $3.4 million) to tax expense attributable to changes to future tax rates that were enacted.
- During the year, the Company recorded restructuring and other related costs of $122.3 million (2006: $63.3 million) that had a tax effect of $20.6 million (2006: $14.3 million).
- The restructuring and other related charges included the write-off of goodwill for which there is no corresponding tax recovery. Accordingly, the tax expense is higher by $7.1 million.
- During the third quarter of 2006, the Company recorded a tax expense of $21.2 million to write down future tax assets related to its U.S. frozen bakery business. In 2007, a future tax asset valuation allowance of $5.7 million was recorded against additional tax losses generated in the year.
- During the second quarter of 2007, the Company recognized a tax benefit of $5.1 million related to outside basis differences on shares of subsidiaries that were sold as part of the divestiture of the animal nutrition business.

PENSION INCOME

Pension income for the year was $17.1 million compared to $10.1 million in 2006. Components of pension income are provided in Note 22 of the Consolidated Financial Statements.

ACQUISITIONS AND DIVESTITURES

2008

On January 29, 2008, the Company acquired the shares of Aliments Martel Inc., a leading manufacturer and distributor of sandwiches, meals and sweet goods based in Quebec, for an initial purchase price of $42.4 million plus contingent consideration of up to $23.0 million based on financial performance over the next three years.

On January 22, 2008, the Company completed the sale of most of its Ontario hog production operations and on January 29, 2008, the Company completed the sale of all of its wholly-owned investments in Alberta. Combined proceeds were $10.2 million. Impairment charges of $27.0 million were recorded in the fourth quarter of 2007 relating to these sales and were included in restructuring and other related costs.

On January 14, 2008, the Company completed the acquisition of Central By-Products, a by-products recycling business located near London, Ontario, for cash consideration of $18.0 million subject to normal closing adjustments. This acquisition reflects the Company's ongoing commitment to the by-products recycling business.

2007

On August 17, 2007, the Company acquired La Fornaia Ltd. ("La Fornaia"), a leading producer of a range of specialty Italian breads such as traditional ciabatta, organic breads and crisp breads for total consideration of £18.9 million ($40.3 million). The Company has allocated £3.7 million ($7.9 million) of the purchase price to the identifiable net assets of La Fornaia at the acquisition date, and £15.2 million ($32.4 million) to goodwill. The Company has not yet finalized the purchase price allocation for this acquisition.

During 2006 and 2007, the Company completed certain acquisition and divestiture transactions related to the realignment of its hog production business in Manitoba. These transactions did not have a significant impact on the financial position of the Company.

During the first quarter of 2007, the Company completed the sale of its European seafood and convenience businesses in Germany. The sales of these businesses will not have a significant impact on ongoing earnings or cash flows.

On February 26, 2007, the Company acquired 100% ownership in Pâtisserie Chevalier Inc. ("Chevalier") for $8.2 million. Chevalier is a leading producer of single-portion snack cake products in Quebec. The Company has allocated $6.4 million of the purchase price to the identifiable net assets of Chevalier at the acquisition date, and $1.8 million to goodwill. As at December 31, 2007, the Company has not yet finalized the purchase price allocation for this acquisition.

On July 20, 2007, Maple Leaf completed the sale of its animal nutrition business for proceeds of $525 million. The final adjusted after-tax gain was $204 million ($1.60 per share).

2006

On November 27, 2006, the Company purchased The French Croissant Company Ltd. ("FCC") and Avance U.K. Limited ("Avance"), two related bakeries in the U.K. for total consideration of £29.2 million ($64.0 million). FCC produces and 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 completed the purchase price allocation and has allocated $7.5 million to the identifiable net tangible assets of FCC and Avance and $56.5 million to goodwill and intangibles. The acquired intangible assets include $8.8 million of customer relationships that are being amortized on a straight-line basis over their useful lives to a maximum of 25 years.

On March 24, 2006, the Company acquired the assets and operations of 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 had 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.

TRANSACTIONS WITH RELATED PARTIES

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

In August 2006, the Company purchased an additional interest in Cold Springs Farm ("Cold Springs") for cash consideration of $5.0 million in cash. In August 2007, the Company purchased the remaining interest in Cold Springs for $10.0 million with $5.0 million paid in cash and $5.0 million due in the third quarter of 2008. The Company has not yet completed the purchase price allocation.

On October 2, 2006, Canada Bread acquired 50% of the shares of Royal Touch Foods Inc. ("Royal Touch"), a pre-packaged sandwich supplier based in Etobicoke, Ontario, from a third party, for $3.8 million net of cash acquired of $0.8 million. The investment in Royal Touch had previously been accounted for on an equity basis by Maple Leaf. In 2007, there were minor adjustments to the purchase price and the purchase price allocation was completed. Royal Touch will be merged with the newly acquired Martel business during 2008.

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

CASH FLOW

Total debt, net of cash balances, was $0.9 billion at December 31, 2007 compared to $1.2 billion last year a decrease of $0.3 billion. The most significant reason for the decline in debt outstanding compared to last year is application of cash received from the sale of the Company's animal nutrition business to repay long-term debt.

Operating cash flow for the year was $105.7 million compared to $132.0 million last year, a decrease of $26.3 million. Discontinued operations of the animal nutrition business accounted for a decrease in cash flow of $41.7 million. The operating cash flow, excluding discontinued operations, was $122.8 million compared to $107.4 million last year, an increase of $15.4 million. This increase is the result of favourable contributions from earnings before restructuring charges partially offset by an increased investment in working capital.

CAPITAL EXPENDITURES

Expenditures on capital plant and equipment for the year of $236.7 million compared to $155.9 million last year. In 2007, the Company invested in a number of initiatives to increase manufacturing and distribution efficiencies and capacity expansion in core businesses. These projects include a substantial expansion in capacity at the U.K. bagel and croissant facilities and the construction of a new warehouse at the Company's bakery in Roanoke, Virginia. The Company also invested in the launch of the *Maple Leaf Simply Fresh* product line and continued to support this expansion in the chilled meals market through capital investment at its plant in Brampton, Ontario. Capital investments were also made to support the consolidation of fresh pork processing at the Company's plant in Brandon, Manitoba.

The Company intends to double-shift the primary pork processing facility in Brandon, Manitoba, and the majority of capital spending related to this initiative will be spent or committed during 2008.

During the next three years, the Company will be investing considerable amounts of capital and will incur significant implementation expenses related to the creation of a shared services organization to streamline and improve the efficiency of the Company's core business processes.

DEBT FACILITIES

The Company's strategy related to liquidity is to reduce reliance on any single source of credit, maintain sufficient undrawn credit facilities to provide liquidity 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, 2007, the Company had available undrawn committed credit of $705.6 million. Primarily due to proceeds from asset sales, and internal cash flows, at year end the Company had a strong balance sheet, evidenced by improvements in key cash flow measures. Net debt to EBITDA [i] (net debt to earnings before interest, income taxes, deprecation and amortization) at December 2007 was 2.2x (2006: 3.2x).

(i) Refer to non-GAAP measures on Page 20.

At December 31, 2007, the Company had aggregate credit facilities, including subsidiary debt, of $1.8 billion (2006: $2.0 billion), of which $1.0 billion (2006: $1.4 billion) was utilized (including $120.2 million (2006: $116.7 million) in respect of letters of credit). Subsidiary debt facilities available amounted to $115.0 million (2006: $148.4 million), of which $94.0 million (2006: $123.9 million) was utilized (including $8.8 million (2006: $9.4 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 certain accounts receivable to financial institutions. At year end, the Company had $218.5 million (2006: $241.5 million) trade accounts receivable being serviced under these facilities. These facilities are accounted for as an off-balance sheet transaction under Generally Accepted Accounting Principles. Where cost effective to do so, the Company may finance automobiles, heavy equipment, computers and office equipment with operating lease facilities.

In December 2007, the Company repaid a maturing US$60.0 million note and concurrently settled the related cross-currency swap for a total payment of CAD$93.2 million.

CONTRACTUAL OBLIGATIONS

The following table provides information about certain of the Company's significant contractual obligations as at December 31, 2007:

		Payments due by fiscal year					
($ millions)	**Total**	2008	2009	2010	2011	2012	After 2012
Long-term debt	**$ 873.2**	$ 18.0	$ 148.9	$ 203.3	$ 237.0	$ 7.1	$ 258.9
Cross-currency swaps related to long-term debt	**139.3**	—	8.4	36.4	55.6	—	38.9
	1,012.5	18.0	157.3	239.7	292.6	7.1	297.8
Contractual obligations including leases	**280.7**	62.9	51.4	37.6	29.6	22.5	76.7
Total contractual obligations	**$ 1,293.2**	$ 80.9	$ 208.7	$ 277.3	$ 322.2	$ 29.6	$ 374.5

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, 2007, the Company was in compliance with all debt covenants.

DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

The Company uses derivatives and other non-derivative financial instruments to manage its exposure to changes in interest rates, foreign exchange rates and commodity prices (including prices of wheat, feed grains and livestock).

The Company manages its exposure to changes in interest rates by using a mix of fixed and variable rate debt and utilizing interest rate swaps as necessary to achieve the desired proportion of variable to fixed-rate debt. The Company did not have any interest rate swaps outstanding at the end of 2007 as all interest rate swaps in place were settled during the year, concurrent with repayment of related debt from proceeds received from the disposal of the animal nutrition business. At December 31, 2007, 75.0% of the Company's outstanding debt was not exposed to interest rate movements (2006: 77.0%).

The Company's foreign exchange risk management includes the use of forward foreign exchange contracts, cross-currency interest rate swaps and foreign currency-denominated debt to reduce exposures related to changes in foreign exchange rates arising from transactions in currencies other than the Canadian dollar.

The Company's meat processing, hog production and bakery operations use various raw materials, mainly hogs, feed grains and wheat. The Company uses long-term contracts with suppliers and exchange-traded futures and options to reduce price fluctuations in raw material purchases.

All hedging and derivatives activity is governed by risk management policies that specify the type of allowed hedging instrument, maximum exposure and the allowable hedge activity. Counterparties to the Company's non-exchange-traded derivatives are major international financial institutions with long-term debt ratings of single A or better.

If the Company had not entered into these contracts, earnings from operations for the year would have been lower by $13.6 million (2006: lower by $5.4 million). Without these contracts, interest expense for the year would have been lower by $18.7 million (2006: lower by $16.2 million).

Since January 1, 2007, all derivatives (whether designated in hedging relationships or not) are carried on the balance sheet at fair value unless they are exempt from derivative treatment based upon expected purchase, sale or usage requirements. Derivatives are reported as assets where they have a positive fair value and as liabilities where they have a negative fair value. The accounting for changes in the fair value of a derivative depends on whether it has been designated in a hedging relationship and on the type of hedging relationship. Prior to January 1, 2007, derivatives that met hedge accounting criteria were accounted for on an accrual basis. For details on the accounting for these instruments see Note 12 in the Notes to the Consolidated Financial Statements.

