MAPLE LEAF FOODS INC.

# Annual Report 2013

WE WILL BE POISED FOR GROWTH WITH THE VERY BEST ASSETS, LEADING MARKET SHARES AND UNMATCHED STRENGTH IN INNOVATION.

# FINANCIAL HIGHLIGHTS

| *For years ended December 31*<br>*(In millions of Canadian dollars, except share information)* | **2013[i]** | 2012[i] [ii] | 2011[i] [ii] | 2010[i] | 2009[i] [iii] |
|---|---|---|---|---|---|
| **Consolidated results** | | | | | |
| Sales | **4,406** | 4,552 | 4,579 | 4,709 | 4,958 |
| Adjusted Operating Earnings[iv] | **(12)** | 172 | 130 | 146 | 117 |
| Net earnings (loss) from continuing operations | **(59)** | 42 | (7) | (21) | (2) |
| Net earnings[v] | **496** | 89 | 59 | 29 | 52 |
| Return on Net Assets[iv] [vi] | **(0.2)%** | 9.4% | 9.7% | 8.6% | 5.9% |
| **Financial position** | | | | | |
| Net Assets Employed[vi] [vii] | **2,124** | 2,101 | 1,907 | 1,966 | 2,416 |
| Shareholders' equity[vi] | **1,581** | 891 | 865 | 924 | 1,189 |
| Net Debt[iv] | **452** | 1,171 | 984 | 902 | 1,016 |
| **Per share** | | | | | |
| Adjusted Earnings per Share[v] | **(0.51)** | 0.47 | 0.34 | 0.31 | 0.10 |
| Net earnings (loss) from continuing operations[v] | **(0.48)** | 0.25 | (0.08) | (0.20) | (0.07) |
| Net earnings[v] | **3.55** | 0.64 | 0.43 | 0.22 | 0.40 |
| Dividends | **0.16** | 0.16 | 0.16 | 0.16 | 0.16 |
| Book value[vi] | **11.27** | 6.36 | 6.18 | 6.60 | 8.69 |
| **Number of shares** (millions) | | | | | |
| Weighted average | **139.9** | 139.4 | 138.7 | 135.6 | 129.8 |
| Outstanding at December 31 | **140.3** | 140.0 | 140.0 | 140.0 | 136.8 |

(i) Unless otherwise noted, all figures have been restated to exclude the results of the Rothsay and Olivieri businesses, which have been classified as discontinued operations. Refer to Note 22 of the audited consolidated financial statements for further information.
(ii) 2012 and 2011 figures have been restated for the impact of adopting the revised International Accounting Standard 19 *Employee Benefits* ("IAS 19"). Refer to Note 32 of the audited consolidated financial statements for further information.
(iii) 2009 figures are presented based on results previously reported under Canadian GAAP, effective on or before January 1, 2010.
(iv) Refer to the Non-IFRS Measures on page 34 of the Company's 2013 Management's Discussion and Analysis.
(v) Attributable to common shareholders.
(vi) 2009–2012 figures have not been restated for the sales of the Rothsay and Olivieri businesses in the fourth quarter of 2013.
(vii) Defined as total assets, less cash, deferred tax assets and non-interest bearing liabilities.

# SEGMENTED OPERATING RESULTS

## Protein Group

| *(In millions of Canadian dollars)* | **2013**[i] | 2012[i][ii] | % Change |
|---|---|---|---|
| **Meat Products Group** | | | |
| Sales | **2,924** | 3,047 | (4.0)% |
| Adjusted Operating Earnings | **(86)** | 98 | (187.6)% |
| Total assets | **1,824** | 1,617 | 12.8% |
| **Agribusiness Group** | | | |
| Sales | **29** | 27 | 8.9% |
| Adjusted Operating Earnings | **(38)** | (15) | 147.6% |
| Total assets | **196** | 275 | (28.9)% |
| **Total Protein Group** | | | |
| Sales[iii] | **2,953** | 3,073 | (3.9)% |
| Adjusted Operating Earnings[iii] | **(124)** | 83 | (250.1)% |
| Total assets[iii] | **2,019** | 1,893 | 6.7% |

**Business Segments**
The Meat Products Group consists of value-added prepared meats, lunch kits, protein snacks, and value-added fresh pork, poultry and turkey products.
The Agribusiness Group includes Canadian hog production operations that primarily supply the Meat Products Group with livestock.

(i) Unless otherwise noted, all figures have been restated to exclude the results of the Rothsay business, which has been classified as a discontinued operation. Refer to Note 22 of the audited consolidated financial statements for further information.
(ii) 2012 figures have been restated for the impact of adopting the revised International Accounting Standard 19 *Employee Benefits* ("IAS 19"). Refer to Note 32 of the audited consolidated financial statements for further information.
(iii) Numbers may not add due to rounding.

## Bakery Products Group

| *(In millions of Canadian dollars)* | **2013**[i] | 2012[i][ii] | % Change |
|---|---|---|---|
| **Bakery Products Group** | | | |
| Sales | **1,454** | 1,479 | (1.7)% |
| Adjusted Operating Earnings | **114** | 96 | 17.9% |
| Total assets | **1,170** | 1,005 | 16.3% |

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

(i) Unless otherwise noted, all figures have been restated to exclude the results of the Olivieri business, which has been classified as a discontinued operation. Refer to Note 22 of the audited consolidated financial statements for further information.
(ii) 2012 figures have been restated for the impact of adopting the revised International Accounting Standard 19 *Employee Benefits* ("IAS 19"). Refer to Note 32 of the audited consolidated financial statements for further information.

# Maple Leaf Foods has leading Canadian brands and market shares, driven by a relentless focus on innovation.

# MAPLE LEAF FOODS
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# A CONVERSATION WITH MANAGEMENT

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

# Q&A

**In this interview, President and CEO Michael H. McCain ("MHM") discusses priorities for 2014 and how the initiatives underway are expected to deliver substantially higher earnings and a solid return to shareholders.**

## Maple Leaf Foods' 2013 results were well below expectations. What happened?

**MHM:** The story for the year was unusually volatile commodity markets colliding with the cost of change. Pork processor spreads in North America were among the worst in decades, as the increase in hog costs outpaced pork prices. Global pork markets were also unstable, particularly in Japan, where a decline in the Japanese yen compressed margins. It is important to note, the impact was less from the actual currency or commodity shifts and more from global market conditions which impaired our ability to increase prices to fully offset these challenges. These commodity and currency headwinds reduced Adjusted Operating Earnings by approximately $70 million in the year.

At the same time, we were in the middle of no less than five simultaneous operational start-ups overlaid by three significant transactions, including the sale of our rendering and pasta operations and the potential sale of our Bakery Products Group. Plant start-ups are unpredictable and difficult in the best of times. One is tough; five simultaneously is exponentially more so. It is fair to say that in the middle of such intense change, we were not performing at the top of our game. The direct impact on Adjusted Operating Earnings for the year from the prepared meats network transition was approximately $50 million. While frustrating in the short term, 2013 was clearly an anomaly. These are transitory challenges, and I am very proud of how our team is managing through them.

## How will Maple Leaf Foods bridge the gap between 2013 results and the 2015 Adjusted EBITDA margin target?

**MHM:** Over the past two years, we have been immersed in change – installing SAP, streamlining thousands of products in our portfolio, and constructing new plants. By the very end of 2013, this change was at a peak. We were in the process of commissioning the new plants, while continuing to operate the old ones, as we gradually shifted production. For a transition period, we are covering the additional cost of having nearly $500 million worth of new assets in start-up mode, side by side with older ones still in place.

The most significant contributor to margin expansion will be completing the prepared meats network transition; 2014 is the home stretch, with the finish line in sight. First, we must make sure the new plants are running as expected, then transfer production from the older, high cost plants to the new, low cost facilities and, finally, shut the old ones down.

**The vast majority of our 2015 margin target will be achieved through lower costs and increased productivity.**

The start-ups that we launched in 2013 are making good progress. We have one new plant to fully commission in 2014: our Heritage facility in Hamilton, Ontario. While it is the largest prepared meats plant in our network, it is using well-established technologies and we are drawing from a skilled labour pool at our existing wiener plant, which will close as production transfers. Because we can see the finish line and the cost savings – most of which is just shutting down the "old capacity" – we have strong confidence in what this will do for our margins in 2015 and beyond.

The vast majority of our 2015 margin target will be achieved through lower costs and increased productivity. With the new plants now built and in start-up mode, we have a clear line of sight on these cost reductions as we close down the higher cost old capacity in 2014. This will eliminate significant overhead, with technologies and scale in the new facilities increasing productivity per person by an estimated 1.7 times. The great thing about really efficient plants is that they transform your whole business and almost everything else becomes easier.

## What is your margin target?

**MHM:** We expect to deliver an Adjusted EBITDA margin of 10% in 2015. This compares to a Protein Adjusted EBITDA margin of 4.9% in 2010 (excluding the Rothsay business, which was sold in 2013) when we commenced our prepared meats strategy. We do not expect the sale of our Bakery Products Group to have a material impact on our Adjusted EBITDA margin target.

## How much of the margin expansion is driven by cost reduction and how much by growth in the base business?

**MHM:** Our margin targets are based on benchmarking margins that our peers in the North American packaged foods business are delivering, as well as a bottom-up assessment of strategies to increase our margins through cost reduction and to increase the value of our sales mix through innovation, pricing, category expansion and brand building.

## What Return on Net Assets ("RONA") will you deliver if you meet 2015 margin targets?

**MHM:** We expect our RONA to exceed 11.5%.

## Why are you selling the Bakery Products Group when it is performing so well?

**MHM:** Our bakery portfolio is at a crossroads. This is a very good business with material opportunities to further accelerate growth and earnings. We spent over a year developing a comprehensive strategy to realize this value potential, which would take focus and capital to execute. The question for the Board and Management was whether Maple Leaf Foods was best served by investing the time and resources to capture this value, or by selling the business and focusing our resources on expanding our leadership in the consumer packaged meats sector. The resulting decision was about charting the best path forward for Maple Leaf Foods and maximizing value for our shareholders.

# A CONVERSATION WITH MANAGEMENT

**We are constantly examining our portfolio to find ways to optimize our performance and return on capital deployed.**

## Won't a sale of the Bakery Products Group result in more earnings volatility in the remaining Company?

**MHM:** Being in both the protein and bakery sectors does provide some offsets and less exposure to any one sector. However, upon completing our prepared meats strategy, we expect the Protein Group will be significantly more profitable, with more stable earnings. Although the underlying commodity influences will be largely the same, they will be mitigated by a much stronger, higher margin earnings base.

## What will Maple Leaf Foods do with proceeds from the sale?

**MHM:** On closing the transaction, gross proceeds to Maple Leaf Foods, excluding any dividends received, will be approximately $1.65 billion, less associated costs of $160 million. The independent Directors of the Board will recommend the optimal use of proceeds to benefit both the Company and its shareholders. This will include some combination of paying down debt, supporting growth in our consumer prepared meats business, and returning capital to shareholders.

## Maple Leaf Foods has divested of a number of businesses during the year. What is driving this?

**MHM:** We are constantly examining our portfolio to find ways to optimize our performance and return on capital deployed. We divested our turkey assets because we could maintain a high-quality raw material supply without owning production. We divested our potato processing, rendering, and pasta businesses because they were non-core and a sale delivered far greater value for Maple Leaf Foods, resulting in aggregate net proceeds of approximately $800 million.

The decision to seek value creation alternatives for our Bakery Products Group was very different. This was an exploration of two viable, but different visions for Maple Leaf Foods – a multi-line integrated food company or a mono-line protein company – both capable of competing globally and expanding our footprint around the world. We examined those alternatives against the backdrop of our available financial and management resources, as well as the risks and opportunities inherent in any growth strategy. We believe the decision to sell the Bakery Products Group maximizes value for both Maple Leaf Foods and our shareholders.

## What's the biggest risk to financial performance in 2014?

**MHM:** From my perspective, it is managing the start-up curve at our Heritage plant in Hamilton. We are executing a phased approach, gradually shifting production to minimize risk. The first phase, which involves commissioning wiener production, began in early 2014. The second phase – ramping up the sliced meats lines – commences in the second quarter of 2014. While starting up any new plant is a challenging, complex undertaking, we have a very detailed approach and mitigation strategies in place. There are incremental costs associated with this commissioning and we have budgeted for them. Our focus is to stay well within these expected costs.

**We are charting the best path forward for Maple Leaf Foods and maximizing value for our shareholders.**

### Is the Company's prepared meats network transition on track to be completed by 2015?

**MHM:** The transition is on track to be completed by 2015, but it's a very complicated network shift with many moving parts and interdependencies. The key for us is managing the timeline. We are planning to close five prepared meats plants this year, consolidating production into three technology-driven scale facilities. We are on a very tight schedule and things need to unfold as planned. There is a sharp start-up curve at the new Heritage plant in Hamilton, Ontario. Getting this new facility fully commissioned and operating at appropriate production levels is the core driver to our ability to close plants this year. Commissioning a new plant takes time and is rarely smooth or predictable. We have a lot of dedicated resources to support this. We have very detailed work plans in place to mitigate risk. If we veer from the schedule, the transition would jog by a quarter, not a year.

### How is the base business performing in the midst of all this change?

**MHM:** Our prepared meats volume was impacted last year by some of the start-up challenges, particularly at our Winnipeg and Saskatoon plants. This was a regrettable but short-term issue. Meanwhile, we continued to increase our retail branded market shares across many of our core categories, driven by strong sales, innovation and marketing. Operational performance in our meat plants has shown some stress cracks, largely because we are focused on the start-ups. This has understandably diffused talent, focus and energy; as I said, we were not operating at the top of our game last year. The prepared meats business also experienced significant margin compression late in the year, due to a combination of higher input costs and supply chain inefficiencies related to the network transition.

We are very pleased by how our fresh bakery business performed. This business bore additional costs in 2012 as we continued to commission our new Ontario bakery, shifted production and closed three sub-scale bakeries, the last occurring in early 2013. Our Bakery Products Group benefited from these investments, along with strong performance in the North American frozen and U.K. businesses, achieving an Adjusted EBITDA margin of 11.6% for the year.

### What will Maple Leaf Foods look like post 2015?

**MHM:** We will be a focused consumer packaged meats company with the best assets in our industry, leading Canadian brands and market shares, unmatched strength in innovation and customer service, and a supply chain that is low cost, highly efficient and technology enabled. We'll have ticked all the boxes for competitiveness. As we migrate out of this period of change and restructuring, we will turn our focus to top-line growth as well as earnings expansion. We will have a very strong balance sheet, with significant financial flexibility. There is great potential to fuel growth through innovation in existing categories, expansion into adjacent categories to fill in any gaps in our portfolio, and finally, acquisitions to broaden our geographic footprint outside Canada. Our values will continue to underpin everything we do, as we increasingly integrate corporate social responsibility and sustainability into our decisions and how we operate.

We have experienced many years of change as we transformed our Company to be sustainably more profitable. It's taken a lot of effort, toil and resilience by our people. We are all looking forward to moving ahead with greater stability and a focus on growth, reinforced by the hard work behind us.