SEASONALITY

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

SHARE CAPITAL AND DIVIDENDS

The Company did not repurchase any of its own shares in 2007 and its normal course issuer bid expired in August 2007. During 2006, the Company repurchased 1,909,600 common shares at an average exercise price of $12.07 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 2007, the Company declared and paid cash dividends of $0.04 per common share (voting and non-voting). This represents a total dividend of $0.16 per common share (voting and non-voting) and aggregate dividend payments of $20.8 million (2006: $20.4 million).

As at January 31, 2008, there were 107,607,971 voting 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. However, there can be no assurance that certain events will not occur that will cause expenditures related to the environment to be significant and have a material adverse effect on the Company's financial condition or results of operations. Such events could include, but not be limited to, additional environmental regulation or the occurrence of an adverse event at one of the Company's locations.

As a large food company, there are health, environmental and social issues that go beyond short-term profitability that Management believe must shape our business if the Company is to realize a sustainable future. On the environmental front, the Company is undertaking multiple initiatives in conjunction with key customers to reduce packaging and improve its recyclability, track our greenhouse gas emissions and the miles it takes to produce and deliver food products. Increasingly and importantly, sound environmental practices are becoming a key component of maintaining a competitive advantage. In 2008, the Company is undertaking a comprehensive planning process to measure our environmental footprint, coordinate cross-company mitigation activities and define our longer-term environmental objectives.

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

PROTEIN BUSINESS STRATEGIC TRANSFORMATION

In 2006, in response to a four-year strengthening of the Canadian dollar and challenging global protein markets that impacted the performance of the Company's protein value chain operations, primarily in hog production and fresh pork processing, the Company completed a comprehensive review of its protein-related businesses and operations, with the objective to maximize the profitability of its meat businesses and recover the loss in competitiveness due to adverse currency movements. As a result, the Company has decided to focus its strategy in the protein 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 valued-added further processed operations, with the goal of balancing and optimizing the value of all the meat that it processes through significantly increasing the raw materials it directs into further processing; increasing its new product innovation; establishing a low cost manufacturing base; and reducing the scope of its value chain to the size required to support and supply its value-added meat businesses. In 2007, the Company completed many steps in the strategy including closing two pork plants and double-shifting the front-end "kill" portion of the Brandon, Manitoba primary processing plant, selling the animal nutrition business, opening a modern, scaleable plant for value-added, packaged meats and meals products, and restructuring or disposing of elements of the Company's Manitoba, Alberta and Ontario hog operations. Other actions will be pursued over the next two years to complete the strategy. While the Company has invested considerable effort in developing the strategy and is carefully planning the execution of the strategy, there can be no guarantee that the strategy is the correct one to maximize the profitability of its meat businesses and recover the loss in competitiveness due to adverse currency movements, or that the Company will be successful in implementing or executing the strategy or that its business will not be disrupted. If the strategy is unsuccessful or implemented or executed incorrectly, it could have a material adverse effect on the Company's financial condition and results of operations.

STANDARDIZED AND SHARED SYSTEMS AND PROCESSES

In 2006, in conjunction with the strategic review of its protein businesses, the Company began a process to standardize core operational and financial processes and supporting systems across the Company as a foundation to establish a multi-functional shared service organization expected to provide lower cost, value-added services for all the Company's business operations. Poor design or execution of the these changes, disruptions to and diversions of the Company's management resources or poor implementation of the information technology systems required to support the new structure could result in the project not achieving the objectives in the longer-term and may also negatively impact the Company's performance in the shorter-term. Any of the foregoing could result in a material adverse effect on the Company's financial condition and results of operations.

FOOD SAFETY AND CONSUMER HEALTH

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

The Company's facilities are subject to audit by federal health agencies in Canada and similar institutions outside of Canada, and performs its own audits to ensure compliance with its internal standards, which are generally at, or higher than, regulatory agency standards. 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 operations. Livestock health problems could adversely affect production, supply of raw material to manufacturing facilities and consumer confidence. The Company monitors herd health status and has strict biosecurity procedures and employee training programs throughout its hog production system. However, 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. There can be no assurance, however, that these prevention measures or plans will be successful in minimizing or containing the impact of an outbreak of animal disease and that such an outbreak, will not have a material adverse effect on the Company's financial condition and results of operations.

FOREIGN CURRENCIES

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

COMMODITIES

The Company is a purchaser of certain commodities, such as wheat, feed grains, livestock and natural gas, in the course of normal operations. Commodity prices are subject to fluctuation and such fluctuations are sometimes severe. The Company may use commodity futures and options for hedging purposes to reduce the effect of changing prices in the short-term but such hedges may not be successful in mitigating this commodity price risk. On a longer-term basis, the Company manages the risk of increases in commodities and other input costs by increasing the price it charges to its customers. Any fluctuations in commodity prices that the Company is unable to properly hedge or mitigate could have a material adverse effect on the Company's financial condition and results of operations.

INTERNATIONAL TRADE

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

REGULATION AND LEGAL MATTERS

The Company's operations are subject to extensive regulation by government agencies in the countries in which it operates, including the Canadian Food Inspection Agency and the Ministry of Agriculture in Canada. These agencies regulate the processing, packaging, storage, distribution, advertising and 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 condition 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 adverse effect on the Company's financial condition and results of operations.

Management's Discussion and Analysis

CONSOLIDATING CUSTOMER ENVIRONMENT

As the retail grocery and foodservice trades continue to consolidate and customers grow larger, 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. Such events could cause a material adverse effect on the Company's financial condition and results of operations.

ANIMAL DISEASE AND HUMAN HEALTH

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

CONSUMER TRENDS

Success of the Company depends in part on the Company's ability to respond to market trends and produce innovative products that anticipate and respond to the changing tastes and dietary habits of consumers. From time to time, certain products are deemed more healthy or less healthy and this can impact consumer buying patterns. For instance, there was a "low carb" trend a number of years ago that, in the short-term, diverted customers away from the Company's pasta products but increased demand for proteins generally. The Company's failure to anticipate, identify or react to these changes or to innovate our products could result in declining demand for the Company's products, which in turn could cause a material adverse effect on the Company's financial condition and results of operations.

EMPLOYMENT MATTERS

The Company and its subsidiaries have approximately 23,000 full and part-time employees, which include salaried and union employees, many of whom are covered by collective agreements. These employees are located in various jurisdictions around the world, each of which with differing employment laws and practices and differing liabilities for employment violations, which may result in punitive or extraordinary damages. While the Company maintains systems and procedures to comply with the applicable requirements, there is a risk that failures or lapses by individual managers could result in a violation or cause of action that could have a material adverse effect on the Company's financial condition and results of operations. Furthermore, if a collective agreement covering a significant number of employees or involving certain key employees were to expire leading to a work stoppage, there can be no assurance that such work stoppage would not have a material adverse effect on the Company's financial condition and results of operations.

Management's Discussion and Analysis

CRITICAL ACCOUNTING ESTIMATES

The preparation of the Company's consolidated financial statements requires management to make certain estimates and assumptions. The estimates and assumptions are based on the Company's experience combined with Management's understanding of facts and circumstances at the time. These estimates may differ from actual results, and certain estimates are considered critical as they are both important to reflect the Company's financial position and results of operations and require 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 AND INTANGIBLE VALUATION

Goodwill is tested for impairment annually in the second quarter and otherwise as required if events occur that indicate that it is more likely than not that the carrying value of a reporting unit has been impaired. In performing this test, the Company assesses the fair value of its various reporting units and the fair value of goodwill, if required. Indefinite life intangibles are tested for impairment annually in the fourth quarter and otherwise as required if events occur that indicate that it is more likely than not that the carrying value has been impaired.

The sale of the Company's animal nutrition business on July 20, 2007 triggered a goodwill impairment charge of $20.7 million related to the retained operations of the animal nutrition business. The impairment test for intangibles was performed in 2007 and no impairment was identified.

ASSET IMPAIRMENT

During 2007, the Company entered into transactions to sell most of its Ontario hog production operations and all wholly-owned investments in Alberta. Proceeds realized on the sales of these businesses in 2008 resulted in an impairment charge of $27.0 million being recorded in the fourth quarter of 2007 which was included in restructuring and other related costs.

These proceeds received for its hog production assets in Alberta and Ontario have caused Management to reassess the carrying value of its remaining hog production operations in Manitoba. The Company has concluded that the long-lived assets related to the Manitoba hog operations have been impaired and consequently, the Company has recorded an impairment charge of $36.1 million in the fourth quarter of 2007. Estimates of fair value of these long-lived assets were used to determine the impairment charge.

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, Management considers product life, the profitability of recent sales of inventory, and changes in customer mix.

TRADE MERCHANDISE ALLOWANCES AND OTHER TRADE DISCOUNTS

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

EMPLOYEE BENEFIT PLANS

The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on service and Management's best estimate of expected plan investment performance of 7.5%, salary escalation (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
End-of-year obligation ($ million change)	3.4	(3.8)
Aggregate of 2007 current service cost and interest cost ($ million change)	0.2	(0.3)

TAXES

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

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

Effective January 1, 2007, the Company adopted new Canadian accounting standards for financial instruments. The adoption of these new standards requires the Company to present a new balance sheet account entitled Accumulated Other Comprehensive Income (Loss). This account includes (i) unrealized foreign currency translation adjustments, and (ii) unrealized gains (losses) on cash flow hedges net of tax. On transition, the Company recorded $32.2 million in accumulated unrealized losses related to cash flow hedges as at January 1, 2007. In accordance with the standard $9.8 million, which had previously been classified as unrealized foreign currency adjustment, is now presented within Accumulated Other Comprehensive Loss.

During 2007, the Company recorded Other Comprehensive Income of $6.6 million, primarily related to fair value changes in cash flow hedges of interest rate exposures offset by changes in unrealized foreign currency translation adjustments. As at the end of the year, the Accumulated Other Comprehensive Loss balance was a loss of $35.4 million.

RECENT ACCOUNTING PRONOUNCEMENTS

GOODWILL AND INTANGIBLE ASSETS

In 2008, the CICA issued Handbook Section 3064 ("CICA 3064"), "Goodwill and Intangible Assets". CICA 3064 replaces Section 3062, "Goodwill and Intangible Assets", and Section 3450, "Research and Development Costs". It establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. This new standard is effective for the Company's interim and annual consolidated financial statements commencing January 1, 2009. The Company is currently assessing the impact of the new standard.

INVENTORIES

In May 2007, the Accounting Standards Board issued Handbook Section 3031, "Inventories". The standard introduces changes to the measurement and disclosure of inventory and converges with international accounting standards. The standard is effective for interim and annual periods relating to fiscal years beginning on or after January 1, 2008. The Company does not expect that the adoption of this standard will have a material impact on the financial statements.

CAPITAL DISCLOSURES

In October 2006, the Canadian Accounting Standards Board issued Section 1535, "Capital Disclosures" 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 does not expect that the adoption of this standard will have a material impact on the financial statements.

FINANCIAL INSTRUMENTS

In December 2006, the Canadian Accounting Standards Board issued Section 3862, "Financial Instruments Disclosures" and Section 3863, "Financial Instruments – Presentation", which replaces Section 3861, "Financial Instruments – Disclosure and Presentation". The new disclosure standards increase the emphasis on the risks associated with both recognized and unrecognized financial instruments and how those risks are managed. The new presentation standards carry forward the former presentation requirements and are effective for the fiscal year beginning on or after October 1, 2007. The Company is currently assessing the impact of the new disclosure standard.

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 Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures as at December 31, 2007, and have 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 controls over financial reporting. These controls are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. There have been no changes in the Company's internal control over financial reporting during the quarter ended December 31, 2007 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

SUMMARY OF QUARTERLY RESULTS

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

		First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Sales	**2007**	**$ 1,316,135**	**$ 1,318,773**	**$ 1,301,099**	**$ 1,273,633**	**$ 5,209,640**
	2006	1,286,297	1,356,465	1,320,633	1,361,361	5,324,756
Net earnings from continuing operations	**2007**	**5,266**	**(6,458)**	**1,698**	**(23,738)**	**(23,232)**
	2006	11,327	14,735	(28,174)	(17,879)	(19,991)
Net earnings	**2007**	**10,463**	**(1,671)**	**220,424**	**(22,072)**	**207,144**
	2006	17,272	21,186	(22,309)	(11,624)	4,525
Earnings per share:						
Basic from continuing operations (i)	**2007**	**$ 0.04**	**$ (0.05)**	**$ 0.01**	**$ (0.19)**	**$ (0.18)**
	2006	0.09	0.12	(0.22)	(0.14)	(0.16)
Adjusted EPS from continuing operations (i) (ii)	**2007**	**0.12**	**0.13**	**0.06**	**0.20**	**0.51**
	2006	0.09	0.12	0.05	0.13	0.38
Total	**2007**	**0.08**	**(0.01)**	**1.72**	**(0.16)**	**1.63**
	2006	0.14	0.17	(0.17)	(0.09)	0.04
Diluted from continuing operations	**2007**	**0.04**	**(0.05)**	**0.01**	**(0.18)**	**(0.18)**
	2006	0.09	0.11	(0.22)	(0.14)	(0.16)
Diluted	**2007**	**0.08**	**(0.01)**	**1.67**	**(0.15)**	**1.59**
	2006	0.13	0.16	(0.17)	(0.09)	0.03

(i) Does not add due to rounding.

(ii) Refer to non-GAAP measures on Page 20.

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

Management's Discussion and Analysis

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 saleability of livestock, raw materials, energy and supplies; product pricing; the competitive environment and related market conditions; improvement of operating efficiencies; continued access to capital; the cost of compliance with environmental and health standards; adverse results from ongoing litigation; no expected actions of domestic and foreign governments and the general assumption that none of the risks identified under "Risk Factors" will materialize. 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 on 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 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 cyclical nature of the cost and supply of hogs and the competitive nature of the pork market generally;
- the risks associated with implementing and executing the protein business transformation;
- the risks associated with changes in the Company's shared systems and processes;
- the risks posed by compliance with extensive government regulation;
- 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 impact of a pandemic on the Company's operations; and
- the risks associated with complying with differing employment laws and practices globally and the potential for work stoppages due to non-renewal of collective agreements.

The Company cautions you that the foregoing list of factors is not exhaustive. These factors are discussed in more detail under the heading "Risk Factors" on page 33 of this document. The reader 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**.

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, 2008

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, 2007 and 2006 and the consolidated statements of earnings, retained earnings, comprehensive income 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, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

CHARTERED ACCOUNTANTS, LICENSED PUBLIC ACCOUNTANTS
TORONTO, CANADA
FEBRUARY 20, 2008

Consolidated Balance Sheets

As at December 31, (In thousands of Canadian dollars)	**2007**	2006 (Note 2(r))
ASSETS		
Current assets		
Cash and cash equivalents	**$ 28,222**	$ 64,494
Accounts receivable (Note 5)	**202,285**	201,743
Inventories (Note 6)	**351,064**	376,216
Future tax asset – current (Note 21)	**25,409**	2,128
Prepaid expenses and other assets	**16,529**	11,158
Assets held for sale (Note 4)	**10,092**	311,172
	633,601	966,911
Investments in associated companies	**1,207**	15,499
Property and equipment (Note 7)	**1,126,727**	1,080,293
Other long-term assets (Note 8)	**303,360**	279,001
Future tax asset – non-current (Note 21)	**22,837**	23,464
Goodwill	**817,477**	829,641
Other intangibles (Note 9)	**92,635**	80,917
	$ 2,997,844	$ 3,275,726
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank indebtedness	**$ 9,845**	$ 9,130
Accounts payable and accrued charges	**550,528**	594,685
Income and other taxes payable	**12,881**	18,056
Current portion of long-term debt (Note 10)	**17,945**	81,954
Liabilities related to assets held for sale (Note 4)	**—**	74,474
	591,199	778,299
Long-term debt (Note 10)	**855,281**	1,185,970
Future tax liability – non-current (Note 21)	**61,935**	29,867
Other long-term liabilities (Note 11)	**248,448**	196,911
Minority interest	**79,554**	90,237
Shareholders' equity (Note 14)	**1,161,427**	994,442
	$ 2,997,844	$ 3,275,726

Contingencies and commitments (Note 25)

See accompanying Notes to the Consolidated Financial Statements.

On behalf of the Board:

Michael H. McCain
DIRECTOR

Diane McGarry
DIRECTOR

Consolidated Statements of Earnings

Years ended December 31, (In thousands of Canadian dollars, except share amounts)	2007	2006
		(Note 2(r))
Sales	**$ 5,209,640**	$ 5,324,756
Earnings from continuing operations before restructuring and other related costs	**$ 199,056**	$ 172,802
Restructuring and other related costs (Note 13)	**(122,304)**	(63,230)
Earnings from continuing operations	**76,752**	109,572
Other income (Note 19)	**4,578**	2,647
Earnings from continuing operations before interest and income taxes	**81,330**	112,219
Interest expense (Note 20)	**94,122**	90,204
Earnings (loss) from continuing operations before income taxes	**(12,792)**	22,015
Income taxes (Note 21)	**801**	35,799
Loss from continuing operations before minority interest	**(13,593)**	(13,784)
Minority interest	**9,639**	6,208
Net loss from continuing operations	**(23,232)**	(19,992)
Net earnings from discontinued operations – net of income tax (Note 3)	**230,376**	24,517
Net earnings	**$ 207,144**	$ 4,525
Basic earnings (loss) per share (Note 17) [(i)]		
From continuing operations	**$ (0.18)**	$ (0.16)
From discontinued operations	**1.81**	0.19
	$ 1.63	$ 0.04
Diluted earnings (loss) per share (Note 17)		
From continuing operations	**$ (0.18)**	$ (0.16)
From discontinued operations	**1.77**	0.19
	$ 1.59	$ 0.03
Weighted average number of shares (millions)	**127.3**	127.5

(i) 2006 Basic earnings (loss) per share does not add due to rounding.

See accompanying Notes to the Consolidated Financial Statements.

Consolidated Statements of Retained Earnings

Years ended December 31, (In thousands of Canadian dollars)		2007		2006
Retained earnings, beginning of year	$	**204,415**	$	231,807
Net earnings for the year		**207,144**		4,525
Dividends declared $0.16 per share (2006: $0.16 per share)		**(20,775)**		(20,387)
Premium on repurchase of share capital (Note 14)		**—**		(11,530)
Retained earnings, end of year	$	**390,784**	$	204,415

See accompanying Notes to the Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

Years ended December 31, (In thousands of Canadian dollars)		2007		2006
Net earnings for the year	$	**207,144**	$	4,525
Other comprehensive income (Note 15)				
Change in accumulated foreign currency translation adjustment		**(16,036)**		8,749
Change in net unrealized derivative loss on cash flow hedges		**22,620**		—
		6,584		8,749
Comprehensive income	$	**213,728**	$	13,274

See accompanying Notes to the Consolidated Financial Statements.

Consolidated Statements of Cash Flows

Years ended December 31, (In thousands of Canadian dollars)	2007	2006
		(Note 2(r))
CASH PROVIDED BY (USED IN)		
Operating activities		
Net loss from continuing operations	**$ (23,232)**	$ (19,992)
Add (deduct) items not affecting cash		
Depreciation and amortization	**141,181**	130,736
Stock-based compensation (Note 16)	**15,340**	10,384
Minority interest	**9,639**	6,208
Future income taxes	**(46,290)**	75
Gain on sale of property and equipment	**(2,341)**	(2,051)
Loss (gain) on sale of investments	**(176)**	202
Change in other long-term receivables	**(1,957)**	4,546
Increase in net pension asset	**(48,034)**	(55,322)
Asset impairments and changes in restructuring and other related costs (Note 13)	**101,348**	20,621
Other	**7,999**	7,185
Change in non-cash operating working capital	**(30,643)**	4,827
Cash provided by operating activities of continuing operations	**122,834**	107,419
Cash provided by (used in) operating activities of discontinued operations	**(17,086)**	24,592
	105,748	132,011
Financing activities		
Dividends paid	**(20,775)**	(20,387)
Dividends paid to minority interest	**(801)**	(1,602)
Increase in long-term debt	**5,389**	237,778
Decrease in long-term debt	**(340,863)**	(128,098)
Increase in share capital (Note 14)	**20,944**	15,556
Shares repurchased for cancellation (Note 14)	**—**	(23,056)
Purchase of treasury stock (Note 14)	**(30,054)**	—
Other	**8,200**	2,357
Cash provided by (used in) financing activities of continuing operations	**(357,960)**	82,548
Cash provided by (used in) financing activities of discontinued operations	**(389)**	403
	(358,349)	82,951
Investing activities		
Additions to property and equipment	**(236,660)**	(155,935)
Proceeds from sale of property and equipment	**9,788**	7,605
Acquisition of businesses – net of cash acquired (Note 24)	**(65,013)**	(80,986)
Proceeds on sale of investments	**3,713**	—
Proceeds on disposal of business (Note 24)	**5,470**	—
Purchase of Canada Bread shares (Note 23)	**(6,521)**	—
Other	**1,521**	1,956
Cash used in investing activities of continuing operations	**(287,702)**	(227,360)
Cash provided by (used in) investing activities of discontinued operations	**503,316**	(12,740)
	215,614	(240,100)
Decrease in cash and cash equivalents	**(36,987)**	(25,138)
Cash and cash equivalents, beginning of year	**55,364**	80,502
Cash and cash equivalents, end of year	**$ 18,377**	$ 55,364
Supplemental cash flow information:		
Net interest paid	**$ 102,455**	$ 96,222
Net income taxes paid	**62,574**	67,072

See accompanying Notes to the Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

Years ended December 31, 2007 and 2006 (Tabular amounts in thousands of Canadian dollars, unless otherwise indicated)

1. THE COMPANY

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

2. SIGNIFICANT ACCOUNTING POLICIES

The following are the significant accounting policies of the Company.