# MESSAGE FROM THE CHAIRMAN

*David L. Emerson*
*Chairman*

**One of the Board's primary duties is to oversee the development and successful implementation of the Company's strategy, and in 2013 this occupied a very large part of our agenda.**

Continued commitment to the successful execution of Maple Leaf Foods' value creation and capital expenditure program remained a top priority for the Board as we monitored progress on the prepared meats network transformation. The Board is confident that this strategy will generate significant value, although near-term commodity markets and transition costs have required some course corrections in pursuit of the 2015 Adjusted EBITDA margin target.

Tighter focus was a key theme as the Company and the Board considered longer-term plans to create value for Maple Leaf Foods and our shareholders. The Board supported Management's recommendation to divest of its turkey farming operations, its rendering and biodiesel business (Rothsay), and its fresh pasta and sauce business (Olivieri), as part of the strategy to focus on profitable growth and innovation within Maple Leaf Foods' prepared meats businesses.

During the year, the Board also oversaw a comprehensive review of opportunities to accelerate profitable growth in the Company's Bakery Products Group. Before approving any plans to pursue these opportunities, the Board decided that the Company should explore all strategic alternatives to maximize value, including a potential sale of the Company's 90% interest in Canada Bread.

The Board established a committee of independent Directors to oversee the process, supported by legal and financial advisors. The mandate was to ensure the best possible decision for the Company and all shareholders.

After an active and wide-reaching process, the decision to sell the Company's shares in Canada Bread was announced in February 2014. Subject to regulatory approvals, the transaction is expected to close in the second quarter of 2014. The independent committee will recommend the optimal use of proceeds to benefit both the Company and its shareholders. This decision to divest the Bakery Products Group defines Maple Leaf Foods' future as a focused consumer packaged meats company, dedicated to leadership in Canada and expansion beyond our borders.

I am confident that this path will reward shareholders and strengthen Maple Leaf Foods' position as one of Canada's great food companies.

I thank my colleagues on the Board and the employees of Maple Leaf Foods for their hard work and dedication during a year of significant change, as together we shape the future of this great Company.

Sincerely,

David L. Emerson
Chairman

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

## Composition of the Board of Directors

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

A more comprehensive analysis of the Company's approach to corporate governance matters is included in the Management Proxy Circular for the May 1, 2014 annual meeting of shareholders.

## Board of Directors

**W. Geoffrey Beattie**
Chief Executive Officer, Generation Capital
(Investment management firm)

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

**John L. Bragg, O.C.**
Chairman, President and Co-Chief Executive Officer, Oxford Frozen Foods
(Food manufacturing)

**The Honourable David L. Emerson**
Chairman, Emerson Services Ltd.
(Privately held professional services company)

**Jeffrey Gandz**
Professor Emeritus, Director and Consultant

**Claude R. Lamoureux, O.C.**
Corporate Director

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

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

**Diane E. McGarry**
Corporate Director

**James P. Olson**
Corporate Director

# SENIOR MANAGEMENT AND OFFICERS

## Committees of the Board of Directors

### STANDING COMMITTEES

#### Audit Committee

**D.E. McGarry, Chair**
**J.L. Bragg**
**C.R. Lamoureux**
**J.P. Olson**

#### Corporate Governance Committee

**J. Gandz, Chairman**
**W.G. Beattie**
**G.A. Boland**
**D.L. Emerson**

#### Environment, Health and Safety Committee

**J.L. Bragg, Chairman**
**D.L. Emerson**
**J. Gandz**
**D.E. McGarry**

#### Human Resources and Compensation Committee

**J.P. Olson, Chairman**
**W.G. Beattie**
**G.A. Boland**
**C.R. Lamoureux**

## Corporate Council

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

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

**Richard A. Lan**
Chief Operating Officer, Food Group

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

**Rocco Cappuccitti**
Senior Vice-President and Corporate Secretary

**Ian V. Henry**
Senior Vice-President and Chief Human Resources Officer

**Lynda Kuhn**
Senior Vice-President, Communications

## Executive Council

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

**Kenneth G. Campbell**
Senior Vice-President, Manufacturing

**Daniel J. Curtin**
President, Canada Bread Frozen Bakery

**Stephen Graham**
Chief Marketing Officer

**Randall D. Huffman**
Chief Food Safety Officer and Senior Vice-President, Quality and Six Sigma

**Clifford Irwin**
President, Maple Leaf Bakery U.K.

**Bill Kaldis**
Senior Vice-President, Purchasing and Logistics

**Gary Maksymetz**
President, Maple Leaf Consumer Foods

**Rory A. McAlpine**
Vice-President, Government and Industry Relations

**Barry McLean**
President, Canada Bread Fresh Bakery

**Deborah K. Simpson**
President, Maple Leaf Business Services

**Peter C. Smith**
Vice-President, Corporate Engineering

**Richard Young**
Executive Vice-President, Transformation, Maple Leaf Consumer Foods

## Other Corporate Officers

**J. Nicholas Boland**
Vice-President, Investor Relations

**Stephen L. Elmer**
Vice-President and Corporate Controller

**Glen L. Gratton**
Vice-President, Maple Leaf Agri-Farms

**Jeremy P. Roberts**
Vice-President and Treasurer

**Dianne Singer**
Assistant Corporate Secretary

# MANAGEMENT'S DISCUSSION AND ANALYSIS

FEBRUARY 26, 2014

## THE BUSINESS

Maple Leaf Foods Inc. ("Maple Leaf Foods" 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 18,000 people at its operations across Canada, as well as in the U.S., Europe, and Asia.

## OPERATING SEGMENTS

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

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

The Agribusiness Group includes Canadian hog production operations that primarily supplies the Meat Products Group with livestock.

The combination of the Company's Meat Products Group and Agribusiness Group comprises the Protein Group.

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

## FINANCIAL OVERVIEW

In 2013, sales[(i)] decreased 3.2% to $4,406.4 million compared to $4,551.8 million in 2012. After adjusting for the impact of divestitures and currency fluctuations, sales decreased 1.6% as lower volumes more than offset higher selling prices and an improved product mix.

Adjusted Operating Earnings[(i)(ii)] decreased to a loss of $12.3 million from Adjusted Operating Earnings of $172.0 million last year due to lower earnings in the Protein Group that were partly offset by stronger Bakery Products Group results. Adjusted Earnings per Share[(i)(iii)] was a loss of $0.51 in 2013 compared to Adjusted Earnings per Share of $0.47 in 2012.

Net loss from continuing operations[(i)] was $58.5 million (loss of $0.48 per basic share attributable to common shareholders) in 2013 compared to net earnings from continuing operations of $42.0 million ($0.25 per basic share attributable to common shareholders) in 2012.

Several items are excluded from the discussions of underlying earnings performance as they are not representative of ongoing operational activities. Refer to the section entitled Non-IFRS Financial Measures on page 34 of this Management Discussion and Analysis for a description and reconciliation of all non-IFRS financial measures.

*Notes:*

(i) *2012 figures have been restated for the classification of the Rothsay and Olivieri businesses as discontinued operations, and for the impact of adopting the revised International Accounting Standard 19 Employee Benefits ("IAS 19"). Refer to Notes 22 and 32, respectively, in the audited consolidated financial statements.*

(ii) *Adjusted Operating Earnings, a non-IFRS measure, is used by Management to evaluate financial operating results. It is defined as earnings before income taxes adjusted for items that are not considered representative of on-going operational activities of the business, and items where the economic impact of the transactions will be reflected in earnings in future periods when the underlying asset is sold or transferred. Please refer to the section entitled Non-IFRS Financial Measures starting on page 34.*

(iii) *Adjusted Earnings per Share, a non-IFRS measure, is used by Management to evaluate on-going financial operating results. It is defined as basic earnings per share attributable to common shareholders, and is adjusted for all items that are not considered representative of on-going operational activities of the business, and items where the economic impact of the transactions will be reflected in earnings in future periods when the underlying asset is sold or transferred. Please refer to the section entitled Non-IFRS Financial Measures starting on page 34.*

## RECENT DEVELOPMENTS

On February 12, 2014, the Company announced that Grupo Bimbo, S.A.B. de C.V. of Mexico ("Grupo Bimbo") had agreed to acquire all of the issued and outstanding common shares of Canada Bread by way of a statutory arrangement under the Business Corporations Act (Ontario) (the "Arrangement"). Under the terms of the Arrangement, Grupo Bimbo has agreed to acquire each common share of Canada Bread for $72.00 per share in cash or $1.83 billion in aggregate pursuant to the terms of an arrangement agreement dated February 11, 2014, between Canada Bread and Grupo Bimbo (the "Arrangement Agreement"). Maple Leaf currently owns approximately 90% of the outstanding shares of Canada Bread and has agreed to vote all of such shares in favour of the transaction.

Under the terms of the Arrangement Agreement, Canada Bread is permitted to continue to pay quarterly dividends of up to $0.75 per common share until the

closing of the transaction (pro-rated for the actual number of days in the quarter in which the transaction closes). The Arrangement will require the approval of at least 66⅔% of the votes cast by the shareholders of Canada Bread at a special meeting of shareholders expected to take place in early April 2014. Maple Leaf has entered into a voting support agreement with Grupo Bimbo pursuant to which Maple Leaf has agreed to vote all of its common shares of Canada Bread in favour of the Arrangement at such meeting.

The Arrangement is also subject to receipt of court approval, regulatory approvals (including Competition Act (Canada) and Investment Canada Act approvals and Hart Scott Rodino approval in the United States), and other customary closing conditions. Subject to the satisfaction or waiver of the conditions to the Arrangement, the transaction is expected to close in the second quarter of 2014. Upon completion of the sale, the Company will no longer be consolidating the results and related balance sheet of Canada Bread.

A special committee that included all of the independent directors of Maple Leaf was established to oversee the strategic review process and recommend the optimal use of proceeds arising from completion of the Arrangement to benefit both Maple Leaf and its shareholders, which will include some combination of debt repayment, supporting growth in its consumer packaged meats business, and return to shareholders. Following consideration of the alternatives, the board of directors of Maple Leaf intends that the return to Maple Leaf shareholders of any available proceeds from the sale of Canada Bread within three years of the closing date of the Canada Bread transaction would be made pursuant to one or more issuer bids. The timing, structure, price, and other terms of each issuer bid will be determined by the independent directors. In addition, and in order to protect the interests of minority shareholders, any such issuer bid will comply with the terms of Multilateral Instrument 61-101, will be conducted pursuant to a "Dutch Auction" and will be subject to a minimum deposit condition that more than 50% of the Maple Leaf shareholders other than McCain Capital Inc. accept the issuer bid. If it is determined that any one or more issuer bids could result in material adverse consequences to Maple Leaf and/or its shareholders, the board of directors would consider alternative means of returning proceeds to shareholders that would be intended to have the same effect.

# SELECTED FINANCIAL INFORMATION

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

| *($ millions except earnings per share)* | **2013** | 2012 (ii) | 2011 (ii) |
|---|---|---|---|
| Sales | **$ 4,406.4** | $ 4,551.8 | $ 4,578.8 |
| Adjusted Operating Earnings (i) | **$ (12.3)** | $ 172.0 | $ 130.0 |
| Adjusted EBITDA (i) | **$ 124.1** | $ 294.6 | $ 247.4 |
| Adjusted EBITDA % (i) | **2.8%** | 6.5% | 5.4% |
| Net earnings (loss) from continuing operations | **$ (58.5)** | $ 42.0 | $ (7.3) |
| Adjusted Earnings per Share (i) | **$ (0.51)** | $ 0.47 | $ 0.34 |
| Basic earnings (loss) per share from continuing operations | **$ (0.48)** | $ 0.25 | $ (0.08) |
| Diluted earnings (loss) per share from continuing operations | **$ (0.48)** | $ 0.24 | $ (0.08) |
| Total assets | **$ 3,599.1** | $ 3,243.7 | $ 2,965.5 |
| Net Debt (i) | **$ 451.7** | $ 1,171.3 | $ 984.0 |
| Total long-term liabilities | **$ 990.6** | $ 1,742.7 | $ 1,421.6 |
| Return on Net Assets ("RONA") (i) | **(0.2)%** | 9.4% | 9.7% |
| Cash provided by operating activities | **$ 260.1** | $ 218.1 | $ 244.8 |
| Cash dividends per share | **$ 0.16** | $ 0.16 | $ 0.16 |

(i) *Refer to the section entitled Non-IFRS Financial Measures starting on page 34 of this document.*

(ii) *With the exception of RONA, 2012 and 2011 figures have been restated for the classification of the Rothsay and Olivieri businesses as discontinued operations for the impact of adopting the revised International Accounting Standard 19 Employee Benefits ("IAS 19"). Refer to Notes 22 and 32, respectively, in the audited consolidated financial statements.*

## DISCUSSION OF FACTORS IMPACTING THE COMPANY'S OPERATIONS AND RESULTS

### Value Creation Plan

In 2011, the Company began the execution of a comprehensive plan that was designated to significantly increase profitability and competitiveness through cost reduction and productivity enhancement. The Value Creation Plan (the "Plan") was based on extensive research to benchmark operating costs and margins against large North American food companies and identified significant opportunities to increase profitability and margins through changes in supply chain, information systems, and pricing strategies.

The Plan focuses on lowering costs in the prepared meats business through reducing product complexity, closing less efficient manufacturing and distribution operations and consolidating production and distribution into a smaller number of efficient scale facilities or "centres of excellence". In the Bakery Group, cost reductions are related to a new, more efficient fresh bakery in Hamilton, Ontario that consolidated production from three smaller bakeries. Increasing the effectiveness of pricing strategies throughout the Company is also expected to contribute to margin expansion. These and other initiatives are expected to result in Adjusted Earnings Before Interest, Tax, Depreciation and Amortization ("Adjusted EBITDA") margins of 10.8% in 2015, including 10.0% in the Protein Group and 12.3% in the Bakery Group. Upon completion of the proposed sale of the Company's interest in Canada Bread, the Adjusted EBITDA margin target will be 10.0%, consistent with the current Protein Group target.

### Value Creation Initiatives – Progress to Date

#### *Complexity Reduction*

Since 2011, the Company has benefited from initiatives to standardize product formulations, sizes and specifications, and eliminate lower volume, lower value product lines in prepared meats. These complexity reduction initiatives, which are now substantially complete, generated immediate financial returns by creating longer, more efficient production runs and less distribution complexity and are essential to realize the benefits when production is transferred to larger, scale facilities.

#### *Early Closure of Prepared Meats Plants*

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

#### *New Ontario Fresh Bakery Plant*

In 2012, the Company commissioned a new, more efficient fresh bakery in Hamilton, Ontario. In early 2012, two of three bakeries in the Greater Toronto Area were closed and production was transferred to the Hamilton bakery. Closure of the third Ontario bakery occurred during the second quarter of 2013. The consolidation of production into this facility has resulted in operating efficiencies, primarily driven by reduced overhead costs. Further improvements are expected during 2014 as the production lines gain optimum efficiencies.

#### *SAP Implementation*

In 2013, the Company largely completed its SAP implementation. As a result, all of the Company's businesses now operate on SAP, with increased controls and capabilities. The installations have been successful, with minimal disruption to the business.