(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 or at fair value depending on whether such investments are publicly traded.

(B) USE OF ESTIMATES

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

(C) TRANSLATION OF FOREIGN CURRENCIES

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

(D) REVENUE RECOGNITION

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

(E) FINANCIAL INSTRUMENTS

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

(F) HEDGE ACCOUNTING

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

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

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

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

Effective January 1, 2007, in a cash flow hedge, the change in fair value of the hedging instrument is recorded in other comprehensive income, to the extent it is effective, until the hedged item affects the consolidated statement of earnings. The Company uses cash flow hedges primarily to convert fixed-rate U.S. dollar-denominated notes payable to fixed-rate notes denominated in Canadian dollars. The Company also uses cash flow hedges to mitigate the risk from variable cash flows associated with forecasted foreign currency-denominated cash flows and forecasted purchases and sales of various agricultural commodities.

Effective January 1, 2007, in a fair value hedge, the change in fair value of the hedging derivative is offset in the consolidated statement of earnings by the change in fair value of the hedged item relating to the hedged risk.

Effective January 1, 2007, in a net investment hedge, the change in fair value of the hedging instrument, to the extent effective, is recorded directly in other comprehensive income. These amounts are recognized in income when the corresponding cumulative translation adjustments from self-sustaining foreign operations are recognized in income. The Company designates certain U.S. dollar-denominated notes payable as net investment hedges of U.S. operations.

Commencing January 1, 2007, hedge ineffectiveness is measured and recorded in current period earnings in the consolidated statement of earnings. When either a fair value hedge or cash flow hedge is discontinued, any cumulative adjustment to either the hedged item or other comprehensive income is recognized in earnings as the hedged item affects earnings, or when the hedged item is derecognized. If a designated hedge is no longer effective, the associated derivative instrument is subsequently carried at fair value through earnings without any offset from the hedged item.

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

Prior to January 1, 2007, derivatives that met hedge accounting criteria were accounted for on an accrual basis. Income and expenses on derivative instruments designated and qualifying as hedges were recognized in the consolidated statement of earnings in the same period as the related hedged item. When a hedging relationship was discontinued, the associated derivative instrument was subsequently carried at fair value and any previously deferred income or expenses were carried forward for recognition in the consolidated statement of earnings in the same period as the related hedged item, generally by amortization over the remaining term of the hedged asset or liability. Hedge ineffectiveness was generally recognized in the consolidated statement of earnings over the life of the hedging relationship.

(G) INVENTORIES

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

Notes to the Consolidated Financial Statements

(H) IMPAIRMENT OR DISPOSAL OF LONG-LIVED ASSETS

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

(I) PROPERTY AND EQUIPMENT

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

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

(J) FINANCING COSTS

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

(K) GOODWILL AND OTHER INTANGIBLES

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to identifiable assets acquired, less liabilities assumed, based on their fair values. Goodwill is allocated as of the date of the business combination to the Company's reporting units that are expected to benefit from the synergies of the business combination. The Company assigns value to certain acquired identifiable intangible assets, primarily brands, customer relationships, poultry quota and delivery routes. Definite life intangibles are amortized over their estimated useful lives. Goodwill is not amortized and is tested for impairment annually in the second quarter and otherwise as required if events occur that indicate that it is more likely than not that the carrying value of a reporting unit has been impaired. Impairment of goodwill is tested at the reporting unit level by comparing the reporting unit's carrying amount to its fair value. During the year, the Company recorded an impairment in goodwill (Note 18). Indefinite life intangibles, including poultry quota and certain brands, are tested for impairment annually in the fourth quarter and, as required, if events occur that indicate it is more likely than not the carrying value has been impaired. The impairment test for indefinite life intangible assets was performed in 2007 and no impairment was identified.

(L) INCOME TAXES

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

Notes to the Consolidated Financial Statements

(M) EMPLOYEE BENEFIT PLANS

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

Actuarial gains and losses in excess of 10% of the greater of the actuarial liabilities and the 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.

(N) STOCK-BASED COMPENSATION

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

(O) STATEMENT OF CASH FLOWS

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

(P) ACCOUNTING CHANGES

Effective January 1, 2007, the Company adopted three new financial instrument accounting standards that were issued by the CICA: Handbook Section 1530, "Comprehensive Income", Handbook Section 3855, "Financial Instruments – Recognition and Measurement", and Handbook Section 3865, "Hedges". Comparative amounts for prior periods have not been restated except for the currency translation account, which was reclassified to accumulated other comprehensive income (loss).

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

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

The overall impact to net earnings from the adoption of the new standards for the year was not significant.

(Q) RECENT ACCOUNTING PRONOUNCEMENTS

In 2008, the CICA issued Handbook Section 3064 ("CICA 3064"), "Goodwill and Intangible Assets". CICA 3064, which replaces Section 3062, "Goodwill and Intangible Assets", and Section 3450, "Research and Development Costs", establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. This new standard is effective for the Company's interim and annual consolidated financial statements commencing January 1, 2009. The Company is currently assessing the impact of the new standard.

Notes to the Consolidated Financial Statements

In May 2007, the Accounting Standards Board issued CICA Handbook Section 3031, "Inventories". The standard introduces changes to the measurement and disclosure of inventory and converges with international accounting standards. The standard is effective for interim and annual periods relating to fiscal years beginning on or after January 1, 2008. The Company does not expect that the adoption of this standard will have a material impact on its financial statements.

In December 2006, the Accounting Standards Board issued CICA Handbook Section 3862, "Financial Instruments – Disclosure" and Section 3863, "Financial Instruments – Presentation" which replaces Section 3861, "Financial Instruments – Disclosure and Presentation". The new disclosure standards increase the emphasis on the risks associated with both recognized and unrecognized financial instruments and how those risks are managed. The new presentation standards carry forward the former presentation requirements and are effective for fiscal years beginning on or after October 1, 2007. The Company is currently assessing the impact of the new disclosure standard.

In October 2006, the Accounting Standards Board issued CICA Handbook Section 1535, "Capital Disclosures", which establishes standards for disclosing information about an entity's capital and how it is managed. The standard is effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. The Company does not expect that the adoption of this standard will have a material impact on its financial statements.

(R) COMPARATIVE FIGURES

Certain 2006 comparative figures have been reclassified to conform with the financial statement presentation adopted in 2007.

3. DISCONTINUED OPERATIONS

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

The assets and liabilities of the animal nutrition business reflected in balance sheets prior to the sale date have been classified as held for sale (Note 4). The results of discontinued operations were as follows:

	2007	2006
Sales	**$ 342,642**	$ 570,460
Earnings from operations before restructuring and other related costs	**$ 25,651**	$ 51,096
Restructuring and other related costs	**(2,672)**	(1,388)
Earnings from operations	**22,979**	49,708
Other income	**162**	379
Earnings from operations before interest and income taxes	**23,141**	50,087
Interest expense [(i)]	**5,147**	8,900
Earnings before income taxes	**17,994**	41,187
Income taxes	**7,000**	16,670
Net earnings from discontinued operations before gain on sale	**10,994**	24,517
Gain on sale of business (net of income taxes of $65.1 million)	**219,382**	—
Net earnings from discontinued operations	**$ 230,376**	$ 24,517

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

Notes to the Consolidated Financial Statements

4. ASSETS AND LIABILITIES HELD FOR SALE

Assets and liabilities held for sale consist of the assets of the animal nutrition business sold on July 20, 2007 (Note 3), and the assets of certain hog production operations in Ontario and Alberta sold in January 2008 (Note 26). Assets and liabilities held for sale consist of the following:

	2007			2006		
Assets held for sale	**Animal Nutrition**	**Hog Production**	**Total 2007**	Animal Nutrition	Hog Production	Total 2006
Accounts receivable	$ —	$ —	$ —	$ 62,063	$ —	$ 62,063
Inventories	—	4,074	4,074	39,604	12,026	51,630
Future tax asset – current	—	—	—	193	—	193
Prepaid expenses and other assets	—	—	—	828	—	828
Investments in associated companies	—	—	—	6,611	—	6,611
Property and equipment	—	6,018	6,018	88,398	18,707	107,105
Other long-term assets	—	—	—	3,090	—	3,090
Goodwill	—	—	—	77,922	—	77,922
Other intangibles	—	—	—	1,730	—	1,730
	$ —	$ 10,092	$ 10,092	$ 280,439	$ 30,733	$ 311,172
Liabilities related to assets held for sale						
Accounts payable and accrued charges	$ —	$ —	$ —	$ 71,201	$ —	$ 71,201
Income and other taxes payable	—	—	—	2,009	—	2,009
Long-term debt	—	—	—	974	—	974
Other long-term liabilities	—	—	—	290	—	290
	$ —	$ —	$ —	$ 74,474	$ —	$ 74,474

5. ACCOUNTS RECEIVABLE

Under revolving securitization programs, the Company has sold certain of its trade accounts receivable to financial institutions. The Company retains servicing responsibilities and retains a limited recourse obligation for delinquent receivables. At December 31, 2007, trade accounts receivable being serviced under this program amounted to $218.5 million (2006: $241.5 million).

6. INVENTORIES

	2007	2006
Material held for production	$ 198,547	$ 194,517
Finished products	152,517	181,699
	$ 351,064	$ 376,216

7. PROPERTY AND EQUIPMENT

	2007	2006
Land	$ 59,752	$ 63,905
Buildings	625,351	559,070
Machinery and equipment	1,472,548	1,411,464
Construction in progress	165,434	122,429
	2,323,085	2,156,868
Less: Accumulated depreciation	1,196,358	1,076,575
	$ 1,126,727	$ 1,080,293

Notes to the Consolidated Financial Statements

8. OTHER LONG-TERM ASSETS

	2007	2006
Pension assets (Note 22)	**$ 292,798**	$ 251,959
Financing costs	**4,945**	20,663
Notes and mortgages receivable	**1,056**	1,367
Other	**4,561**	5,012
	$ 303,360	$ 279,001

9. OTHER INTANGIBLES

	2007	2006
Brands	**$ 53,645**	$ 53,869
Poultry production quota	**28,396**	24,442
Customer relationships	**8,424**	—
Other	**2,170**	2,606
	$ 92,635	$ 80,917

10. LONG-TERM DEBT

	2007	2006
Notes payable:		
– due 2007 (US$60.0 million) (a)	**$ —**	$ 69,918
– due 2009 (US$140.0 million) (a)	**138,378**	163,142
– due 2010 (US$75.0 million and CAD$115.0 million) (b)	**189,348**	202,398
– due 2011 (US$207.0 million) (c)	**205,199**	241,217
– due 2014 (US$98.0 million and CAD$105.0 million) (c)	**202,148**	219,199
– due 2016 (US$7.0 million and CAD$20.0 million) (c)	**26,939**	28,157
– due 2010 (CAD$6.5 million) (d)	**7,195**	9,458
– due 2016 (CAD$47.4 million) (d)	**53,258**	58,028
Revolving term facility (e)	**25,000**	237,778
Other (f)	**25,761**	38,629
	873,226	1,267,924
Less: Current portion	**17,945**	81,954
	$ 855,281	$ 1,185,970

(a) In December 2002, the Company issued US$60.0 million of notes payable, bearing interest at 5.6% per annum and due in 2007. Through the use of cross-currency interest rate swaps entered into in prior years (Note 12), the Company effectively converted US$60.0 million into Canadian dollar-denominated debt of $93.2 million bearing interest at floating interest rates being the three-month bankers' acceptance rate plus 2.5% per annum. In December 2007, the Company repaid the note payable and the cross-currency interest rate swap in full. The financial impact of currency rate changes on the swap was reported as other long-term liabilities prior to January 1, 2007 and effective January 1, 2007, the swap is now recorded at fair value. At December 31, 2007, the fair value of the swap was $nil (2006: carrying value of swap liability, $23.3 million).

In December 2002, the Company issued US$140.0 million of notes payable, bearing interest at 6.3% per annum and due in 2009. Through the use of cross-currency interest rate swaps entered into in prior years (Note 12), the Company effectively converted US$15.0 million into Canadian dollar-denominated debt of $23.3 million bearing interest at floating interest rates being the three-month bankers' acceptance rate plus 2.6% per annum. In 2006, the Company entered into cross-currency swaps, which effectively converted the interest on the remaining US$125.0 million notes payable from U.S. dollar-denominated interest at 6.3% per annum into Canadian dollar-denominated interest at 6.2% per annum. The financial impact of currency rate changes on the swap was reported as other long-term liabilities prior to January 1, 2007 and effective January 1, 2007, the swap is now recorded at fair value. At December 31, 2007, the fair value of the swap (a liability) was $11.1 million (2006: carrying value of swap liability, $5.8 million).

(b) In April 2000, the Company issued notes payable due April 2010. The notes payable include a Canadian dollar-denominated tranche for CAD$115.0 million, bearing interest at 7.7% per annum, and a U.S. dollar-denominated tranche for US$75.0 million, bearing interest at 8.5% per annum. Through the use of cross-currency interest rate swaps (Note 12), the Company effectively converted the U.S. dollar tranche into Canadian dollar-denominated debt, resulting in a Canadian dollar-denominated amount of $110.8 million at an effective fixed interest rate of 7.7% per annum. The financial impact of currency rate changes on the swap was reported as other long-term liabilities prior to January 1, 2007 and effective January 1, 2007, the swap is now recorded at fair value. At December 31, 2007, the fair value of the swap liability was $37.0 million (2006: carrying value of swap liability, $23.4 million).

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

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

Interest is payable semi-annually. Through the use of cross-currency interest rate swaps (Note 12), the Company effectively converted; US$177.0 million of debt maturing in 2011 into Canadian dollar-denominated debt of $231.0 million bearing interest at an annual fixed rate of 5.4%, US$98.0 million of debt maturing in 2014 into Canadian dollar-denominated debt of $135.3 million bearing interest at an annual fixed rate of 6.0%, and US$2.0 million of debt maturing in 2016 into Canadian dollar-denominated debt of $2.7 million bearing interest at an annual fixed rate of 6.1%. The financial impact of currency rate changes on the swaps was reported as other long-term liabilities prior to January 1, 2007 and effective January 1, 2007, the swaps are now recorded at fair value. At December 31, 2007, the fair value of the swap liabilities were $98.0 million (2006: carrying value of swap liabilities, $46.2 million).

(d) Concurrent with the acquisition of Schneider Corporation in April 2004, the Company assumed the liabilities outstanding in respect of debentures previously issued by Schneider Corporation. In April 2004, the debentures provided for principal payments totalling $13.1 million and $60.0 million, bearing interest at fixed annual rates of 10.0% and 7.5%, respectively. The debentures require annual principal repayments over the term of the bonds that have final maturity dates of September 2010 and October 2016, respectively. These debentures were recorded at their fair value on the acquisition closing date. The difference between the acquisition date fair value and the face value of the bonds is amortized over the remaining life of the debentures on an effective yield basis. On December 31, 2007, the remaining book values were $7.2 million for the 2010 debentures (2006: $9.5 million) and $53.2 million for the 2016 debentures (2006: $58.0 million) and the remaining principal payments outstanding are $6.5 million and $47.4 million, respectively (2006: $8.3 million and $51.0 million).

(e) The Company has an unsecured revolving debt facility with a principal amount of $870.0 million. The maturity date is May 31, 2011. This facility can be drawn in Canadian dollars, U.S. dollars, or British pounds, and bears interest based on bankers' acceptance rates for Canadian dollar loans and LIBOR for U.S. dollar and British pound loans. As at December 31, 2007, $136.3 million of the revolving facility was utilized (2006: $345.0 million), of which $111.3 million was in respect of letters of credit and trade finance (2006: $107.2 million).

(f) Subsidiaries of the Company have various lending facilities, including capital leases, with interest rates ranging from non-interest bearing to 8.1% per annum. These facilities are repayable over various terms from 2008 to 2012. As at December 31, 2007, $25.8 million (2006: $38.6 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. As at December 31, 2007, the Company was in compliance with all of its debt covenants.

The Company's estimated blended average effective cost of borrowing for 2007 was approximately 6.6% (2006: 6.5%) after taking into account the impact of interest rate hedges.

Required repayments of long-term debt are as follows:

2008	$ 17,945
2009	148,897
2010	203,335
2011	237,037
2012	7,116
Thereafter	258,896
Total long-term debt	$ 873,226

11. OTHER LONG-TERM LIABILITIES

	2007	2006
Derivative instruments (Notes 10 and 12)	**$ 143,604**	$ 98,729
Pension liabilities (Note 22)	**29,829**	32,338
Post-retirement benefits (Note 22)	**61,387**	61,783
Other	**13,628**	4,061
	$ 248,448	$ 196,911

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT ACTIVITIES

The Company uses various financial instruments in its operations, including certain components of working capital such as cash and cash equivalents, accounts receivable and accounts payable. Additionally, the Company uses short-term and long-term debt to fund operating requirements and derivative financial instruments including interest rate and cross-currency swap agreements, foreign currency forwards, and commodity futures and options to manage its interest rate, foreign exchange and commodity price risk.

CREDIT RISK

The Company's financial assets that are exposed to credit risk consist primarily of cash and cash equivalents, accounts receivable and non-exchange-traded derivatives with positive fair values.

Cash and cash equivalents, are comprised primarily of investments in deposits with Canadian chartered banks who have investment grade credit ratings. In the normal course of business, the Company is exposed to credit risk from its customers, substantially all of which are in the grocery and foodservice markets. The Company performs ongoing credit evaluations of new and existing customers' financial condition and reviews the collectibility of its trade and other accounts receivables in order to mitigate any possible credit losses.

The Company is also exposed to credit risk from the potential default by any of its counterparties on its non-exchange-traded derivatives contracts. The Company mitigates this credit risk by dealing with counterparties who are major international financial institutions with long-term debt ratings of single A or better that the Company anticipates will satisfy their obligations under the contracts.

INTEREST RATE RISK

The Company manages its exposure to changes in interest rates by using a mix of fixed and variable rate debt and utilizing interest rate swaps as necessary to achieve the desired proportion of variable to fixed-rate debt.

During 2007, the Company terminated interest rate swap agreements with notional amounts totalling $260.0 million following repayment of floating rate borrowings with the cash proceeds received from the sale of its animal nutrition business. These swaps had been used to effectively convert certain of the Company's floating rate borrowings to fixed rate and were designated and accounted for as cash flow hedges. The loss realized on termination was $2.8 million (net of tax of $1.4 million) of which $1.1 million was expensed in the year with the balance deferred in accumulated other comprehensive income to be amortized over the term of the hedging relationship.

The notional amount of interest rate swaps was $260.0 million at December 31, 2006. The swaps had a negative fair value of $12.5 million at December 31, 2006.

FOREIGN EXCHANGE RISK

The Company uses forward foreign exchange contracts, cross-currency interest rate swaps and foreign currency-denominated debt to manage its exposure to changes in foreign exchange rates arising from transactions and balances in currencies other than Canadian dollar.

The Company uses cross-currency interest rate swaps to mitigate its exposure to changes in exchange rates related to U.S. dollar-denominated debt. These swaps are used primarily to effectively convert fixed-rate U.S. dollar-denominated notes payable to fixed-rate notes denominated in Canadian dollars and are accounted for as cash flow hedges. The notional amounts of cross-currency interest rate swap agreements designated as cash flow hedges totalled US$477.0 million at December 31, 2007 (2006: US$477.0 million) with maturity dates ranging from December 2009 to December 2014. These swaps had a negative fair value of $137.2 million at December 31, 2007 (2006: negative fair value of $94.2 million) of which $2.1 million was recorded in other current liabilities and $135.1 million in other long-term liabilities.

The Company also uses cross-currency swaps to effectively convert fixed-rate U.S. dollar notes payable to floating rate Canadian dollar notes. These swaps are accounted for as fair value hedges. The notional amounts of cross-currency swap agreements designated as fair value hedges totalled US$15.0 million at December 31, 2007 (2006: US$75.0 million) with a maturity date of December 2009. The swaps had a negative fair value of $8.8 million at December 31, 2007 (2006: negative fair value of $32.2 million) of which $0.3 million was recorded in other current liabilities and $8.5 million in other non-current liabilities.

The following table summarizes the notional amounts and interest rates of the Company's cross-currency interest rate swaps:

(In thousands of currency units) Maturity	Notional amount	Receive rate	Notional amount	Pay rate
	US$		CAD$	
2009 (Note 10 (a))	15,000	6.3%	23,273	BA[(i)] + 2.6%
2009 (Note 10 (a))	125,000	6.3%	144,606	6.2% [(ii)]
2010 (Note 10 (b))	75,000	8.5%	110,775	7.7%
2011 (Note 10 (c))	177,000	5.2%	231,025	5.4%
2014 (Note 10 (c))	100,000	5.6%	138,000	6.0%

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

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

The Company uses foreign currency forwards from time to time to hedge a portion of its anticipated foreign currency-denominated transactions. The primary currencies to which the Company is exposed include the U.S. dollar and the Japanese yen. Qualifying foreign currency forward contracts are accounted for as cash flow hedges. As of December 31, 2007, $58.0 million of anticipated foreign currency-denominated sales have been hedged with the underlying foreign currency forwards settling at various dates beginning February 2008 through March 2009. The aggregate fair value of these forward contracts as at December 31, 2007 was a $1.4 million gain and was recorded in other current assets.