#### *Optimizing Pricing and Promotions*

The Company is supporting margin through increasing the effectiveness of its pricing, promotions, and category management strategies. This includes: managing inflationary costs through appropriate price increases; reducing the percentage of products sold on promotion; optimizing return from in-store promotional activities; and increasing the value of its selling mix through innovation, brand building, and effective category management. These initiatives contributed to margin growth in the prepared meats business in 2011 and 2012. During 2013, the prepared meats business benefited from a strong innovation pipeline and continued to increase sales of new, higher margin products. However, margins contracted during the year as a result of higher raw material costs, as well as transitional costs and supply chain disruptions associated with implementing the Plan, which are discussed below in more detail.

#### *Prepared Meats Network Consolidation*

The Company's prepared meats network was built from numerous acquisitions. While this strategy consolidated capacity in the industry and established leading market shares for the Company, it resulted in the acquisition of a number of older, inefficient plants. By the end of 2014 the Company expects to consolidate prepared meats production from eight of these facilities to three expanded plants and one new facility in Hamilton,

Ontario. Of these eight smaller plants, two were closed during 2011 and a third in early 2013. The remaining five plants in Kitchener, Ontario; Hamilton, Ontario; Toronto, Ontario; Moncton, New Brunswick; and Winnipeg, Manitoba, are expected to be closed by the end of 2014.

The total capital investment related to network enhancements is estimated to be approximately $620 million. Upon completion, the Company believes that these capital investments will significantly increase productivity and reduce overhead costs and provide a strong platform for growth. As at the end of 2013, the Company had invested approximately $480 million in its prepared meats network of this, approximately $350 million related to the new 402,000 square foot scale plant in Hamilton, Ontario, that will focus on production of wieners and deli meats. Commissioning of this facility commenced near the end of 2013, and construction is expected to be completed during the second quarter of 2014. Approximately $130 million was invested in expanding and upgrading three other existing facilities in Saskatoon, Saskatchewan, Winnipeg, Manitoba, and Brampton, Ontario. The Saskatoon facility specializes in production of cooked smoked sausages and meat snacks; the Winnipeg plant consolidates value-added ham and bacon processing; and the Brampton location focuses on the production of boxed meats and fresh and frozen sausages.

During 2013, the Company was executing five major start-ups simultaneously, including commissioning the facilities discussed above as well as a new distribution centre servicing Central and Eastern Canada. This intense phase of network transition resulted in costs of approximately $50 million related to start-up costs, incremental resources to support these activities, and duplicative overhead as the Company continued to operate legacy facilities parallel with new ones. These costs were higher than the Company originally expected, largely due to the start-up of the Saskatoon and Winnipeg plants.

### *Increasing Productivity and Distribution Efficiencies*

The rationalization of sub-scale plants and the investments in new technologies are expected to enable significant increases in manufacturing productivity and reduced overhead costs. Improvements to the distribution network are also being made to reduce costs and improve efficiencies, involving the consolidation of operations from five company-owned and a number of third-party distribution centres into two large distribution centres by the end of 2014. The Company's existing distribution centre located in Saskatoon, Saskatchewan, serves as a Western Canadian hub. In 2012, the Company completed the closure of the Coquitlam, British Columbia distribution centre after consolidating volume into the Saskatoon facility. A new 282,000 square foot distribution centre in Puslinch, Ontario, which is operated by a third-party logistics provider, serves as the Eastern distribution hub. During the year, the Company completed the closure and volume transfer of two company-owned Ontario distribution centres as well as several third-party centres into the Puslinch facility. The closure of the remaining third-party and company-owned distribution centres is expected to be completed in 2014.

### *A Simpler, Scale Prepared Meats Supply Network*

In all, Maple Leaf Foods is planning a net reduction of 10 manufacturing and distribution facilities in its prepared meats business. By the end of 2013, three plants and three distribution centres had already been closed, while the Company's new distribution centre in Ontario was operational and three expanded manufacturing facilities were operating at various stages of commissioning.

The Company expects to realize savings from multiple sources across the organization when the execution plan is complete by 2015. The majority of savings are expected to come from:

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

The benefits of this strategy are expected to result in Adjusted EBITDA[(i)] margins of 10.8% in 2015, including 10.0% in the Protein Group and 12.3% in the Bakery Product Group. Upon completion of the proposed sale of the Company's interest in Canada Bread, the Adjusted EBITDA margin target will be 10.0%, consistent with the current Protein Group target. For 2013, the Company's Adjusted EBITDA margin was 2.8% (-1.6% in the Protein Group and 11.6% in the Bakery Group). Results in the Protein Group were adversely impacted by challenging commodity market conditions and transitional costs associated with implementing the Plan. These factors are discussed in further detail in the "Operating Review" section of this document.

### *Capital Investment Plan and Leverage Ratios*

Between 2010 and 2015, the Company expects to invest approximately $820 million in the Plan. This includes $620.0 million supporting its prepared meats network, of which $480.0 million has been spent to date, $110.0 million spent to construct the fresh bakery in Hamilton, Ontario, and $90 million spent to implement SAP.

Management estimates that $140.0 million of net capital expenditures will be spent on the Plan in 2014, entirely related to completion of the prepared meats network. The Company also expects that approximately $43 million of restructuring charges will be incurred in 2014, $28 million of which relate to future cash outflows.

Total capital expenditures for 2013 were originally estimated to be $425 million. In the second quarter of 2013, the Company reduced its estimate to approximately $375 million. Actual capital expenditures were $385.4 million, including $278.0 million on the prepared meats network.

In 2013, the Company's ratio of Net Debt to Adjusted EBITDA was 3.6x, which is above Management's long-term target of 3.0x. This was due to higher capital expenditures and lower earnings, partly mitigated by the sales of the Company's Rothsay and Olivieri businesses in the fourth quarter. The ratio is expected to decrease in the second half of 2014 as the Company completes the execution of the Plan and the anticipated profitability improvements materialize. During 2014, Management estimates that total capital spending will be approximately $255 million, including $140 million on the prepared meats network, $75 million of base expenditures in the Protein Group, and $40 million of base capital expenditures in the Bakery Group. This estimate will be updated following the successful completion of the Company's sale of its 90.0% interest in Canada Bread, which is expected to close in the second quarter of 2014.

## Fluctuating Input Prices

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

| | As at December 31, 2013 (i) | Annual averages | | | |
|---|---|---|---|---|---|
| | | **2013** | 2012 | Change | 2011 |
| Pork cutout (US$ per cwt) (ii)(v) | **$ 85.13** | **$ 92.86** | $ 88.55 | 4.9% | $ 97.73 |
| Composite primal values (US$ per cwt) (ii)(v) | | | | | |
| Belly | **$ 101.82** | **$ 145.67** | $ 121.82 | 19.6% | $ 127.48 |
| Ham | **$ 75.11** | **$ 76.62** | $ 73.12 | 4.8% | $ 83.23 |
| Trim | **$ 62.00** | **$ 69.55** | $ 66.01 | 5.4% | $ 88.26 |
| Market price per cwt (CAD per cwt) (ii) | **$ 84.44** | **$ 92.33** | $ 85.38 | 8.1% | $ 89.12 |
| Market price per cwt (US$ per cwt) (ii) | **$ 79.49** | **$ 89.64** | $ 85.42 | 4.9% | $ 90.10 |
| Poultry meat market price (CAD per kg) (iii) | **$ 3.17** | **$ 3.51** | $ 3.52 | (0.3%) | $ 3.31 |
| Poultry live bird cost (CAD per kg) (iii) | **$ 1.59** | **$ 1.69** | $ 1.66 | 2.0% | $ 1.60 |
| Wheat (US$ per bushel) (iv) | **$ 6.35** | **$ 7.70** | $ 8.67 | (11.2%) | $ 9.07 |
| Corn (US$ per bushel) (iv) | **$ 4.22** | **$ 5.80** | $ 6.95 | (16.5%) | $ 6.80 |
| Soybeans (US$ per bushel) (iv) | **$ 13.32** | **$ 14.06** | $ 14.68 | (4.2%) | $ 13.17 |
| Oil (US$ per barrel) (iv) | **$ 98.17** | **$ 97.91** | $ 94.11 | 4.0% | $ 94.88 |

(i) *Spot prices for the week ended December 31, 2013 based on CME (Ontario hogs) or WCB (Western Canada hogs) (Source: USDA).*

(ii) *Five-day average of CME or WCB (Source: USDA).*

(iii) *Market price (Source: Express Market Inc.) and Live Cost (Source: Chicken Farmers of Ontario).*

(iv) *Daily close prices (Sources: Bloomberg, CBOT, Minneapolis Wheat Exchange).*

(v) *2012 and 2011 figures are re-stated to reflect the USDA changing to a mandatory reporting system.*

The 2012 record drought in the U.S. Midwest had a significant impact on commodity prices in 2013. Higher feed costs, lower contribution from hedging programs, and more hogs under management resulted in larger losses in the Company's hog production business. Although corn prices declined significantly in the second half of the year, the natural hog growing cycle results in a delay before lower feed costs are recognized in the Company's income statement. As a result, the benefit associated with lower corn costs is expected to be recognized in the first half of 2014. During the year, primary pork processing margins in North America also continued to remain at levels similar to 2012, which are significantly below the long-term average. Earnings in the prepared meats business were compressed due to increases in raw material costs, particularly bellies, hams,

and trims, which outpaced pricing. In the Bakery Products Group, the Company faced higher wheat costs, also as a result of the 2012 drought, and implemented price increases to address these rising raw material costs. In the third quarter of 2013, prices for wheat and corn began to decline. However, due to the Company's forward buying programs and the animal growing cycles in agricultural operations, the majority of the benefits associated with lower commodity costs are not expected to be realized until 2014.

## Impact of Currency

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

| | As at December 31, | Annual averages | | | |
|---|---|---|---|---|---|
| | **2013** | **2013** | 2012 | Change | 2011 |
| U.S. dollar / Canadian dollar [(i)] | **$ 1.06** | **$ 1.03** | $ 1.00 | 3.0% | $ 1.01 |
| U.K. pounds sterling / Canadian dollar [(i)] | **$ 1.76** | **$ 1.61** | $ 1.58 | 1.7% | $ 1.59 |
| Japanese yen / Canadian dollar [(i)] | **¥ 98.91** | **¥ 94.64** | ¥ 79.86 | 18.5% | ¥ 80.68 |

[(i)] *Source: Bank of Canada daily noon rates*

During 2013, the Japanese yen declined in value relative to the Canadian dollar on average by 18.5%, driven by monetary policy changes implemented by the central Bank of Japan. In general, a decline in the Japanese yen compresses export margins to Japan in the Company's primary pork processing business. While the Company generally seeks to pass through price increases to offset the impact of a decline in the yen, this was difficult in 2013 as the Japanese marketplace became more competitive due to lower global exports to other major international markets, in particular Russia and China. As a result, the decline of the Japanese yen negatively impacted earnings by approximately $27 million during the year compared to 2012.

The Canadian dollar weakened relative to the U.S. dollar by 3.0% on average in 2013. In general, a weaker Canadian dollar expands export margins in the Company's primary pork processing operations. Conversely, a weaker Canadian dollar increases the cost of raw materials and ingredients in the domestic prepared meats and fresh bakery businesses. The branded packaged goods businesses are able to react to changes in input costs over time through pricing, cost reduction or investment in value-added products. Over the longer-term, a weaker Canadian dollar also increases the relative competitiveness of the domestic Canadian packaged goods operation, as imports of competing products from the U.S. become less competitive. Overall in 2013, the impact of the weaker Canadian dollar relative to the U.S. dollar did not have a material impact on earnings.

The Canadian dollar weakened relative to the British pound on average by 1.7% in 2013; this did not have a material impact on the Company's results.

# OPERATING REVIEW

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

| *($ millions)* | **2013** | 2012 | Change | 2011 |
|---|---|---|---|---|
| Meat Products Group | **$ 2,923.9** | $ 3,046.6 | -4.0% | $ 3,042.7 |
| Agribusiness Group [(i)] | **29.0** | 26.6 | 8.9% | 38.1 |
| **Protein Group** | **$ 2,952.9** | $ 3,073.3 | -3.9% | $ 3,080.8 |
| **Bakery Products Group** [(i)] | **1,453.6** | 1,478.6 | -1.7% | 1,498.0 |
| **Total Sales** | **$ 4,406.4** | $ 4,551.8 | -3.2% | $ 4,578.8 |

[(i)] *Figures exclude the results of the Rothsay and Olivieri businesses in the Agribusiness Group and Bakery Products Group respectively. Rothsay and Olivieri results are reported as discontinued operations as disclosed in Note 22 of the Company's 2013 audited consolidated financial statements.*

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

| ($ millions) | 2013 | 2012 (i) | Change | 2011 (i) |
|---|---|---|---|---|
| Meat Products Group | $ (86.2) | $ 98.4 | -187.6% | $ 70.7 |
| Agribusiness Group (ii) | (38.3) | (15.5) | 147.6% | (5.7) |
| **Protein Group** | **$ (124.5)** | $ 82.9 | -250.1% | $ 65.05 |
| **Bakery Products Group (ii)** | **113.7** | 96.4 | 17.9% | 70.1 |
| **Non-allocated Costs in Adjusted Operating Earnings (iii)** | **(1.5)** | (7.3) | -79.5% | (5.2) |
| **Adjusted Operating Earnings** | **$ (12.3)** | $ 172.0 | -107.1% | $ 130.0 |

(i) *2012 and 2011 figures have been restated for the impact of adopting the revised International Accounting Standard 19 Employee Benefits ("IAS 19"). Refer to Note 32 in the audited consolidated financial statements.*

(ii) *Figures exclude the results of the Rothsay and Olivieri businesses in the Agribusiness Group and Bakery Products Group respectively. Rothsay and Olivieri results are reported as discontinued operations as disclosed in Note 22 of the Company's 2013 audited consolidated financial statements.*

(iii) *Non-allocated costs comprise expenses not separately identifiable to business segment groups, and do not form part of the measures used by the Company when assessing the segments' operating results.*

## Meat Products Group

***Includes value-added prepared meats, lunch kits, protein snacks, and value-added fresh pork, poultry, and turkey products sold to retail, foodservice, industrial, and convenience channels. Includes leading Canadian brands such as Maple Leaf®, Schneiders®, and many leading sub-brands.***

Sales for 2013 decreased 4.0% to $2,923.9 million, or 2.1% after adjusting for the impact of divesting the Company's potato processing operations and poultry agricultural operations, and the impact of foreign exchange. The decrease was primarily due to the impact of lower volumes in the fresh pork and prepared meats businesses. Partly offsetting this was the benefit of higher commodity prices in fresh pork, price increases in the fresh poultry and prepared meats businesses, and higher fresh poultry volumes.

Adjusted Operating Earnings in 2013 decreased to a loss of $86.2 million from Adjusted Operating Earnings of $98.4 million last year, due to the factors discussed below.

During 2013, the Company entered a peak phase of executing its prepared meats strategy, designed to establish a low cost supply chain and achieve structural margin expansion. Earnings were significantly impacted by the cost of commissioning five new facilities, resulting in transitional costs of approximately $50 million during the year (2012: approximately $12 million). In addition to transitional costs, the Company also experienced other manufacturing and distribution inefficiencies associated with operating legacy facilities in parallel until production and distribution are transferred and these older facilities close in 2014.

Margins in the prepared meats business were also compressed by higher raw material and other input costs, as well as inflationary costs that were not fully offset by pricing. Volumes also declined largely due to an 8% decline in the first quarter, although branded retail volumes strengthened for the remainder of the year.