The Company designates certain U.S. dollar-denominated notes payable as net investment hedges of U.S. operations. At December 31, 2007, the amount of notes payable designated as a hedge of the Company's net investment in U.S. operations was US$160.0 million (2006: US$160.0 million). Foreign exchange gains and losses on the designated notes payable are recorded in Shareholders' equity in the foreign currency translation component of accumulated other comprehensive income and offset translation adjustments on the underlying net assets of U.S. operations, which also are recorded in accumulated other comprehensive income. Prior to January 1, 2007, foreign exchange gains and losses on the designated notes payable were recorded in Unrealized Foreign Currency Adjustment within Shareholders' equity. The gain on the net investment hedge recorded in Other Comprehensive Loss for the year was $29.9 million before taxes in 2007 (2006: $nil).

COMMODITY PRICE RISK

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

Derivatives designated as a hedge of an anticipated or forecast transaction are accounted for as cash flow hedges. Changes in the fair value of the hedging derivatives are recorded in other comprehensive income to the extent the hedge is effective in mitigating the exposure to the related anticipated transaction, and subsequently reclassified to earnings to offset the impact of the hedged items when they affect earnings. Unrealized gains on commodity positions designated as cash flow hedges totalled $5.6 million at December 31, 2007 and was recorded in other current assets.

The Company also uses futures to minimize the price risk assumed under forward priced contracts with suppliers. The intent of the strategy is to make the forward priced commodities cost nearly the same as cash market purchases at the date of delivery. The futures contracts are designated and accounted for as fair value hedges. Unrealized gains on commodity positions designated as fair value hedges totalled $0.4 million at December 31, 2007 and was recorded in other current assets.

The Company has elected to apply the normal purchase and sales classification to certain contracts that are entered into for the purpose of procuring commodities to be used in production.

The amount of hedge ineffectiveness recognized in earnings for the year ended December 31, 2007, was not material.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying value of cash and cash equivalents, accounts receivable and accounts payable approximates their fair values due to the immediate or short-term maturity of these financial instruments. Effective January 1, 2007, all derivatives are recorded on the consolidated balance sheet at fair value. Prior to 2007, only derivatives that did not qualify for hedge accounting were carried at fair value.

The carrying and fair value of the Company's derivative financial instruments designated as hedges of commodity, interest rate, and foreign currency exposures as at December 31, 2007 are as follows:

	Current assets	**Current liabilities**	**Other long-term liabilities**
Futures contracts to hedge commodity price exposure	**$ 5,998**	**$ —**	**$ —**
Cross-currency interest rate swaps to hedge U.S. dollar-denominated notes payable	**—**	**2,446**	**143,604**
Foreign exchange forward contracts to hedge transactions denominated in foreign currencies	**1,388**	**—**	**—**
Total	**$ 7,386**	**$ 2,446**	**$ 143,604**

The following table illustrates the carrying and fair values of the Company's long-term debt:

	2007		2006	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Long-term debt (including current portion)	**$ (873,226)**	**$ (892,229)**	$ (1,267,924)	$ (1,284,252)

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

Notes to the Consolidated Financial Statements

13. RESTRUCTURING AND OTHER RELATED COSTS

During 2007, the Company recorded restructuring and other related costs of $125.0 million ($103.9 million after-tax). $122.3 million of this related to continuing operations and the balance is disclosed as part of discontinued operations (Note 3). The majority of these costs related to asset impairments on the Company's hog production assets. A goodwill impairment of $20.7 million was recorded in the hog operations due to the sale of the animal nutrition business in the second quarter, $63.1 million of impairments were recorded in the hog production operations in the fourth quarter; $27.0 million of which related to an impairment on the Ontario and Alberta hog production assets which were disposed of in asset sales closing January 2008 (Note 26) and $36.1 million related to an impairment on the remaining hog production assets retained by the Company. The balance of restructuring and other related costs related to restructuring in the Meat Products Group, including the closure of two primary processing plants and the closure of a red meat processing facility.

During 2006, the Company recorded restructuring and other related costs of $64.6 million ($50.4 million after-tax). The portion of these restructuring and other related costs that related to continuing operations was $63.2 million and the balance is disclosed as part of discontinued operations (Note 3). The majority of these restructuring and other related costs relate to the closure of a poultry plant in Nova Scotia, the closure of a fresh bakery plant in British Columbia and the write-down of certain hog investments in Alberta.

The following table provides a summary of costs recognized and cash payments made in respect of the above-mentioned restructuring initiatives in 2007 and 2006 and the corresponding liability as at December 31, 2007 and 2006, all on a pre-tax basis:

	Severance	Site closing	Asset impairment and accelerated depreciation	Retention	Pension	Total
Restructuring and other related costs						
Charges	$ 16,034	$ 6,317	$ 39,217	$ 3,050	$ —	$ 64,618
Cash payments	(1,862)	(1,286)	—	(35)	—	(3,183)
Non-cash items	—	—	(39,217)	—	—	(39,217)
Balance at December 31, 2006	$ 14,172	$ 5,031	$ —	$ 3,015	$ —	$ 22,218
Charges	8,667	5,569	97,443	9,497	3,800	124,976
Cash payments	(13,128)	(7,977)	—	(6,983)	—	(28,088)
Non-cash items	—	(589)	(97,443)	—	(3,800)	(101,832)
Balance at December 31, 2007	**$ 9,711**	**$ 2,034**	**$ —**	**$ 5,529**	**$ —**	**$ 17,274**

14. SHAREHOLDERS' EQUITY

Shareholders' equity consists of the following:

	2007	2006
Share capital	**$ 797,658**	$ 769,696
Retained earnings	**390,784**	204,415
Contributed surplus	**38,462**	30,140
Accumulated other comprehensive loss (Note 15)	**(35,423)**	(9,809)
Treasury stock (i)	**(30,054)**	—
	$ 1,161,427	$ 994,442

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

The authorized share capital of Maple Leaf Foods consists of an unlimited number of common shares and an unlimited number of non-voting common shares. As at December 31, 2007, there were 107,600,271 voting common shares issued and outstanding (2006: 105,135,866) and 22,000,000 non-voting common shares issued and outstanding (2006: 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, 2005	127,704,812	$ 765,666
Issued for cash on exercise of options (Note 16)	1,340,654	15,556
Repurchased for cancellation [(i)]	(1,909,600)	(11,526)
Balance, December 31, 2006	127,135,866	$ 769,696
Issued for cash on exercise of options (Note 16)	2,464,405	27,962
Balance, December 31, 2007	**129,600,271**	**$ 797,658**

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

15. ACCUMULATED OTHER COMPREHENSIVE LOSS

Accumulated other comprehensive loss consists of the following:

Years ended December 31,	**2007**	2006
Balance at the beginning of the period – net [(i)]	**$ (9,809)**	$ (18,558)
Transition adjustment as of January 1, 2007 (Note 2(p))	**(32,198)**	—
Adjusted balance at the beginning of the period	**(42,007)**	(18,558)
Change in accumulated foreign currency translation adjustment – net [(i)]	**(16,036)**	8,749
Change in unrealized derivative loss on cash flow hedges – net [(ii)]	**22,620**	—
Other comprehensive income for the period	**6,584**	8,749
Balance at end of period	**$ (35,423)**	$ (9,809)

(i) Balance at the beginning of the current period is net of tax of $9.1 million. The change in accumulated foreign currency translation adjustment is net of tax of $10.6 million for the 12 months ended December 31, 2007 (2006: $9.1 million).

(ii) Change in unrealized derivative loss on cash flow hedges is net of tax of $11.5 million for the 12 months ended December 31, 2007 (2006: $nil).

The Company estimates that $0.1 million of net unrealized derivative gain included in Accumulated Other Comprehensive Loss will be reclassified into net earnings within the next 12 months. The actual amount of this reclassification will be impacted by future changes in the fair value of financial instruments designated as cash flow hedges and the actual amount reclassified could differ from this estimated amount. During the year, a loss of approximately $12.8 million net of tax of $6.8 million was released to income from Accumulated Other Comprehensive Loss, which is included in the net change for the period.

16. STOCK-BASED COMPENSATION

Under the Maple Leaf Foods Share Incentive Plan as at December 31, 2007, the Company may grant additional options to its employees and employees of its subsidiaries to purchase up to 8,440,624 shares of common stock and may grant additional Restricted Share Units (“RSUs”) entitling employees to receive up to 1,804,900 in common shares. Options and RSUs are granted from time to time by the Board of Directors on the recommendation of the Human Resources and Compensation Committee. The vesting conditions are specified by the Board of Directors and may include continued service of the employee with the Company and/or other criteria based on measures of the Company’s performance.

Notes to the Consolidated Financial Statements

STOCK OPTIONS

A summary of the status of the Company's outstanding stock options as at December 31, 2007 and 2006, and changes during these years is presented below:

	2007		2006	
	Options outstanding	**Weighted average exercise price**	Options outstanding	Weighted average exercise price
Outstanding, beginning of year	**9,619,529**	**$ 12.45**	11,448,616	$ 12.37
Exercised	**(2,069,305)**	**10.15**	(1,340,654)	11.60
Granted	**—**	**—**	119,000	15.04
Expired and terminated	**(1,271,974)**	**14.24**	(607,433)	13.31
Outstanding, end of year	**6,278,250**	**$ 12.84**	9,619,529	$ 12.45
Options currently exercisable	**5,172,400**	**$ 12.30**	6,424,579	$ 11.63

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, 2007, 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
$10.00 to $10.97	2,677,400	$ 10.55	1.8	2,655,000	$ 10.55	—	$ —	22,400	$ 10.66
$11.64 to $12.65	450,600	12.36	1.3	448,300	12.36	—	—	2,300	11.97
$13.21 to $13.76	1,041,100	13.24	3.7	753,700	13.23	—	—	287,400	13.24
$14.56 to $14.90	895,650	14.74	1.6	886,800	14.74	—	—	8,850	14.82
$14.90 to $16.88	1,213,500	16.36	4.7	428,600	16.37	16,300	16.37	768,600	16.34
$10.00 to $16.88	6,278,250	$ 12.84	2.6	5,712,400	$ 12.30	16,300	$ 16.37	1,089,550	$ 15.39

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

	2006
Expected option life (in years)	4.4
Risk-free interest rate	4.0%
Expected annual volatility	27.0%
Dividend yield	1.2%

The estimated fair value of options granted during 2006 was $0.3 million. This value is amortized to income over the vesting period of the related options. The amortization of the fair value of options in 2007 is $2.2 million (2006: $4.0 million) and is recorded in contributed surplus.

RESTRICTED STOCK UNITS

The Company has two plans under which RSUs may be granted to employees. The awards under the Share Incentive Plan (adopted in 2004) are satisfied by the issuance of treasury shares on maturity, while the awards granted under the Restricted Share Unit Plan (adopted in 2006) are satisfied by shares to be purchased on the open market 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 between 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, 2007 and 2006 and changes during these years is presented below:

	2007		2006	
	RSUs outstanding	**Weighted average price at grant**	RSUs outstanding	Weighted average price at grant
Outstanding, beginning of year	**3,458,435**	**$ 13.28**	1,578,625	$ 14.82
Granted [(i)]	**1,586,525**	**14.88**	2,017,060	12.10
Issued [(ii)]	**(395,100)**	**13.13**	—	—
Expired and terminated [(iii)]	**(341,760)**	**14.11**	(137,250)	14.13
Outstanding, end of year	**4,308,100**	**$ 13.81**	3,458,435	$ 13.28

(i) In 2007, the Company granted 1,586,525 (2006: 1,956,560) RSUs under the Restricted Share Unit Plan. In 2006, the Company granted 60,500 RSUs under the Share Incentive Plan.

(ii) In 2007, the Company issued 395,100 shares under the Share Incentive Plan.

(iii) In 2007, the RSUs expired and terminated consist of 237,150 (2006: 128,250) under the Share Incentive Plan and 104,610 (2006: 9,000) under the Restricted Share Unit Plan.

The fair value of the RSUs granted in 2007 on the date of grant was $18.8 million (2006: $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 2007 is $13.2 million (2006: $6.4 million).

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

	2007	2006
Expected RSU life (in years)	**2.5**	2.8
Forfeiture rate	**15.0%**	15.4%
Discount rate	**4.0%**	4.0%
Dividend yield	**1.2%**	1.2%

Notes to the Consolidated Financial Statements

17. EARNINGS PER SHARE

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

Years ended December 31,		2007			2006	
	Net earnings	**Weighted average number of shares [iii]**	**EPS**	Net earnings	Weighted average number of shares [iii]	EPS [iv]
Basic						
Continuing operations	**$ (23,232)**	**127.3**	**$ (0.18)**	$ (19,991)	127.5	$ (0.16)
Discontinued operations	**230,376**	**127.3**	**1.81**	24,516	127.5	0.19
	$ 207,144	**127.3**	**$ 1.63**	$ 4,525	127.5	$ 0.04
Stock options [i]	**—**	**2.8**	**(0.04)**	—	1.9	(0.01)
Diluted						
Continuing operations [ii]	**$ (23,232)**	**130.1**	**$ (0.18)**	$ (19,991)	129.4	$ (0.16)
Discontinued operations	**230,376**	**130.1**	**1.77**	24,516	129.4	0.19
	$ 207,144	**130.1**	**$ 1.59**	$ 4,525	129.4	$ 0.03

(i) Excludes the effect of approximately 9.0 million options and restricted stock units (2006: 9.5 million) to purchase common shares that are anti-dilutive.

(ii) As a result of the net loss from continuing operations for the years ended December 31, 2007 and 2006, all potential dilutive stock options were considered anti-dilutive.

(iii) In millions.

(iv) Basic EPS does not add due to rounding.

18. GOODWILL IMPAIRMENT

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

19. OTHER INCOME

	2007	2006
Gain on sale of property and equipment	**$ 2,341**	$ 2,051
Proceeds from insurance claim	**1,854**	—
Earnings (loss) from real estate operations	**(148)**	1,047
Dividends received	**—**	332
Rental income	**355**	191
Gain (loss) on sale of investments, net	**176**	(204)
Loss from associated companies	**—**	(770)
	$ 4,578	$ 2,647

20. INTEREST EXPENSE

	2007	2006
Interest expense on long-term debt	**$ 88,758**	$ 89,110
Other interest expense, net	**5,364**	1,094
	$ 94,122	$ 90,204

21. 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:

	2007	2006
Income tax expense according to combined statutory rate of 36.0% (2006: 36.1%)	$ (4,612)	$ 7,963
Increase (decrease) in income taxes resulting from:		
Adjustment to net future tax liabilities for changes in enacted tax laws and rates	(9,913)	(3,389)
Rate differences in other jurisdictions	(7,285)	(6,769)
Manufacturing and processing credit	208	(275)
Non-taxable gains	1,893	5,505
Stock-based compensation	2,559	3,173
Dividends not taxable	(199)	—
Outside basis differences on investments	1,605	—
Impairment of goodwill	7,134	—
Non-deductible expenses	2,018	1,018
Pre-acquisition tax liability	—	5,500
Valuation allowance on U.S. tax losses	5,704	21,434
Other	1,689	1,639
	$ 801	$ 35,799

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:

	2007	2006
Future tax assets:		
Non-capital loss carryforwards	$ 81,966	$ 130,200
Accrued liabilities	44,418	43,116
Tax on intra-subsidiary asset transfer	19,814	21,574
Valuation allowance	(27,138)	(21,434)
Investment in subsidiary	13,028	—
Other	9,767	6,498
	$ 141,855	$ 179,954
Future tax liabilities:		
Property and equipment	$ 35,849	$ 60,195
Cash basis farming	12,959	21,622
Investments in associated companies	1,135	1,135
Net pension asset	70,232	71,335
Goodwill and other intangibles	16,583	15,691
Unrealized foreign exchange gain on long-term debt	12,407	7,876
Other	6,379	6,375
	$ 155,544	$ 184,229
Classified in the consolidated financial statements as:		
Future tax asset – current	$ 25,409	$ 2,128
Future tax asset – non-current	22,837	23,464
Future tax liability – non-current	(61,935)	(29,867)
Net future tax liability	$ (13,689)	$ (4,275)

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

22. PENSIONS AND OTHER POST-RETIREMENT BENEFITS

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

	Post-retirement benefits	Total pensions	**2007 Total**	2006 Total
Accrued benefit obligation:				
Balance, beginning of year	$ 68,923	$ 1,113,421	**$ 1,182,344**	$ 1,135,138
Current service cost	1,041	22,020	**23,061**	26,804
Interest cost	3,422	55,917	**59,339**	56,623
Benefits paid	(2,856)	(76,185)	**(79,041)**	(67,564)
Actuarial (gains) losses	7,003	(34,450)	**(27,447)**	25,922
Employee contributions	—	4,734	**4,734**	5,421
Plan amendments	—	16,133	**16,133**	—
Contractual termination benefits	—	1,900	**1,900**	—
Curtailments	—	(400)	**(400)**	—
Balance, end of year	$ 77,533	$ 1,103,090	**$ 1,180,623**	$ 1,182,344
Plan assets:				
Fair value, beginning of year	$ —	$ 1,446,074	**$ 1,446,074**	$ 1,321,304
Actual return on plan assets	—	(15,825)	**(15,825)**	162,814
Employer contributions	2,856	19,850	**22,706**	39,924
Employee contributions	—	4,734	**4,734**	5,421
Benefits paid	(2,856)	(76,185)	**(79,041)**	(67,564)
Asset transfer to Company defined contribution plan	—	(16,244)	**(16,244)**	(15,825)
Fair value, end of year	$ —	$ 1,362,404	**$ 1,362,404**	$ 1,446,074
Funded status – plan surplus (deficit)	$ (77,533)	$ 259,314	**$ 181,781**	$ 263,730
Unamortized transition amount	—	(134,594)	**(134,594)**	(153,174)
Unamortized actuarial losses	13,289	123,249	**136,538**	42,007
Unamortized prior service costs	—	13,970	**13,970**	932
Other	—	(239)	**(239)**	(198)
Net accrued benefit asset (liability), end of year	$ (64,244)	$ 261,700	**$ 197,456**	$ 153,297

Amounts recognized in the consolidated balance sheet consist of:

	2007	2006
Other long-term assets	$ 292,798	$ 251,959
Accounts payable and accrued charges	4,126	4,541
Other long-term liabilities	91,216	94,121

Pension benefit expense (income):

	2007	2006
Current service cost – defined benefit	$ 22,020	$ 25,849
Current service cost – defined contribution	25,112	25,306
Interest cost	55,917	53,333
Actual return on plan assets	15,825	(162,814)
Difference between actual and expected return	(122,544)	65,351
Actuarial (gains) losses recognized	(34,450)	24,758
Difference between actual and recognized actuarial (gains) losses in the year	35,025	(23,447)
Amortization of transitional amount	(18,580)	(18,580)
Difference between amortization of prior service costs and actual plan amendments in the year	(15,438)	96
Plan amendments	16,133	—
Curtailment loss	2,000	—
Contractual termination benefits	1,900	—
Net benefit plan income	$ (17,080)	$ (10,148)

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

	2007	2006
Discount rate used to calculate net benefit plan expense	5.00%	5.00%
Discount rate used to calculate year end benefit obligation	5.25%	5.00%
Expected long-term rate of return on plan assets	7.50%	7.50%
Rate of compensation increase	3.50%	3.50%

Other post-retirement benefits expense:

	2007	2006
Current service cost	$ 1,041	$ 956
Interest cost	3,422	3,290
Actuarial losses recognized	7,003	1,164
Difference between actual and expected actuarial gain	(7,003)	(1,183)
	$ 4,463	$ 4,227

Impact of 1% change in health care cost trend:

	1% Increase	1% Decrease
Effect of end-of-year obligation	$ 3,364	$ (3,786)
Aggregate of 2007 current service cost and interest cost	231	(254)

Measurement dates:

2007 expense	December 31, 2006
Balance sheet	December 31, 2007

The pension assets are invested in the following asset categories at December 31, 2007 and December 31, 2006:

Asset category	**2007**	2006
Equity securities	**62%**	61%
Debt securities	**38%**	39%
	100%	100%

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

During 2007, the Company acquired 122,900 shares in Canada Bread for $6.5 million, increasing its ownership to 88.0%.

The allocation of the acquisition of shares is as follows:

		2007
Goodwill	**$**	**3,437**
Other intangibles		**239**
Minority interest		**2,845**
Total purchase cost	**$**	**6,521**

24. ACQUISITIONS AND DIVESTITURES

2007

(a) On August 17, 2007, the Company acquired La Fornaia Ltd. ("La Fornaia") a leading producer of a range of specialty Italian breads for total consideration of £18.9 million ($40.3 million). The Company has allocated £3.7 million ($7.9 million) of the purchase price to the identifiable net assets of La Fornaia at the acquisition date, and £15.2 million ($32.4 million) to goodwill. The Company has not yet finalized the purchase equation for this acquisition.

(b) On August 31, 2007, the Company purchased the remaining interest in its subsidiary Cold Springs Farm Limited ("Cold Springs") for $10.0 million with $5.0 million paid in cash and $5.0 million due in the third quarter of 2008. The Company has not yet finalized the purchase equation for this acquisition.

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

(d) On February 26, 2007, the Company acquired 100% ownership in Pâtisserie Chevalier Inc. ("Chevalier") for $8.2 million. Chevalier is a leading producer of single-portion snack cake products in Quebec. The Company has allocated $6.4 million of the purchase price to the identifiable net assets of Chevalier at the acquisition date, and $1.8 million to goodwill. As at December 31, 2007, the Company had not yet finalized the purchase price allocation for this acquisition.

(e) During the first quarter, the Company completed the sale of its European seafood and convenience businesses in Germany. The sales of these businesses will not have a significant impact on ongoing earnings or cash flows.

(f) 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% (Note 23).