Earnings in primary pork processing were negatively affected by lower export margins primarily due to a weaker Japanese yen, lower volumes, and declining values for by-product sales. These factors were partly offset by an improvement in North American processing spreads and lower selling, general, and administrative costs. Earnings in fresh poultry declined due to lower primary processing spreads and inflationary costs that were partly offset by higher earnings from value-added channels.

The sale of the Company's potato processing operations in January 2013 reduced Adjusted Operating Earnings by approximately $13 million compared to last year.

## Agribusiness Group

***Includes Canadian hog production operations that primarily supply the Meat Products Group with livestock.***

2013 sales increased 8.9% to $29.0 million from $26.6 million in 2012 due to higher hog volumes partly offset by lower pricing on toll feed sales.

Adjusted Operating Earnings declined to a loss of $38.3 million from a loss of $15.5 million last year due to lower contributions from hedging programs, higher feed costs, and higher selling, general, and administrative expenses, partly offset by an increase in the market price for hogs.

### Bakery Products Group

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

Sales decreased 1.7% to $1,453.6 million or 0.8% after adjusting for discontinued categories in the U.K. and the impact of currency translation on sales in the U.S. and U.K. Lower sales volumes in the fresh and North American frozen bakery businesses were only partly offset by stronger volumes in the U.K. business and higher pricing across all the businesses.

Adjusted Operating Earnings for 2013 increased 17.9% to $113.7 million from $96.4 million last year. Earnings improvements were driven by the North American frozen and U.K. bakery businesses, partly offset by a small decline in fresh bakery business earnings.

In the North American frozen bakery business, earnings improved due to operating efficiencies and higher pricing that more than offset inflationary costs and lower volumes. The U.K. bakery business benefited primarily from higher volumes and pricing, despite higher raw material and other input costs. The impact of lower volumes in the fresh bakery business were largely offset by lower operating costs resulting from operating efficiencies at the Hamilton, Ontario bakery, simplification of the product portfolio, and reorganization of the distribution network. Lower selling, general, and administrative expenses also contributed to earnings, largely resulting from earlier restructuring initiatives. The benefit of earlier price increases was offset by higher raw material and inflationary costs.

### Non-allocated Costs

In 2013, the costs included in Adjusted Operating Earnings and not allocated to segmented operating earnings was $1.5 million (2012: $7.3 million). The lower expenses in 2013 compared to 2012 relate to lower spending on SAP implementation and consulting fees. Non-allocated amounts that were excluded from the computation of Adjusted Operating Earnings comprised of a gain of $13.5 million due to changes in the fair value of biological assets (2012: loss of $3.4 million) and a $0.3 million unrealized gain on commodity futures contracts (2012: loss of $3.3 million).

The changes in the fair value of biological assets and unrealized gains or losses on commodity futures contracts have been excluded from Adjusted Operating Earnings as the economic impact of the transactions will be reflected in earnings in future periods when the underlying asset is sold or transferred.

## SALE OF ROTHSAY AND OLIVIERI BUSINESSES

During the fourth quarter, the Company sold its Rothsay by-product recycling business and Olivieri fresh pasta business for net proceeds of $628.5 million and $116.3 million, respectively. The operating results and gain on sale of these two businesses have been classified as discontinued operations and prior year amounts have been presented as discontinued operations on a comparable basis. The Rothsay business was previously reported in the Agribusiness Group and the Olivieri business was previously reported in the Bakery Products Group. Earnings per share from discontinued operations were $4.03 for the year ended December 31, 2013 (2012: $0.39). Included in the 2013 figure was a net gain on sale of the businesses of $3.69 per share.

## LONG-TERM EBITDA MARGIN TARGETS

In the Company's third quarter Management's Discussion & Analysis, Management provided restated 2015 Adjusted EBITDA margin targets to reflect the sale of the Rothsay business. These targets, which were 10.0% for the Protein Group, 12.3% for the Bakery Products Group, and 10.8% for the Company, remain unchanged following the sale of the Olivieri business. Upon completion of the proposed sale of the Company's interest in Canada Bread, the Adjusted EBITDA margin target will be 10.0%, consistent with the current Protein Group target.

## GROSS MARGIN

Gross margin in 2013 declined to $485.8 million (11.0% of sales) compared to $673.6 million (14.8% of sales) in 2012, primarily due to the Protein Group. Margin compression in the prepared meats business was caused by transitional costs related to execution of network transformation initiatives, unfavourable production and distribution variances at legacy plants, and higher raw material and inflationary costs not fully offset by pricing. Gross margins in primary pork and poultry processing declined primarily due to unfavourable market conditions, including the impact of a weaker Japanese yen on pork exports, declining prices for pork by-product sales, and lower poultry processing margins. In the hog production business, margins declined due to lower contributions from hedging programs. Partly offsetting these reductions was a $17.0 million increase in the fair value of biological assets, driven entirely by the increase in market value of hog production livestock, as well as a $3.6 million increase in the fair value of unrealized mark-to-market commodity contracts, primarily attributable to future sales contracts for hogs. Improved margins in the Bakery Products Group were largely driven by operating efficiencies at the fresh and

North American frozen bakery businesses and higher pricing across the segment that more than offset rising raw material and inflationary costs.

The changes in the fair value of biological assets and unrealized gains or losses on commodity futures contracts have been excluded from Adjusted Operating Earnings as the economic impact of the transactions will be reflected in earnings in future periods when the underlying asset is sold or transferred.

## SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES

Selling, general, and administrative expenses decreased by 4.8% to $484.2 million in 2013, compared to $508.4 million in 2012, representing 11.0% and 11.2% of sales respectively. The decrease was primarily attributable to lower spending in the Bakery Products Group, resulting from earlier restructuring initiatives, as well as lower stock compensation expense. Also contributing to the reduction were SAP implementation costs and consulting fees in 2012 that did not re-occur.

## OTHER INCOME / EXPENSE

Other income for 2013 was $78.0 million (2012: $8.6 million) and primarily consisted of a $67.6 million gain on disposal of assets and liabilities held for sale, primarily related to the sale of the Company's potato processing operations in the first quarter of 2013 and the sale of certain assets within the turkey agricultural operations in the third quarter of 2013. Other items included a $4.7 million gain related to the de-designation of interest rate swaps from a hedge accounting relationship as a result of the Company's decision to dispose of the Rothsay business, a $4.0 million gain due to a pension curtailment related to the Rothsay business, a $3.2 million gain related to ineffective hedging, $2.5 million of property tax rebates, $2.3 million of gains on the sale of property, plant, and equipment, and $4.8 million in recoveries from insurance claims. These gains were partly offset by $8.0 million of impairment charges related to the write-down of assets that were sold in the U.K. and on poultry quota, and legal and professional fees of $2.6 million associated with the proposed sale of the Company's interest in Canada Bread.

Certain items in other income are excluded from the calculation of Adjusted EBITDA and Adjusted Earnings per Share as they are not considered representative of on-going operational activities of the business. Other income used in the calculation of Adjusted EBITDA and Adjusted Earnings per Share for the year 2013 is $7.4 million, and largely consists of insurance proceeds of $4.8 million and a property tax rebate of $2.5 million.

## RESTRUCTURING AND OTHER RELATED COSTS

| *($ thousands)* | **2013** | 2012 |
|---|---|---|
| **MEATS PRODUCTS GROUP** | | |
| **Management structure changes** | | |
| Severance | **$ 2,737** | $ 6,509 |
| Pension | **–** | 330 |
| Site closing and other costs | **344** | 7 |
| Asset impairment and accelerated depreciation | **154** | – |
| | **$ 3,235** | $ 6,846 |
| **Strategic value creation initiatives** | | |
| Severance | **$ 23,484** | $ 3,475 |
| Site closing and other costs | **476** | (1,843) |
| Asset impairment and accelerated depreciation | **25,353** | 24,423 |
| Retention | **20,347** | – |
| Pension | **–** | 290 |
| | **$ 69,660** | $ 26,345 |
| **Plant closure** | | |
| Severance | **$ 111** | $ 1,793 |
| Retention | **–** | 506 |
| Pension | **460** | 569 |
| Asset impairment and accelerated depreciation | **–** | 379 |
| | **$ 571** | $ 3,247 |
| Total Meats Products Group | **$ 73,466** | $ 36,438 |

| *($ thousands)* | **2013** | 2012 |
|---|---|---|
| **BAKERY PRODUCTS GROUP** | | |
| **Management structure changes** | | |
| Severance | **$ 8,703** | $ 69 |
| Site closing and other costs | **–** | 146 |
| Retention | **88** | – |
| | **$ 8,791** | $ 215 |
| **Bakery closures** | | |
| Severance | **$ 2,171** | $ 1,205 |
| Site closing and other costs | **5,456** | 3,630 |
| Asset impairment and accelerated depreciation | **1,376** | 5,310 |
| Retention | **573** | 443 |
| Pension | **(414)** | 270 |
| | **$ 9,162** | $ 10,858 |
| Total Bakery Products Group | **$ 17,953** | $ 11,073 |
| **NON-ALLOCATED** | | |
| **Management structure changes** | | |
| Severance | **$ 1,745** | $ – |
| **Total restructuring and other related costs** | **$ 93,164** | $ 47,511 |

*Amounts in the table above are net of reversals.*

A brief description of the projects is as follows:

### Management Structure Changes

The Company has recorded restructuring and other related costs pertaining to organizational delayering and changes to its management structure.

### Strategic Value Creation Initiatives

The Company's Meat Products Group has recorded restructuring costs related to changes in its manufacturing and distribution network as part of implementing its Value Creation Plan, a comprehensive strategy to step-change productivity and profitability in its Meat business by closing inefficient plants and consolidating production into efficient scale, high technology facilities.

### Plant Closure

The Company's Meat Products Group has recorded restructuring costs related to the closure of a plant located in Ayr, Ontario.

### Bakery Closures

During the year, the Company's Bakery Products Group recorded charges in connection with the closure of bakeries in: Grand Falls, New Brunswick; Edmonton, Alberta; Toronto, Ontario; and Shawinigan, Québec.

During the year ended December 31, 2012, the Company's Bakery Products Group recorded charges in connection with the closure of two bakeries in the U.K; two bakeries in Toronto, Ontario; a bakery in Delta, British Columbia; and two distribution centres in Québec.

### Impairment

During the year, the Company recorded $0.6 million (2012: $0.4 million) of impairment of fixed assets through restructuring and other related costs and recognized reversals of impairments of $nil (2012: $0.2 million) also through restructuring and other related costs.

## INTEREST EXPENSE AND OTHER FINANCING COSTS

Interest expense for 2013 was $69.8 million compared to $71.7 million in 2012. The change was due to increased capitalization of borrowing costs, partially offset by the impact of higher average debt balances. The Company's average borrowing rate for 2013 was 5.7% (2012: 5.7%). As at December 31, 2013, 62.7% of indebtedness was fixed and not exposed to interest rate fluctuations, compared to 70.1% in the previous year. During the fourth quarter, the Company applied a portion of the Rothsay sale proceeds to reduce borrowings under the revolving credit facility and also effectively unwound $260 million of associated pay-fixed interest rate swaps by entering into an offsetting interest swap, effectively decreasing the proportion of fixed interest rate debt.

## INCOME TAXES

The Company's income tax expense relating to continuing operations for 2013 resulted in an effective tax rate of 28.1%, (2012: 32.3%). The lower effective tax

rate in 2013 is primarily the result of the lower rates of tax applicable to the gains on the sales of the potato processing operations, and Ontario turkey agricultural operations; and the proportion of earnings and losses in different tax jurisdictions. For 2013, the effective tax rates used in the computation of Adjusted Earnings per Share are 25.8% (2012: 24.8%) on restructuring charges and 15.3% (2012: 25.8%) on items included in other income not considered representative of ongoing operations. The lower tax rate on items included in other income not considered representative of ongoing operations is due to similar reasons as stated above. The higher tax rate on restructuring charges in 2013 is a result of the proportion of charges in different jurisdictions.

## TRANSACTIONS WITH RELATED PARTIES

The Company has a 90.0% controlling interest in Canada Bread, a publicly traded subsidiary that is consolidated into the Company's results. Transactions between the Company and its consolidated entities have been eliminated on consolidation.

The Company sponsors a number of defined benefit and defined contribution plans as described in Note 10 of the audited consolidated financial statements. During 2013, the Company received $1.0 million (2012: $1.1 million) from the defined benefit pension plans for the reimbursement of expenses incurred by the Company to provide services to these plans. In 2013, the Company's contributions to these plans were $40.9 million (2012: $42.5 million).

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

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

| *($ thousands)* | **2013** | 2012 |
|---|---|---|
| Short-term employee benefits | | |
| Salaries, bonuses, and fees | **$ 12,779** | $ 13,388 |
| Company car allowance | **466** | 474 |
| Other benefits | **3,462** | 1,135 |
| Total short-term employee benefits | **$ 16,707** | $ 14,997 |
| Post-employment benefits | **1,560** | 1,555 |
| Share-based benefits | **10,983** | 18,553 |
| Total remuneration | **$ 29,250** | $ 35,105 |

During 2013, key management personnel of the Company exercised 162,000 share options granted under the Maple Leaf Foods Share Incentive Plan for an amount of $1.8 million (2012: $nil).

## GOVERNMENT INCENTIVES

During 2013, the Company recorded government incentives in earnings totalling $7.5 million (2012: $10.1 million). Of this amount, $5.0 million (2012: $7.8 million) related to incentives from the Canadian government to support the development of renewable energies related to the Rothsay by-product recycling business, which has been presented in discontinued operations. The Company also received $2.0 million (2012: $nil) related to incentives from the government of Manitoba supporting an employment and training program. The Company also recorded other incentives totalling $0.5 million (2012: $0.8 million). In addition, the Company recorded $1.5 million from the Province of Ontario in AgriStability benefits during 2012.

Additionally, during 2013, the Company recorded a $2.0 million interest- free loan from the Canadian government related to the purchase of equipment for its recently commissioned bakery in Hamilton, Ontario. The loan is repayable over a period of seven years.

During 2012, the Company recorded a $4.4 million interest-free loan from the Canadian government related to improvements and cost reduction in primary pork processing. The loan is repayable over a period of 10 years beginning in 2013. The benefit of the below-market rate of interest is treated as a government incentive and has been capitalized to the assets associated with the project and is recognised in earnings over their useful life as a reduction of depreciation.

## ACQUISITIONS AND DIVESTITURES

During the fourth quarter of 2013, the Company sold substantially all of the net assets of its Olivieri fresh pasta business to Catelli Foods Corporation for net proceeds of $116.3 million, which resulted in a pre-tax gain of $79.4 million.

During the fourth quarter of 2013, the Company sold substantially all of the net assets of its Rothsay business to Darling International Inc. for net proceeds of $628.5 million, which resulted in a pre-tax gain of $526.5 million.

During the fourth quarter of 2013, the Company sold a fresh bakery in Toronto, Ontario that was closed in June 2013 for gross proceeds of $12.4 million, resulting in a pre-tax gain of $11.4 million.

In the third quarter of 2013, the Company sold certain assets within its Ontario turkey agricultural operations for gross proceeds of $46.3 million, resulting in a pre-tax gain of $9.7 million. These assets were classified as assets held for sale on the June 30, 2013 consolidated balance sheet.

During the third quarter of 2013, the Company sold the final assets of a poultry farm and related production quota in Brooks, Alberta, originally purchased on February 1, 2012, and immediately classified it as assets held for sale. The Company purchased the operations and production quotas for a cash purchase price of $31.1 million. The acquisition was accounted for as a business combination. In 2012, the Company sold $8.0 million of the production quotas which resulted in a pre-tax gain of $0.5 million. In the second quarter of 2013, the Company sold assets for proceeds of $8.3 million. In the third quarter of 2013, the Company sold the remaining assets for proceeds of $12.9 million, which resulted in a 2013 pre-tax loss of $nil.

During the third quarter of 2013, the Company sold an investment property located in Aurora, Ontario, for $1.8 million, which resulted in a pre-tax gain of $1.0 million.

During the second quarter of 2013, the Company sold an investment property located in Ayr, Ontario, for $2.0 million, which resulted in a pre-tax gain of $0.2 million. The investment property was classified as held for sale on the December 31, 2012 consolidated balance sheet.

On January 4, 2013, the Company sold all the assets related to its Lethbridge, Alberta, potato processing facility to Cavendish Farms Corporation for proceeds of $58.1 million resulting in a pre-tax gain of $45.4 million ($38.7 million after-tax) recorded in other income. The assets related to the potato processing operation were classified as held for sale on the Company's December 31, 2012 consolidated balance sheet.

On December 14, 2012, the Company acquired specific assets and liabilities held by The Puratone Corporation, Pembina Valley Pigs Ltd., and Niverville Swine Breeders Ltd., (collectively "Puratone"), privately held entities engaged in hog production. The purchase price was $45.4 million, and the Company settled the transaction in cash.

On November 27, 2012, the Company acquired specific assets and liabilities held by Paradigm Farms Ltd. ("Paradigm"), a privately held entity engaged in hog production, related to the purchase of the business of Puratone. The purchase price was $2.2 million, and the Company settled the transaction in cash.

## INVESTMENT IN CANADA BREAD

There were no changes in the Company's investment in Canada Bread during 2012 and 2013.

## CAPITAL RESOURCES

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

On October 31, 2012, the Company increased its existing committed revolving credit facility by $250.0 million, to $1.05 billion, and extended the maturity of the facility by one year. This facility is unsecured and bears interest based on short-term interest rates. The facility, which matures on May 16, 2016, is intended to meet the Company's funding requirements for general corporate purposes, and to provide appropriate levels of liquidity. Due to the sale of Rothsay, the Company has $251.1 million of this credit facility restricted exclusively for debt repayment purposes until no later than January 2015. Further details are available in Note 14 in the audited consolidated financial statements.

The following table summarizes the Company's debt and available and drawn credit facilities at December 31:

| *($ millions)* | **2013** | 2012 |
|---|---|---|
| Credit facilities, including AR securitization | | |
| Maple Leaf Foods Inc. | **$ 1,172.7** | $ 1,180.5 |
| Subsidiaries | **122.1** | 112.3 |
| **Total available** | **$ 1,294.8** | $ 1,292.8 |
| Drawn amount | | |
| Maple Leaf Foods Inc. | **$ 357.7** | $ 680.0 |
| Subsidiaries | **61.7** | 54.6 |
| Letters of credit | **108.3** | 122.5 |
| **Total drawn** | **$ 527.7** | $ 857.1 |
| % drawn | **40.8%** | 66.3% |

| *($ millions)* | **2013** | 2012 |
|---|---|---|
| Other Debt | | |
| Maple Leaf Foods Inc. | **$ 701.7** | $ 705.2 |
| Subsidiaries | **2.9** | 1.7 |
| **Total** | **$ 704.6** | $ 706.9 |

The Company repaid debentures with outstanding principal of $24.9 million in October 2013 originally due in October 2016. The total amount paid was $28.2 million including accrued interest of $0.9 million. The Company also repaid other debt amounting to $1.3 million during 2013.

The Company's debt facilities are subject to certain restrictions and require the maintenance of certain debt and cash flow ratios. The Company was in compliance with all of the requirements of its lending agreements during 2013. As at December 31, 2013, Net Debt to Adjusted EBITDA was 3.6x (2012[i]: 3.1x).

The Company is subject to certain covenants under its principal banking arrangements currently in place. There can be no assurance that ratios under the Company's debt facilities will not be exceeded, which could result in an acceleration of all of the Company's debt and the requirement that replacement funding be secured.

To access competitively priced financing and to further diversify its funding sources, the Company operates two three-year committed accounts receivable securitization facilities. Under the facilities, the Company sells certain accounts receivable, with very limited recourse, to an entity owned by an international financial institution with a long-term AA-debt rating. The receivables are sold at a discount to face value based on prevailing money market rates. At the end of 2013, the Company had $166.4 million (2012: $287.3 million) of trade accounts receivable serviced under these facilities. In return for the sale of its trade receivables, the Company received cash of $50.9 million (2012: $162.8 million) and notes receivable in the amount of $115.5 million (2012: $124.5 million). Due to the timing of receipts and disbursements, the Company may, from time to time, record a receivable or payable related to the securitization facility. As at December 31, 2013, the Company recorded a payable in the amount of $105.5 million (2012: receivable of $1.0 million). The maximum cash proceeds available to the Company under these programs is $170.0 million. During the year, the securitization agreements were renewed with substantially the same terms and conditions, with an expiry date of September 2016.

These securitization facilities are subject to certain restrictions and require the maintenance of certain covenants. The Company was in compliance with all of the requirements of the facilities during 2013. These facilities were accounted for as an off-balance sheet transaction under IFRS. If these facilities were terminated, the Company would recognize the securitized amounts on the consolidated balance sheet and consider alternative financing if required.

The weighted average term of the Company's debt is 3.5 years.

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

*(i) The 12-month trailing Adjusted EBITDA used in the computation of Net Debt to Adjusted EBITDA for 2012 includes the results from the Rothsay and Olivieri businesses, as the transactions to sell these businesses did not occur until 2013.*

## CAPITAL EXPENDITURES

Capital expenditures for 2013 were $385.4 million compared to $306.3 million in 2012, an increase of 25.8%. The increase in capital expenditures reflects higher overall spending on the Plan. As higher investments in the prepared meats network transformation were only partly offset by lower spending on the implementation of SAP and construction of the fresh bakery in Hamilton, Ontario.

Base capital expenditures increased due to construction of additional bagel production capacity in the U.K. bakery business, partly offset by lower spending at other business units, in part due to the sale of the Rothsay and Olivieri businesses during the fourth quarter of 2013.

The Company currently estimates its capital expenditures for the full year of 2014 will be approximately $255 million, including $140 million on the prepared meats network transformation, $75 million of base capital expenditures in the Protein Group, and $40 million of base capital expenditures in the Bakery Products Group. This estimate will be updated following the successful completion of the Company's sale of its 90.0% interest in Canada Bread, which is expected to close in the second quarter of 2014. The decrease compared to 2013 reflects lower spend on the prepared meats transformation as this project nears completion, partly offset by higher base capital.

## CASH FLOW

Total debt, net of cash balances, was $451.7 million at the end of 2013, compared to $1,171.3 million as at December 31, 2012. The decrease in debt for the year is primarily due to the proceeds from the sale of the Rothsay and Olivieri businesses during the fourth quarter of 2013.

### Cash Flow from Operating Activities

Cash provided by operations increased to $260.1 million compared to $218.1 million in 2012, primarily due to lower working capital, partially offset by lower cash earnings.

### Cash Flow from Financing Activities

Cash used in financing activities was $320.1 million for 2013 compared to cash provided of $236.0 million in 2012. The change was primarily due to repayment of

debt from the proceeds of the sale of the Rothsay business during the fourth quarter of 2013.

### Cash Flow from Investing Activities

Cash provided by investing activities was $520.0 million for 2013 compared to cash used of $375.5 million in 2012. The change was driven by proceeds from the sale of the Rothsay and Olivieri businesses during the fourth quarter of 2013, proceeds from assets held-for-sale sold during the year, and an acquisition of a business in 2012 that did not reoccur. This was partly offset by higher capital expenditures.

## CONTRACTUAL OBLIGATIONS

The following table provides information about certain of the Company's significant contractual obligations as at December 31, 2013. This table presents the undiscounted principal cash flows payable in respect of financial liabilities.

Payments due by fiscal year:

| | December 31, 2013 | | | | |
|---|---|---|---|---|---|
| *($ thousands)* | **Due within 1 year** | **Due between 1 and 2 years** | **Due between 2 and 3 years** | **Due after 3 years** | **Total** |
| **Financial liabilities** | | | | | |
| Bank indebtedness | $ 4,408 | $ – | $ – | $ – | **$ 4,408** |
| Accounts payable and accruals | 649,554 | – | – | – | **649,554** |
| Long-term debt (i) | 209,780 | 97,187 | 283,126 | 363,899 | **953,992** |
| Foreign exchange contracts | 3,041 | – | – | – | **3,041** |
| Commodity futures contracts | 2,828 | – | – | – | **2,828** |
| Interest rate swaps (i) (ii) | – | 3,573 | – | 15,191 | **18,764** |
| Other liabilities | 2,952 | 2,534 | 911 | 851 | **7,248** |
| Cross-currency interest rate swap | 31,643 | – | – | – | **31,643** |
| | **$ 904,206** | **$ 103,294** | **$ 284,037** | **$ 379,941** | **$ 1,671,478** |
| **Commitments** | | | | | |
| Contractual obligations including operating leases (iii) | 62,792 | 55,771 | 46,957 | 157,443 | **322,963** |
| **Total** | **$ 966,998** | **$ 159,065** | **$ 330,994** | **$ 537,384** | **$ 1,994,441** |

(i) *Does not include contractual interest payments.*

(ii) *Total of fair value of cross-currency interest rate swaps in a liability position.*

As at December 31, 2013 the Company had entered into construction contracts of $158.4 million relating to the prepared meats network transformation project (2012: $428.4 million).

Management is of the opinion that its cash flow, cash on hand, and sources of financing provide the Company with sufficient resources to finance ongoing business requirements and its planned capital expenditure program for at least the next 12 months. Additional details concerning financing are set out in Note 14 and Note 18 of the audited consolidated financial statements. In order to limit the impact of market price fluctuations on operating results, the majority of core hedging programs are designated as hedging related relationships and managed as part of the Company hedge accounting portfolio.

## FINANCIAL INSTRUMENTS AND RISK MANAGEMENT ACTIVITIES

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

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

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

### Financial Instruments

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

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

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

The fair values and notional amounts of derivative financial instruments at December 31 are shown below:

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| | **Notional amount** (i) | **Fair value** | | Notional amount (i) | Fair value | |
| *($ thousands)* | | **Asset** | **Liability** | | Asset | Liability |
| **Cash flow hedges** | | | | | | |
| Cross-currency interest rate swaps | **US$ 313,000** | **$ 5,903** | **$ 31,643** | US$ 313,000 | $ – | $ 46,128 |
| Foreign exchange contracts (ii) | **225,714** | **–** | **2,854** | 77,509 | 238 | – |
| Commodity futures contracts (ii) | **16,509** | **–** | **240** | 14,620 | 14 | – |
| Interest Rate Swaps | **–** | **–** | **–** | 260,000 | – | 22,434 |
| **Fair value hedges** | | | | | | |
| Commodity futures contracts (ii) | **$ 38,747** | **$ 381** | **$ –** | $ 24,411 | $ – | $ 90 |
| **Derivatives not designated in a formal hedging relationship** | | | | | | |
| Interest rate swaps | **$ 1,180,000** | **$ –** | **$ 18,764** | $ 660,000 | $ – | $ 6,151 |
| Foreign exchange contracts (ii) | **134,814** | **–** | **187** | 104,507 | 246 | – |
| Commodity futures contracts (ii) | **494,445** | **3,965** | **2,588** | 272,502 | 1,062 | – |
| **Total** | | **$ 10,249** | **$ 56,276** | | $ 1,560 | $ 74,803 |
| Current | | **$ 8,366** | **$ 43,548** | | $ 1,560 | $ 12,771 |
| Non-current | | **1,883** | **12,728** | | – | 62,032 |
| **Total** | | **$ 10,249** | **$ 56,276** | | $ 1,560 | $ 74,803 |

(i) *Unless otherwise stated, notional amounts are stated at the contractual Canadian dollar equivalent.*

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

The fair value of financial assets and liabilities classified as loans and receivables and other financial liabilities (excluding long-term debt) approximate their carrying value due to their short-term nature.

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

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

For the year ended December 31, 2013, the pre-tax amount of hedge ineffectiveness recognized in earnings was a gain of $3.2 million (2012: $nil), primarily related to the Company's designated interest rate swaps.

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

| *($ thousands)* | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| **Assets:** | | | | |
| Foreign exchange forward contracts | $ – | $ – | $ – | **$ –** |
| Commodity futures contracts | 4,346 | – | – | **4,346** |
| Interest rate swaps | – | 5,903 | – | **5,903** |
| | **$ 4,346** | **$ 5,903** | **$ –** | **$ 10,249** |
| **Liabilities:** | | | | |
| Foreign exchange forward contracts | $ – | $ 3,041 | $ – | **$ 3,041** |
| Commodity futures contracts | 2,828 | – | – | **2,828** |
| Interest rate swaps | – | 50,407 | – | **50,407** |
| | **$ 2,828** | **$ 53,448** | **$ –** | **$ 56,276** |

There were no transfers between levels during the year ended December 31, 2013. Determination of fair value and the resulting hierarchy requires the use of observable market data whenever available. The classification of a financial instrument in the hierarchy is based upon the lowest level of input that is significant to the measurement of fair value. For financial instruments that are recognized at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization at the end of each reporting period.

## Capital

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

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

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

The Company has maintained a stable dividend distribution that is based on the sustainable net earnings base. From time to time, the Company has purchased shares for cancellation pursuant to normal course issuer bids and to satisfy awards under its Share Incentive Plan; an equity compensation program established in 2006. The Company purchased nil shares in 2013 in respect of awards under the equity compensation program (2012: 0.8 million).

For the year ended December 31, 2013, total equity increased by $684.0 million to $1,642.0 million, largely due to higher net earnings and changes in actuarial gains recognized in other comprehensive income, partly offset by dividends declared. During the same period, total debt net of cash and cash equivalents decreased by $719.6 million to $451.7 million.

## Credit Risk

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

In the normal course of business, the Company is exposed to credit risk from its customers, substantially all of which are in the grocery and foodservice sectors. The Company performs ongoing credit evaluations of new and existing customers' financial condition and reviews the collectibility of its trade accounts receivable and other receivables in order to mitigate any possible credit losses. As at December 31, 2013 approximately $0.2 million (2012: $0.4 million) of the Company's accounts receivable were greater than 60 days past due. The Company maintains an allowance for doubtful accounts that represents its estimate of uncollectible amounts. This allowance includes a provision related to specific losses estimated on individual exposures. As at December 31, 2013, the Company has recorded an allowance for doubtful accounts of $0.1 million (2012: $0.2 million). There are no significant impaired accounts receivable that have not been provided for in the allowance for doubtful accounts. The Company believes that the allowance for doubtful accounts sufficiently covers any credit risk related to past due or impaired accounts receivable balances.