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

Notes to the Consolidated Financial Statements

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

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

(i) Other includes the impact of the finalization of the purchase equations for Royal Touch, FCC and Avance in 2007 as well as other small acquisitions in 2007.

2006

(h) On November 27, 2006, the Company purchased The French Croissant Company Ltd. ("FCC") and Avance U.K. Limited ("Avance"), two related bakeries in the U.K. for total consideration of £29.2 million ($64.0 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 completed the purchase equation and has allocated $7.5 million to the identifiable net tangible assets of FCC and Avance and $56.5 million to goodwill and intangibles. The acquired intangible assets include $8.8 million allocated to customer relationships that are being amortized on a straight-line basis over their useful lives to a maximum of 25 years.

(i) On October 2, 2006, the Company acquired the remaining interest in Royal Touch Foods Inc. ("Royal Touch"), a pre-packaged sandwich supplier based in Toronto, Ontario. The Company paid $3.8 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. In 2007, there were minor adjustments to the purchase price and the purchase price allocation was completed.

(j) 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%.

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

(l) On March 24, 2006, the Company 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 had 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.

Details of net assets acquired and purchase adjustments made in 2006 are in the following tables. Note that some figures have changed to reflect Management's best estimate of fair value:

	Royal Touch	FCC and Avance	Other	2006 Total
Cash (bank indebtedness)	$ 812	$ —	$ (945)	$ (133)
Net working capital (deficit)	822	(862)	4,071	4,031
Investments	(1,134)	—	(3,521)	(4,655)
Property and equipment	574	14,293	10,274	25,141
Goodwill	3,220	50,512	1,052	54,784
Other intangibles	—	—	2,162	2,162
Future income taxes	(44)	—	(1,228)	(1,272)
Minority interest	—	—	5,000	5,000
Total purchase cost	$ 4,250	$ 63,943	$ 16,865	$ 85,058
Consideration:				
Cash	$ 4,250	$ 63,943	$ 12,660	$ 80,853
Accounts payable, accrued charges, and long-term debt	—	—	4,205	4,205
	$ 4,250	$ 63,943	$ 16,865	$ 85,058

25. 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 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 $10.6 million (2006: $12.4 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:

2008	$ 62,888
2009	51,364
2010	37,615
2011	29,611
2012	22,493
Thereafter	76,700
	$ 280,671

26. SUBSEQUENT EVENTS

On January 29, 2008, the Company acquired the shares of Aliments Martel Inc., a leading manufacturer and distributor of sandwiches, meals and sweet goods based in Quebec for an initial purchase price of $42.4 million plus contingent consideration of up to $23.0 million based on financial performance over the next three years.

On January 14, 2008, the Company purchased the assets of Central By-Products, a rendering business located near London, Ontario for $18.0 million.

In the fourth quarter of 2007, the Company entered into transactions to sell most of its Ontario hog production operations and all its wholly-owned hog production investments in Alberta (Note 4). These transactions closed in January 2008.

27. SEGMENTED FINANCIAL INFORMATION

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

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

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

(c) Bakery Products Group comprises the Company's 88.0% ownership in Canada Bread Company, Limited, a producer of fresh and frozen par-baked bakery products, and fresh pasta and sauces.

Notes to the Consolidated Financial Statements

	2007	2006
Sales to customers		
Meat Products Group	**$ 3,458,055**	$ 3,745,654
Agribusiness Group	**240,956**	245,438
Bakery Products Group	**1,510,629**	1,333,664
	$ 5,209,640	$ 5,324,756
Earnings from operations before restructuring and other related costs		
Meat Products Group	**$ 90,193**	$ 74,400
Agribusiness Group	**(7,841)**	(2,475)
Bakery Products Group	**116,704**	100,877
	$ 199,056	$ 172,802
Capital expenditures		
Meat Products Group	**$ 132,220**	$ 91,271
Agribusiness Group	**15,068**	15,210
Bakery Products Group	**89,372**	49,454
	$ 236,660	$ 155,935
Depreciation and amortization		
Meat Products Group	**$ 68,806**	$ 66,987
Agribusiness Group	**20,536**	17,323
Bakery Products Group	**51,839**	46,426
	$ 141,181	$ 130,736
Total assets		
Meat Products Group	**$ 1,560,244**	$ 1,551,502
Agribusiness Group	**302,999**	702,534
Bakery Products Group	**823,137**	810,940
Non-allocated assets	**311,464**	210,750
	$ 2,997,844	$ 3,275,726
Goodwill		
Meat Products Group	**$ 450,929**	$ 457,039
Agribusiness Group	**2,058**	19,885
Bakery Products Group	**364,490**	352,717
	$ 817,477	$ 829,641

The Agribusiness Group operating earnings include the Company's share of earnings from equity-accounted hog investments in the year in the amount of $0.5 million (2006: $(0.4) million).

During the year, total sales to customers outside of Canada were $1,478.3 million (2006: $1,608.1 million) of which $764.7 million (2006: $823.8 million) were sales to customers in the U.S.

Corporate Governance and Board of Directors

CORPORATE GOVERNANCE

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

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

COMPOSITION OF THE BOARD OF DIRECTORS

The Board is comprised of experienced directors with a diversity of relevant skills and competencies. The Board of Directors has assessed each of the Company's 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 24, 2008 annual meeting of shareholders.

BOARD OF DIRECTORS

PURDY CRAWFORD O.C.

Counsel, Osler, Hoskin & Harcourt (Law firm)

Mr. Crawford, 76, is a director of several Canadian companies. Until February 2000, he was the non-Executive Chairman of Imasco Limited and CT Financial Services. Mr. Crawford is a Companion of the Order of Canada and a member of the Canadian Business Hall of Fame.

Director since: 1995

JEFFREY GANDZ

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

Dr. Gandz, 63, 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, 64, is a director of several Canadian companies. Mr. Hankinson retired as President and Chief Executive Officer of New Brunswick Power Corporation in 2002. He was President and Chief Operating Officer of Canadian Pacific Limited until 1995.

Director since: 1995

ROBERT W. HILLER

Corporate Director

Mr. Hiller, 71, 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, 61, 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, 75, 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, 77, was appointed Chairman following the acquisition of the Company in April 1995. Mr. McCain co-founded McCain Foods Limited in 1956 which has grown to become one of the largest frozen food companies in the world. Mr. McCain was President and Co-Chief Executive Officer of McCain Foods Limited until 1994 and is currently its Vice-Chairman and director of other associated companies within the McCain Foods Group. Mr. McCain is 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, 51, is a director of McCain Foods Group.
Director since: 1995

MICHAEL H. MCCAIN

President and Chief Executive Officer, Maple Leaf Foods Inc.

Mr. McCain, 49, 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, 58, has over 30 years' experience with Xerox including five years in Canada as Chairman, President and Chief Executive Officer of Xerox Canada from 1993 to 1998. Prior to retiring in 2005, Ms. McGarry held the position of Chief Marketing Officer, Xerox Corporation.
Director since: 2005

J. EDWARD NEWALL O.C.

Chairman, Newall & Associates (Consulting firm)

Mr. Newall, 72, is also Chairman Emeritus of both NOVA Chemicals Corporation and Canadian Pacific Railway Ltd. He was Chairman of NOVA Chemicals Corporation from 1999 to 2007, when he retired. He served as a director of Alcan Inc. until December 2004 and as a director of Royal Bank Financial Group until January 2005. Mr. Newall is an Officer of the Order of Canada.
Director since: 1997

GORDON RITCHIE

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

Mr. Ritchie, 64, is also Chief Executive Officer of Strategico Inc. and has been a director of a number of leading Canadian corporations. Mr. Ritchie had 22 years of distinguished public service. As Ambassador for Trade Negotiations, Mr. Ritchie was one of the principal architects of the Canada/United States Free Trade Agreement.
Director since: 1995

ROBERT T. STEWART

Corporate Director

Mr. Stewart, 75, was 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 Chief Executive Officer.
Director since: 1995

Note: Ages of the Board of Directors provided as at March 2008.

Senior Management and Officers

COMMITTEES OF THE BOARD OF DIRECTORS

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

WAYNE JOHNSON
Senior Vice-President and Chief Human Resources Officer

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

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

EXECUTIVE COUNCIL

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

MARYANNE CHANTLER
Vice-President, Purchasing and Supply Chain

KEVIN P. GOLDING
President, Rothsay

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

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

C. BARRY MCLEAN
President, Canada Bread Fresh Bakery

RÉAL MENARD
President, Canada Bread Frozen Bakery

BRUCE Y. MIYASHITA
Vice-President, Six Sigma

PATRICK A. RESSA
Chief Information Officer

PETER C. SMITH
Vice-President, Corporate Engineering

RICHARD YOUNG
President, Maple Leaf Consumer Foods

OTHER CORPORATE OFFICERS

J. NICHOLAS BOLAND
Vice-President, Finance Projects

NATALIE M. MARCHE
Vice-President and Treasurer

DEBORAH K. SIMPSON
Vice-President, Finance

DIANNE SINGER
Assistant Corporate Secretary

Corporate Information

CAPITAL STOCK

The Company's authorized capital consists of an unlimited number of voting common and an unlimited number of non-voting common shares. At December 31, 2007, 107,600,271 voting shares and 22,000,000 non-voting shares were issued and outstanding, for a total of 129,600,271 outstanding shares. There were 821 shareholders of record of which 786 were registered in Canada, holding 98.6% of the issued voting shares. All of the issued non-voting shares are held by Ontario Teachers' Pension Plan Board. These non-voting shares may be converted into voting shares at any time.

OWNERSHIP

The Company's major shareholders are McCain Capital Corporation holding 41,518,153 voting shares representing 32% of the total issued and outstanding shares and Ontario Teachers' Pension Plan Board holding 20,728,371 voting shares and 22,000,000 non-voting shares representing 32.96% of the total issued and outstanding shares. The remainder of the issued and outstanding shares are publicly held.

CORPORATE OFFICE

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Suite 1500
Toronto, Ontario, Canada M4V 3A2
Tel: (416) 926-2000
Fax: (416) 926-2018
Website: **www.mapleleaf.com**

ANNUAL MEETING

The annual meeting of shareholders of Maple Leaf Foods Inc. will be held on Thursday, April 24, 2008 at 11:00 a.m. at the Glenn Gould Studio, Canadian Broadcasting Corporation building, 250 Front Street West, Toronto, Canada.

DIVIDENDS

The declaration and payment of quarterly dividends are made at the discretion of the Board of Directors. Anticipated payment dates in 2008: March 31, June 30, September 30 and December 31.

SHAREHOLDER INQUIRIES

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

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

COMPANY INFORMATION

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

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

TRANSFER AGENT AND REGISTRAR

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

AUDITORS

KPMG LLP
Toronto, Ontario

STOCK EXCHANGE LISTINGS AND STOCK SYMBOL

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

RAPPORT ANNUEL

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

MAPLE LEAF FOODS INC. ANNUAL REPORT 2007

MAPLE LEAF FOODS INC.
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Printed in Canada