Management believes concentrations of credit risk with respect to accounts receivable is limited due to the generally high credit quality of the Company's major customers, the large number and geographic dispersion of smaller customers, and the operation of the accounts receivable securitization facility as mentioned previously. The Company does, however, conduct a significant amount of business with a small number of large grocery retailers. The Company's two largest customers comprised approximately 21.1% (2012: 21.5%) of consolidated sales.

The Company is exposed to credit risk on its notes receivable from a financial institution that holds an equity interest in an unconsolidated structured entity as described in Note 25 of the audited consolidated financial statements. Management believes that this credit risk is limited by the long-term AA- debt rating held by the counterparty.

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

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

## Liquidity Risk

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

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

As at December 31, 2013, the Company had available undrawn committed credit of $701.2 million (2012: $389.2 million) under the terms of its principal banking arrangements. Of this amount, $251.1 million is restricted exclusively for debt repayment purposes until no later than January 2015. These banking arrangements, which mature in 2016, are subject to certain covenants and other restrictions.

## Market Risk

### *Interest Rate Risk*

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

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

On December 8, 2011, the Company entered into interest rate swaps totalling $260.0 million expiring December 8, 2017. Effective December 13, 2012, the Company designated these swaps as hedging instruments in a hedging relationship to partially reduce the impact of changes in interest costs attributable to variability in market interest rates. Due to a change in the Company's projected future cash flows, as a result of the decision to divest its Rothsay business, the Company has discontinued hedge accounting for these swaps. This resulted in a reclassification of $4.7 million from accumulated other comprehensive income to other income in the third quarter of 2013.

As at December 31, 2013, 62.7% of the Company's outstanding debt was not exposed to interest rate movements (2012: 70.1%). During the fourth quarter, the Company applied a portion of the Rothsay sale proceeds to reduce borrowings under the revolving credit facility, but also effectively unwound $260 million of associated pay-fixed interest rate swaps by entering into an offsetting interest swap, effectively decreasing the proportion of fixed interest rate debt.

### *Foreign Exchange Risk*

Foreign exchange risk refers to the risk that the value of financial instruments or cash flows associated with the instruments will fluctuate due to changes in foreign exchange rates. The Company enters into currency derivative agreements to manage its current and anticipated exposures in the foreign exchange markets.

The Company's foreign exchange risk arises primarily from transactions in currencies other than Canadian dollars. The primary currencies to which the Company is exposed are the U.S. dollar (through U.S.-denominated sales and borrowings), the British pound, and the Japanese yen.

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

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

### *Commodity Price Risk*

The Company is directly exposed to price fluctuations in commodities such as wheat, live hogs, fuel costs, and the purchase of other agricultural commodities used as raw materials, such as feed grains. In order to minimize the impact of these price fluctuations on the Company's operating results, the Company may use fixed price contracts with suppliers, exchange-traded futures, and options.

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

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

For a comprehensive discussion on the Company's risk management practices and derivative exposures, please refer to Note 18 in the audited consolidated financial statements.

## CHANGE IN FAIR VALUE OF NON-DESIGNATED INTEREST RATE SWAPS

During the year ended December 31, 2013, the Company recorded a gain of $2.0 million ($1.5 million after-tax) due to changes in the fair value of interest rate swaps.

During 2012, the Company recorded a gain of $7.3 million ($5.4 million after-tax) due to changes in the fair value of interest rate swaps.

During the second quarter of 2010, the Company entered into $590.0 million of interest rate swaps. Swaps totalling $330.0 million started on April 28, 2010 and have an expiry date of April 28, 2015 with an average interest rate of 3.3%. The remaining swaps totalling $260.0 million which started on December 8, 2011 with an average interest rate of 4.2% and were extended and designated in a formal hedging relationship in 2011 have been de-designated during the current year as previously described. During the fourth quarter of 2013, the Company entered into swaps to offset the $260.0 million of de-designated interest rate swaps with an expiry of December 8, 2017. Under the offsetting interest rate swaps, the Company receives an average fixed rate of 1.8% and pays a floating rate of interest on a notional amount of $260.0 million. These offsetting interest rate swaps effectively neutralize the mark-to-market income volatility on the notional amount of $260.0 million created by the existing interest rate swaps with an expiry date of December 8, 2017.

During the first quarter of 2011, the Company entered into swaps to offset $330.0 million of existing interest rate swaps with an expiry date of April 28, 2015. The offsetting interest rate swaps were executed as new fixed-rate private placement debt, finalized in the fourth quarter of 2010, and reduced the Company's expected floating rate debt requirements by $355.0 million. Under the offsetting interest rate swaps, the Company receives an average fixed rate of 2.5% and pays a floating rate of interest on a notional amount of $330.0 million. These offsetting interest rate swaps effectively neutralize the mark-to-market income volatility on the notional amount of $330.0 million created by the existing interest rate swaps with an expiry date of April 28, 2015.

The Company currently has no net-exposure to non-designated interest rate swaps.

## SHARE CAPITAL AND DIVIDENDS

As at December 31, 2013, there were 140,256,389 voting common shares issued and outstanding (2012: 140,044,089). As at February 14, 2014, there were 140,313,489 voting common shares issued and outstanding.

In each of the quarters of 2013, the Company declared and paid cash dividends of $0.04 per voting common share, representing a total annual dividend of $0.16 per voting common share and aggregate dividend payments of $22.4 million (2012: $22.2 million).

## OTHER MATTERS

On February 26, 2014 the Company declared a dividend of $0.04 per share payable March 31, 2014 to shareholders of record at the close of business on March 7, 2014. Unless indicated otherwise by the Company in writing on or before the time the dividend is paid, the dividend will be considered an Eligible Dividend for the purposes of the "Enhanced Dividend Tax Credit System".

## EMPLOYEE BENEFIT PLANS

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

During 2013, the Company recorded a gain of $274.0 million through other comprehensive income related to the re-measurement of plan assets and liabilities. This included $114.0 million related to returns on plan assets in excess of the discount rate, $122.2 million related to changes in liability assumptions, primarily an increase in the discount rate, and a further $37.8 million in experience adjustments on the plan obligation. The adjustment further resulted in the creation of a deferred tax liability of $70.6 million.

During 2012, the Company recorded a loss of $82.7 million through other comprehensive income related to the re-measurement of plan assets and liabilities. This included a $54.4 million gain related to returns on plan assets in excess of the discount rate, a $131.0 million loss related to changes in liability assumptions, primarily a decrease in the discount rate, a further $9.5 million loss on changes in demographic assumptions, and a $3.4 million gain in experience adjustments on the plan obligation. The adjustment further resulted in the creation of a deferred tax asset of $21.3 million.

The Company operates both defined contribution and defined benefit plans. The assets of the defined benefit plans are invested primarily in foreign and domestic fixed income and equity securities that are subject to fluctuations in market prices. Discount rates used to measure plan liabilities are based on long-term market interest rates. Fluctuations in these market prices and rates can impact pension expense and funding requirements. In 2013, the investment return before expenses on the Company's defined benefit pension plan assets was 14.6% compared to 10.0% in 2012. Long-term market interest rates decreased, impacting the discount rate used to measure the plan liabilities.

The Company's contributions are funded through cash flows generated from operations. Management anticipates that future cash flows from operations will be sufficient to fund expected future contributions. Contributions to defined benefit plans during 2013 were $20.5 million (2012: $22.8 million).

The Company expects to contribute $ 46.2 million to the pension plans in 2014, inclusive of defined contribution and multi-employer plans.

## SUBSEQUENT EVENTS

On February 12, 2014, the Company announced that Grupo Bimbo, S.A.B. de C.V. of Mexico ("Grupo Bimbo") had agreed to acquire all of the issued and outstanding common shares of Canada Bread by way of a statutory arrangement under the Business Corporations Act (Ontario) (the "Arrangement"). Under the terms of the Arrangement, Grupo Bimbo has agreed to acquire each common share of Canada Bread for $72.00 per share in cash. Maple Leaf expects to receive net proceeds of approximately $1.65 billion for its 90% interest in Canada Bread. The Arrangement will require the approval of at least 66⅔% of the votes cast by the shareholders of Canada Bread at a special meeting of shareholders expected to take place in early April 2014. Maple Leaf has entered into a voting support agreement with Grupo Bimbo pursuant to which the Company has agreed to vote all of its common shares of Canada Bread in favour of the Arrangement at such meeting. The Company is not able to estimate the ultimate gain on disposition given the uncertainty surrounding the timing of the close of this proposed transaction. Subsequent to the sale, the Company will no longer be consolidating the results and related balance sheet of Canada Bread Company, Limited. The Arrangement is subject to receipt of court approval, regulatory approvals, and other customary closing conditions, and is expected to close in the second quarter of 2014.

On February 19, 2014, the company sold an investment property located in the Toronto area, which was classified as an asset held for sale in the year end consolidated financial statements, for gross proceeds of $6.4 million.

## SUMMARY OF QUARTERLY RESULTS

The following is a summary of unaudited quarterly financial information (in thousands of dollars except per share information) for each quarter in the last three fiscal years:

| | | First Quarter | Second Quarter | Third Quarter | Fourth Quarter | Total |
|---|---|---|---|---|---|---|
| **Sales** *(ii)* | **2013** | **$ 1,035,707** | **$ 1,133,428** | **$ 1,130,328** | **$ 1,106,985** | **$ 4,406,448** |
| | 2012 | 1,088,968 | 1,174,923 | 1,157,262 | 1,130,675 | 4,551,828 |
| | 2011 | 1,075,806 | 1,153,047 | 1,181,242 | 1,168,683 | 4,578,778 |
| **Net earnings (loss) from continuing operations** *(ii)* | **2013** | **$ (28,944)** | **$ (14,474)** | **$ (676)** | **$ (14,449)** | **$ (58,543)** |
| | 2012 | (19,385) | 9,477 | 10,921 | 40,954 | 41,967 |
| | 2011 | (9,702) | (2,764) | 16,872 | (11,663) | (7,258) |
| **Net earnings (loss)** *(i)(ii)* | **2013** | **$ (14,742)** | **$ 9** | **$ 15,521** | **$ 511,375** | **$ 512,163** |
| | 2012 | (5,775) | 25,988 | 26,043 | 50,306 | 96,562 |
| | 2011 | 4,690 | 18,724 | 37,150 | 3,338 | 63,902 |
| **Earnings (loss) per share from continuing operations** *(ii)* | | | | | | |
| Basic *(i)(iii)* | **2013** | **$ (0.21)** | **$ (0.12)** | **$ (0.02)** | **$ (0.13)** | **$ (0.48)** |
| | 2012 | (0.14) | 0.05 | 0.06 | 0.28 | 0.25 |
| | 2011 | (0.07) | (0.03) | 0.10 | (0.09) | (0.08) |
| Diluted *(i)(iii)* | **2013** | **$ (0.21)** | **$ (0.12)** | **$ (0.02)** | **$ (0.13)** | **$ (0.48)** |
| | 2012 | (0.14) | 0.05 | 0.06 | 0.27 | 0.24 |
| | 2011 | (0.07) | (0.03) | 0.10 | (0.09) | (0.08) |
| Adjusted EPS *(i)(iii)(iv)* | **2013** | **$ (0.16)** | **$ (0.08)** | **$ (0.01)** | **$ (0.25)** | **$ (0.51)** |
| | 2012 | (0.04) | 0.11 | 0.13 | 0.27 | 0.47 |
| | 2011 | 0.04 | 0.10 | 0.15 | 0.06 | 0.34 |

| | | | First Quarter | | Second Quarter | | Third Quarter | | Fourth Quarter | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Earnings (loss) per share** [(ii)] | | | | | | | | | | | |
| Basic [(i)(iii)] | **2013** | **$** | **(0.11)** | **$** | **(0.02)** | **$** | **0.09** | **$** | **3.58** | **$** | **3.55** |
| | 2012 | | (0.04) | | 0.17 | | 0.17 | | 0.35 | | 0.64 |
| | 2011 | | 0.03 | | 0.12 | | 0.25 | | 0.02 | | 0.43 |
| Diluted [(i)(iii)] | **2013** | **$** | **(0.11)** | **$** | **(0.02)** | **$** | **0.09** | **$** | **3.58** | **$** | **3.55** |
| | 2012 | | (0.04) | | 0.16 | | 0.16 | | 0.34 | | 0.63 |
| | 2011 | | 0.04 | | 0.12 | | 0.24 | | 0.02 | | 0.41 |

(i) *Net earnings, earnings per share and Adjusted Earnings per Share are based on amounts attributable to common shareholders.*

(ii) *2012 and 2011 figures have been restated for the classification of the Rothsay and Olivieri businesses as a discontinued operation, and for the impact of adopting the revised International Accounting Standard 19 Employee Benefits ("IAS 19"). Refer to Note 22 and Note 32, respectively, of the Company's 2013 audited consolidated financial statements.*

(iii) *May not add due to rounding.*

(iv) *Refer to non-IFRS Financial Measures starting on page 34.*

Quarterly sales in 2013 were affected by the following significant items:

- lower sales volume in the prepared meats business in the first quarter, that improved for the remainder of the year;
- lower sales volumes in the pork, fresh bakery, and North American frozen bakery businesses;
- price increases implemented during 2013 at the prepared meats, fresh bakery, U.K. bakery, and North American frozen bakery businesses;
- favourable sales mix in the prepared meats business;
- divestiture of the Company's potato processing facility in the first quarter of 2013;
- impact of a weaker Japanese yen on fresh pork export sales;
- higher volumes in the U.K. bakery business;
- exiting fresh and in-store bakery bread production in the U.K. in March 2012;
- exiting speciality bread production in the U.K. in the second quarter of 2013;
- higher market pricing for pork products; and
- divestiture of the Company's poultry agricultural operations in the third quarter of 2013.

Quarterly net earnings in 2013 were affected by the following significant items:

- gains on sales of the Company's Rothsay and Olivieri businesses in the fourth quarter of 2013;
- adverse market conditions that reduced margins in primary pork and poultry processing, and hog production;
- price increases implemented during 2013 at the prepared meats, fresh bakery, U.K. bakery, and North American frozen bakery businesses;
- higher raw material and inflationary costs in the prepared meats business;
- lower sales volume in the prepared meats business in the first quarter, that improved for the remainder of the year;
- lower sales volumes in the pork, and fresh bakery businesses;
- higher volumes in the U.K. bakery business;
- impact of a weaker Japanese yen on fresh pork export margins;
- transitional costs associated with implementing the Plan at the prepared meats business, including manufacturing and distribution inefficiencies associated with operating parallel legacy facilities scheduled to close in 2014;
- lower contributions from hedging programs in the hog production business;
- improved operating efficiencies in the fresh bakery business, including lower waste, the contribution of the new Hamilton fresh bakery, simplification of the product portfolio, and reorganization of the distribution network;
- improved operating efficiencies in the North American frozen bakery business;
- duplicative overhead costs related to the Company's new fresh bakery in Hamilton, Ontario for the first and second quarters of 2013, after which the third Toronto bakery was closed and production transferred;
- higher inflationary costs in the Bakery Products Group;
- changes in fair value of non-designated interest rate swaps, biological assets and gains/losses on commodity futures contracts;

- closure of the Walsall, U.K. facility in March 2012 related to the exit of certain bread categories in the U.K.;
- lower selling, general, and administrative expenses;
- exiting specialty bread production in the U.K. in the second quarter of 2013;
- restructuring and other related costs;
- divestiture of the Company's potato processing facility during the first quarter of 2013;
- divestiture of the Company's Rothsay business during the fourth quarter of 2013;
- impairment recorded on a U.K. bakery that was sold in the second quarter of 2013;
- impairment on poultry quota assets that were sold in the second quarter of 2013;
- sale of a poultry farm and related production quotas in the third quarter of 2013;
- sale of the turkey agricultural operations in the third quarter of 2013;
- gain related to the de-designation of interest rate swaps from a hedge accounting relationship in the third quarter of 2013;
- gain due to a pension curtailment related to the discontinued operations of the Rothsay business in the third quarter of 2013;
- recoveries from insurance claims;
- sale of an investment property in Aurora, Ontario in the third quarter of 2013;
- sale of a previously closed fresh bakery in Toronto, Ontario in the fourth quarter of 2013; and
- recognition of legal and other professional fees associated with acquisitions and divestitures.

Quarterly sales in 2012 were affected by the following significant items:

- price increases implemented during 2011 and 2012;
- lower sales volumes in the Company's fresh bakery business;
- weaker Canadian dollar that increased the value of fresh pork exports;
- lower sales volume of fresh pork;
- sale of the fresh sandwich product line by the Bakery Products Group at the beginning of 2011; and
- exiting fresh and in-store bakery bread production in the U.K.

Quarterly net earnings in 2012 were affected by the following significant items:

- significant declines in industry pork processing margins in North America, which were partially offset by favourable domestic sales contracts and improved international margins;
- lower sales volumes in the Company's fresh bakery business;
- higher sales volumes and improved sales mix in the prepared meats business;
- higher volumes and improved pricing of value-added products in the poultry business;
- benefits from the implementation of the Plan;
- lower results in hog production and by-product recycling due to higher feed and input costs and a decline in market values;
- inventory write-down in the fresh pasta business during the first quarter of 2012;
- duplicative overhead costs related to the Company's new fresh bakery in Hamilton, Ontario;
- closure of the Walsall, U.K. facility in March 2012 related to the exit of certain bread categories in the U.K.;
- lower selling, administrative, and general management costs;
- restructuring and other related costs;
- changes in fair value of non-designated interest rate swaps, biological assets and (gains) losses on commodity futures contracts;
- receipt of an insurance claim related to a fire;
- settlement of a legal suit in the second quarter of 2012 related to the Company's fresh sandwich product line which was sold in 2011;
- gain on business combination in the fourth quarter of 2012 from the acquisition of hog farms, and associated legal costs; and
- a reassessment of environmental remediation costs in the fourth quarter of 2012 on prepared meats facilities marked for closure.

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

## SUMMARY OF 2013 FOURTH QUARTER RESULTS

The following is a summary of sales by business segment:

| ($ Thousands) (Unaudited) | Fourth Quarter 2013 | 2012 | Change |
|---|---|---|---|
| Meat Products Group | **$ 742,739** | $ 751,362 | (1.1)% |
| Agribusiness Group [(i)] | **4,585** | 8,973 | (48.9)% |
| **Protein Group** | **$ 747,324** | $ 760,335 | (1.7)% |
| **Bakery Products Group** [(i)] | **359,661** | 370,340 | (2.9)% |
| **Total Sales** | **$ 1,106,985** | $ 1,130,675 | (2.1)% |

(i) *2013 and 2012 figures exclude the results of the Rothsay and Olivieri businesses in the Agribusiness Group and Bakery Products Group, respectively. Rothsay and Olivieri results are reported as discontinued operations as disclosed in Note 22 of the Company's 2013 audited consolidated financial statements.*

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

| ($ thousands) (Unaudited) | Fourth Quarter 2013 | 2012 [(i)] | Change |
|---|---|---|---|
| Meat Products Group | **$ (42,625)** | $ 42,585 | (200.2)% |
| Agribusiness Group [(ii)] | **(10,003)** | (4,826) | 107.3% |
| **Protein Group** | **$ (52,628)** | $ 37,759 | (239.4)% |
| **Bakery Products Group** [(ii)] | **30,912** | 33,139 | (6.7)% |
| **Non-allocated Costs in Adjusted Operating Earnings** [(iii)] | **–** | (901) | (100.0)% |
| **Adjusted Operating Earnings** | **$ (21,716)** | $ 69,997 | (131.0)% |

(i) *2012 Adjusted Operating Earnings have been restated for the impact of adopting the revised International Accounting Standard 19 Employee Benefits ("IAS 19"), as disclosed in Note 32 of the Company's 2013 audited consolidated financial statements.*

(ii) *2013 and 2012 figures exclude the results of the Rothsay and Olivieri businesses in the Agribusiness Group and Bakery Products Group respectively. Rothsay and Olivieri results are reported as discontinued operations as disclosed in Note 22 of the Company's 2013 audited consolidated financial statements.*

(iii) *Non-allocated costs comprise expenses not separately identifiable to business segment groups, and do not form part of the measures used by the Company when assessing the segments' operating results.*

Sales of $1,107.0 million for the fourth quarter declined 2.1% from last year, or 0.7% after adjusting for the impacts of divestitures and foreign exchange, due to lower volumes which were partly offset by higher pricing.

Adjusted Operating Earnings for the fourth quarter decreased to a loss of $21.7 million compared to Adjusted Operating Earnings of $70.0 million last year, primarily due to lower earnings in the Protein Group.

The Company is in a peak phase of completing its prepared meats strategy, designed to establish a low cost supply chain and achieve structural margin expansion. Earnings were significantly impacted by the cost of commissioning five new facilities, resulting in transitional costs of approximately $15 million during the quarter (2012: approximately $4 million). Start-up costs at the newly expanded facilities in Winnipeg, Manitoba, and Saskatoon, Saskatchewan, decreased compared to the third quarter of 2013; however, this was offset by higher overhead costs associated with commissioning the newly constructed plant in Hamilton, Ontario. The Company also experienced manufacturing and distribution inefficiencies associated with operating legacy plants in parallel until production is fully transferred to newer, more efficient facilities in 2014.

Margins in the prepared meats business were also compressed by higher raw material and other input costs, as well as inflationary costs that were not fully offset by pricing. Selling, general, and administrative costs were higher than last year, due to Comparatively lower variable compensation expense last year. During the fourth quarter of 2012, the prepared meats business recognized $5.9 million in provision reversals related to re-assessments of environmental remediation costs on facilities planned for closure that did not re-occur in 2013. Higher volumes in the fourth quarter of 2013, particularly in the branded retail category, partly offset the above reductions to earnings.

Earnings in primary pork processing were negatively affected by lower export margins, primarily due to the Japanese market, lower volumes, and declining values for by-product sales. These reductions were partly offset by an improvement in North American processing spreads and lower selling, general, and administrative costs. Earnings in fresh poultry declined due to lower primary processing spreads and inflationary costs that were only partly offset by higher earnings from value-added sales. The sale of the Company's potato processing operations in January 2013 reduced fourth quarter Adjusted Operating Earnings in the Meat Products Group by approximately $3 million compared to last year.

In the hog production business, earnings decreased primarily due to lower contributions from hedging programs, which more than offset higher market prices for hogs. Feed costs were consistent with the prior year.

In the Bakery Products Group, lower fresh bakery earnings were partly offset by stronger earnings in the U.K. bakery business.

Lower volumes in the fresh bakery business were only partly offset by increased efficiencies at the new Hamilton, Ontario bakery, simplification of the product portfolio, and the reorganization of the distribution network, all of which contributed to lower operating costs. The benefits of earlier price increases were offset by higher trade spend and inflationary costs in the quarter. North American frozen bakery business earnings decreased modestly, as inflationary costs, lower volumes, and higher selling, general, and administrative expenses were mostly offset by operating improvements. The U.K. bakery business benefited from higher pricing and lower operating and selling, general, and administrative expenses, which more than offset higher raw material and inflationary costs.

Net loss from continuing operations for the fourth quarter was $14.4 million (loss of $0.13 per basic share attributable to common shareholders) compared to net earnings from continuing operations of $41.0 million ($0.28 per basic share attributable to common shareholders) last year. Adjusted Earnings per Share in the fourth quarter of 2013 was a loss of $0.25 compared to Adjusted Earnings per Share of $0.27 last year.

## SEASONALITY

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

## ENVIRONMENT

Maple Leaf Foods is committed to maintaining high standards of environmental responsibility and positive relationships in the communities where it operates. Each of its businesses operates within the framework of an environmental policy entitled "Our Environmental Commitment" that is approved by the Board of Directors' Environment, Health and Safety Committee. The Company's environmental program is monitored on a regular basis by the Committee, including compliance with regulatory requirements and the use of internal environmental specialists and independent, external environmental experts. In 2013, the Company worked in partnership with various levels of government to ensure that all environmental permits were obtained for the various projects in the Plan and assure a high level of environmental protection for future plant operations. It has kept the community informed about progress on its new prepared meats plant in Hamilton, Ontario, through regular community open houses. The Company continues to invest in environmental infrastructure related to water, waste, and air emissions to ensure that environmental standards continue to be met or exceeded, while implementing procedures to reduce the impact of operations on the environment. Expenditures related to current environmental requirements are not expected to have a material effect on the financial position or earnings of the Company. However, there can be no assurance that certain events will not occur that will cause expenditures related to the environment to be significant and have a material adverse effect on the Company's financial condition or results of operations. Such events could include, but not be limited to, additional environmental regulation or the occurrence of an adverse event at one of the Company's locations.

As a large food company, there are health, environmental, and social issues that go beyond short-term profitability that Management believes must shape its business if the Company is to realize a sustainable future. On the environmental front, the Company is undertaking multiple initiatives, in conjunction with key customers, to reduce packaging, as well as track greenhouse gas emissions and the mileage it takes to produce and deliver food products. Increasingly, sound environmental practices are becoming a key component of maintaining a competitive advantage.

As part of its sustainability initiatives, in 2013 the Company achieved LEED® Gold certification for its new bakery in Hamilton, Ontario, which opened in 2011. This adds to the LEED® Gold certification already received at its office and product development centre in Mississauga, Ontario. LEED® stands for Leadership in Energy and Environmental Design and is widely recognized as a green building standard. The Company is also pursuing LEED® certification for its new meat processing plant in Hamilton, Ontario. Construction for this plant began in 2012 and is expected to be fully commissioned in 2014, at which time the LEED® verification process is expected to begin. The Company approved a set of metrics for measuring progress on sustainability for key focus areas such as energy and water consumption reduction, greenhouse gas management, manufacturing waste reduction and sustainable packaging. These metrics are focused on achieving a set of medium and long term environmental sustainability targets that were also approved in 2013.

## RISK FACTORS

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

### Risks Associated with the Acquisition of the Company's interest in Canada Bread by Grupo Bimbo

On February 12, 2014, and as previously noted, the Company announced that Grupo Bimbo had agreed to acquire all of the issued and outstanding common shares of Canada Bread pursuant to the Arrangement Agreement. The transaction is expected to close in the second quarter of 2014. The Arrangement, however, is subject to the requirement to obtain various approvals and the satisfaction of certain closing conditions. There can be no assurance these approvals will be obtained or that these conditions will be satisfied within the time frame contemplated or at all. If these approvals are not obtained in a timely manner, or at all, or the conditions to closing are not satisfied, the Arrangement may not proceed. If the Arrangement does not proceed, the Company's business, results of operations, and share price may be materially and adversely affected.

If the Arrangement does proceed and Maple Leaf disposes of its interest in Canada Bread, Maple Leaf's business will thereafter be concentrated solely in the protein business, which may increase the volatility of earnings. Loss of the bakery business may impact certain synergies that exist between the prepared meats business and the bakery business, including purchasing power for raw materials. Each of these factors may have a material adverse effect on the Company's financial condition and results of operations.

Furthermore, although the board of directors has determined the mechanism by which the proceeds of the disposition will be returned to shareholders, if any, events subsequent to the date hereof may affect the use of proceeds by Maple Leaf including the timing in respect thereof. There can be no assurance that upon repayment of debt and investment in the prepared meats business that there will be any proceeds left for distribution to shareholders. This may have a material adverse effect on the Company's share price.

### Risks Related to the Business of Maple Leaf Foods

*Implementing the Plan*

The Plan announced in October 2010 is complex, lengthy, and transformational. Although the Company has experience implementing complex projects and plans, there can be no assurance that the Company will be successful in executing the Plan and achieving its expected benefits. As with any complex project or plan, events will transpire outside the Company's control that were not anticipated or expected when the Plan was launched. These include: changes in the competitive landscape; changes in foreign exchange rates; and other unforeseen events. If the Plan is unsuccessful or implemented or executed incorrectly, or if the benefits of the plan are not fully achieved, it could have a material adverse effect on the Company's financial condition and results of operations.

In particular, the Plan entails the construction of two large-scale facilities, one of which is in commercial production while the other is in progress. The Company has also reconfigured its distribution systems into a few larger distribution centres. The construction and start-up of new plants presents a number of risks including: errors in the assessment of labour rates and other operating costs; failure to achieve operating cost efficiencies; cost overruns in construction; delays in completion of the project; disruptions to service levels during the construction period; loss of reputation with customers and adverse impacts on the quality of the Company's products; loss of volumes in realignment of product lines; duplicate costs associated with operating a parallel supply chain until legacy facilities are closed down; and competitive pressures resulting in loss of sales during transition periods. As a result of these initiatives, the Company's operations will be more concentrated in fewer facilities resulting in the risk that any unforeseen disruption in such facilities could have a greater effect on the operations of the Company as a whole. In addition, as part of the Plan, the Company has announced the closure of some existing plants. It is likely that additional existing plants will also be closed. The closure of existing plants carries risks such as inaccurate assessments of the costs of decommissioning, disruptions in service during closure, and errors in the estimates of residual value of the assets. In addition, to facilitate the Plan, the Company may decide to divest portions of its business. There is no guarantee that any such divestiture will not result in a material impact to the Company's operations.

Altogether, these risks could result in a material adverse impact to the Company's financial condition and results of operations.

The Plan requires strategic capital expenditures (over and above base or maintenance capital), which are currently estimated to be approximately $140 million in 2014. While the Company believes it has the underlying cash flow and balance sheet strength required to support the capital investments with no incremental requirement for new capital from shareholders, there can be no assurance that the capital required to implement the plan will be available as and when required or on commercially reasonable or acceptable terms.

### *Leverage and Availability of Capital*

The ability of the Company to secure short-term and long-term financing on terms acceptable to the Company is critical to grow and fund its business and manage its liquidity. In particular, at various stages in the implementation of the Plan, the Company has required, and will continue to require, significant amounts of capital. The ability to secure such additional capital on commercially reasonable and acceptable terms will, in part, determine the success or failure of the Plan. The Company is subject to certain covenants under its principal banking arrangements currently in place. There can be no assurance that ratios under the Company's debt facilities will not be exceeded, which could result in an acceleration of all of the Company's debt and the requirement that replacement funding be secured. The failure or inability of the Company to secure short-term and long-term financing in the future on terms that are commercially reasonable and acceptable to the Company could have a significant impact on the Company's financial condition and results of operations. In addition, a downgrade in the Company's credit quality would likely increase the Company's borrowing costs for both short-term and long-term debt, which could have a material adverse impact on the Company's financial condition and results of operations. Even if the Company does successfully raise additional capital when needed, if it issues equity securities, investors will be diluted, and if it raises additional debt, it will be further leveraged and could be subject to restrictive covenants, such as restrictions on paying dividends or pledge of assets.

### *Systems Conversion, Standardization and Common Systems*

The Company regularly implements process improvement initiatives to simplify and harmonize its systems and processes to optimize performance and reduce the risk of errors in financial reporting. The Company has largely completed an initiative to replace its information systems with SAP, an integrated enterprise-wide computing system. However, there cannot be any guarantee that the implementation will improve current processes or operating results or reduce the risk of errors in financial reporting. Any of these failures could have a material adverse impact on the Company's financial condition and results of operations.

### *Food Safety and Consumer Health*

The Company is subject to risks that affect the food industry in general, including risks posed by food spoilage, accidental contamination, product tampering, consumer product liability, and the potential costs and disruptions of a product recall. The Company's products are susceptible to contamination by disease-producing organisms, or pathogens, such as *E. Coli, Salmonella* and *Listeria*. There is a risk that these pathogens, as a result of food processing, could be present in the Company's products. The Company actively manages these risks by maintaining strict and rigorous controls and processes in its manufacturing facilities and distribution systems and by maintaining prudent levels of insurance. However, the Company cannot assure that such systems, even when working effectively, will eliminate the risks related to food safety. The Company could be required to recall certain of its products in the event of contamination or adverse test results, similar to the recall in 2008, or as precautionary measures, similar to other recalls initiated in the past. There is also a risk that not all of the product subject to the recall will be properly identified, or that the recall will not be successful or not be enacted in a timely manner. Any product contamination could subject the Company to product liability claims, adverse publicity and government scrutiny, investigation or intervention, resulting in increased costs and decreased sales. Any of these events could have a material adverse impact on the Company's financial condition and results of operations.

### *Business Acquisitions, Divestitures, and Capital Expansion Projects*

While the Company's focus has been integration of existing operations and supply chain optimization, the Company continues to review opportunities for strategic growth through acquisitions. These acquisitions may involve large transactions or realignment of existing investments, and present financial, managerial and operational challenges, which, if not successfully overcome, may reduce the Company's profitability. These risks include: the diversion of Management's attention from existing core businesses; difficulties integrating or separating personnel, financial, and other systems; adverse effects on existing business relationships with suppliers and customers; inaccurate estimates of the rate of return on acquisitions or investments; inaccurate estimates of fair value made in

the accounting for acquisitions and amortization of acquired intangible assets, which would reduce future reported earnings; potential loss of customers or key employees of acquired businesses; and indemnities and potential disputes with the buyers or sellers. Any of these items could materially adversely affect the Company's financial condition and results of operations.

The Company may, from time to time, determine that certain aspects of its operations are not required to be owned to support its core business operations and may seek to sell an operation if it believes it can realize sufficient value from its sale. The sale may divert Management's attention from existing core businesses during the sale process, create difficulties in separating personnel, financial, and other systems, and cause adverse effects on existing business relationships with suppliers and customers. Any of these items could materially adversely affect the Company's financial condition and result in a reduction of earnings beyond the earnings of any operation to be sold. During 2013, the company sold its Rothsay by-products recycling business, its Olivieri fresh pasta business, as well as its potato processing operations. The execution of these transactions did not have a material impact on the Company's earnings beyond the earnings of the operations and businesses that were sold.

*Pension Plan Assets and Liabilities*

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

*Hog and Pork Market Cyclicality and Supply*

The Company's results of operations and financial condition are partially dependent upon the cost and supply of hogs as well as the selling prices for fresh meat products; both of which are influenced by constantly changing market forces of supply and demand over which the Company has little or no control. These prices, for the most part, are denominated in or related to U.S. dollars, which adds further variability due to fluctuations in exchange rates. The North American primary pork processing markets are highly competitive, with major and regional companies competing in each market. The market prices for pork products regularly experience periods of supply and demand imbalance and are sensitive to changes in industry processing capacity. Other factors that can influence the supply and market price of live hogs include: fluctuations in the size of herds maintained by North American hog suppliers; environmental and conservation regulations; economic conditions; the relative cost of feed for hogs; weather; and livestock diseases. There can be no assurance that all or part of any such increased costs experienced by the Company from time to time can be passed along to consumers of the Company's products directly or in a timely manner. The factors described above may also impact the supply of hogs available for processing at the Company's pork processing plants by negatively impacting the financial strength of the various independent farming operations upon which the Company relies to meet its requirements for hogs.

*Livestock*

The Company's operations and the demand for the Company's products can be significantly affected by outbreaks of disease among livestock, or attributed to livestock whether it occurs within the Company's production operations or in the operations of third parties.

The Company monitors herd health status and has strict bio-security procedures and employee training programs throughout its hog production system. However, there is no guarantee these processes will not fail. In addition, not all livestock procured by the Company may be subject to these processes, as the majority of hog and poultry livestock processed by the Company is purchased from independent third parties. In addition to risks associated with maintaining the health of the Company's livestock, any outbreak of disease elsewhere in the world could reduce consumer confidence in the meat products affected by the particular disease and generate adverse publicity. Accordingly, there can be no assurance that an outbreak of animal disease in Canada or elsewhere will not have a material adverse effect on the Company's financial condition and results of operations.

Maple Leaf Foods has developed a comprehensive internal contingency plan for dealing with animal disease occurrences and/or a more broad-based pandemic. It has taken steps to support the Canadian government in enhancing both the country's prevention measures and

preparedness plans. There can be no assurance, however, that these prevention measures or plans will be successful in minimizing or containing the impact of an outbreak of animal disease and that such outbreak will not have a material adverse effect on the Company's financial condition and results of operations.

### *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, British pounds, and Japanese yen). In periods when the Canadian dollar has appreciated both rapidly and materially against these foreign currencies, revenues linked to U.S. dollars or Japanese yen are immediately reduced, while the Company's ability to change prices or realize natural hedges may lag the immediate currency change. The effect of such sudden changes in exchange rates can have a significant immediate impact on the Company's earnings. Due to the diversity of the Company's operations, normal fluctuations in other currencies do not generally have a material impact on the Company's profitability in the short term due to either natural hedges and offsetting currency exposures (for example, when revenues and costs are both linked to other currencies) or the ability in the near term to change prices of its products to offset adverse currency movements. However, as the Company competes in international markets, and faces competition in its domestic markets from U.S. competitors, significant changes in the Canadian to U.S. dollar exchange rate can have, and have had, significant effects on the Company's relative competitiveness in its domestic and international markets, which can have, and have had, significant effects on the Company's financial condition and results of operations. Financial results from operations in the U.K. and U.S. are recorded in the British pound and U.S. dollar respectively; however, consolidated financial results are reported in Canadian dollars. As a result, earnings and financial position are affected by foreign exchange fluctuations through translation risk. Translation risk is the risk that financial statements for a particular period, or at a certain date, depend on the prevailing exchange rate of the British pound and U.S. dollar against the Canadian dollar. Accordingly, these exchange rate fluctuations could have a material adverse effect on the Company's financial condition and results of operations.

### *Commodities*

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

### *International Trade*

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

### *Regulation*

The Company's operations are subject to extensive regulation by government agencies in the countries in which it operates, including: the Canadian Food Inspection Agency; the Ministry of Agriculture in Canada; provincial Ministries of the Environment in Canada; and the United States Department of Agriculture. These agencies regulate the processing, packaging, storage, distribution, advertising, and labelling of the Company's products, including food safety standards. The Company's manufacturing facilities and products are subject to inspection by federal, provincial, and local authorities. The Company strives to maintain compliance with all laws and regulations and maintains all permits and licenses relating to its operations. Nevertheless, there can be no assurance that the Company is in compliance with such laws and regulations, has all necessary permits and licenses, and will be able to comply with such laws and regulations, permits and licenses in the future. Failure by the Company to comply with applicable laws and regulations and permits and licenses could subject the

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

### *Legal Matters*

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

### *Consumer Trends*

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

### *Environmental Regulation*

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

### *Consolidating Customer Environment*

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

### *Competitive Industry Environment*

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

material adverse effect on the Company's financial condition and results of operations.

*Employment Matters*

The Company and its subsidiaries have approximately 18,000 full-time and part-time employees, which include salaried and union employees, many of whom are covered by collective agreements. These employees are located in various jurisdictions around the world, each such jurisdiction having differing employment laws and practices and differing liabilities for employment violations, which may result in punitive or extraordinary damages. While the Company maintains systems and procedures to comply with the applicable requirements, there is a risk that failures or lapses by individual managers could result in a violation or cause of action that could have a material adverse effect on the Company's financial condition and results of operations. Furthermore, if a collective agreement covering a significant number of employees or involving certain key employees were to expire or otherwise cease to have effect leading to a work stoppage, there can be no assurance that such work stoppage would not have a material adverse effect on the Company's financial condition and results of operations. The Company's success is also dependent on its ability to recruit and retain qualified personnel. The loss of one or more key personnel could have a material adverse effect on the Company's financial condition and results of operations.

*Direct Store Delivery Disruptions*

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

*Product Pricing*

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

*Supply Chain Management*

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

*Strategic Risk Management*

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

## CRITICAL ACCOUNTING ESTIMATES

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

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

Judgements included in the financial statements are decisions made by Management, based on an analysis of relevant information available at the time the decision is made. Judgements relate to the application of accounting policies and decisions related to the measurement, recognition, and disclosure of financial amounts.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies, that have the most significant effects on the amounts recognized in the consolidated financial statements, are included both below and in the statement notes relating to items subject to significant estimation uncertainty and critical judgements.

### Long-Lived Assets Valuation

The Company performs impairment testing annually for goodwill and intangible assets and, when circumstances

indicate that there may be impairment, for other long-lived assets. Management judgement is involved in determining if there are circumstances indicating that testing for impairment is required, and in identifying their Cash Generating Units ("CGUs") for the purpose of impairment testing.

The Company assesses impairment by comparing the recoverable amount of a long-lived asset, CGU, or CGU group to its carrying value. The recoverable amount is defined as the higher of: (i) value in use; or (ii) fair value less cost to sell. The determination of the recoverable amount involves Management judgement and estimation.

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

## Measurement of Fair Values

A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. When the measurement of fair values cannot be determined, based on quoted prices in active markets, fair value is measured using valuation techniques and models. The inputs to these models are taken from observable markets where possible but, where this is not feasible, a degree of judgement is required in establishing fair values. Changes in assumptions about these inputs to these models could affect the reported fair value of the Company's financial and non-financial assets and liabilities.

When measuring fair value of an asset or liability, the Company uses market observable data as far as possible. To the extent that these estimates differ from those realized, the measured asset or liability, net earnings, and/or comprehensive income (loss) will be affected in future periods.

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed in Notes 6, 9, 18, and 24 of the Company's audited consolidated financial statements.

## Nature of Interests in Other Entities

Management applies significant judgement in assessing the nature of its interest in an unconsolidated structured entity. The Company does not hold any equity interest in the structured entity and based on the terms of the agreements under which the entity is established, the Company receives none of the returns related to their operations and is exposed to limited recourse with respect to losses.

Further information about the unconsolidated structured entity is disclosed in Note 25 of the Company's audited consolidated financial statements.

## Valuation of Inventory

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

## Biological Assets

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

## Trade Merchandise Allowances and Other Trade Discounts

The Company provides for estimated payments to customers based on various trade programs and contracts that often include payments that are contingent upon attainment of specified sales volumes. Significant estimates used to determine these liabilities include the projected level of sales volume for the relevant period and customer contracted rates for allowances, discounts, and rebates. These arrangements are complex and there are a significant number of customers and products affected. Management has systems and processes in place to estimate and value

these obligations. To the extent that payments on trade discounts differ from estimates of the related liability, accrued liabilities, net earnings, and comprehensive income (loss) will be affected in future periods.

## Employee Benefit Plans

The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected unit credit method prorated on service, and Management's best estimate of salary escalation and mortality rates. 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 and service costs. Management employs external experts to advise the Company when deciding upon the appropriate estimates to use to value employee benefit plan obligations and expenses. To the extent that these estimates differ from those realized, employee benefit plan liabilities and comprehensive income (loss) will be affected in future periods.

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

| | **2013** | 2012 |
|---|---|---|
| Weighted average discount rate used to calculate net benefit plan expense | **3.75%** | 4.50% |
| Weighted average discount rate used to calculate year end benefit obligation | **4.50%** | 3.75% |
| Rate of compensation increase | **3.50%** | 3.50% |
| Medical cost trend rates | **5.50%** | 6.00% |

Information about the sensitivity of the plan obligations to changes in assumptions is presented below:

| *($ thousands)* | | | **Increase (decrease) in defined benefit obligation** | | |
|---|---|---|---|---|---|
| **Actuarial Assumption** | | **Sensitivity** | **Total pensions** | **Other post-retirement benefits** | **Total** |
| Period end Discount rate | 4.50% | 0.25% decrease | $ 37,353 | $ 1,481 | $ 38,834 |
| | | 0.25% increase | $ (36,205) | $ (1,444) | $ (37,649) |
| Rate of salary increase | 3.50% | 0.50% increase | $ 3,452 | N/A | $ 3,452 |
| Mortality | UP 94 Generational Mortality Table | Increase of 1 year in expected lifespan of plan participants | $ 37,058 | $ 1,829 | $ 38,887 |

## Income Taxes

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

## Provisions

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

## Stock-Based Compensation

The Company uses estimates including, but not limited to, estimates of forfeitures, share price volatility, dividends, expected life of the award, risk-free interest rates, and Company performance in the calculation of the liability and expenses for certain stock-based

incentive plans. These estimates are based on previous experience and may change throughout the life of an incentive plan. Such changes could impact the carrying value of contributed surplus, liabilities, net earnings, and comprehensive income (loss).

Some of the Company's stock-based payment plans are settable in either cash or equity instruments at the option of the Company. Management uses judgement in determining the appropriate accounting treatment for these plans, based on expectations and historical settlement decisions. Changes to accounting treatment based on Management's judgement may impact contributed surplus, liabilities and net earnings and comprehensive income (loss).

### Depreciation and Amortization

The Company's property and equipment and definite life intangible assets are depreciated and amortized on a straight-line basis, taking into account the estimated useful lives of the assets and residual values. Changes to these estimates may affect the carrying value of these assets, inventories, net earnings and comprehensive income (loss) in future periods.

## ACCOUNTING STANDARDS ADOPTED DURING THE PERIOD

### Financial Assets and Liabilities

During the year ended December 31, 2013, the Company adopted certain amendments to IFRS 7 *Financial Instruments*: Disclosures on a retrospective basis. These amendments contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position and subject to master netting arrangements or similar arrangements. As the Company is not offsetting financial instruments and does not have relevant offsetting arrangements, the retrospective adoption of these amendments to IFRS 7 did not have any impact on the disclosures of the Company.

### Consolidated Financial Statements

During the year ended December 31, 2013, the Company adopted IFRS 10 *Consolidated Financial Statements* on a retrospective basis. IFRS 10 replaces portions of IAS 27 *Consolidated and Separate Financial Statements* that addresses consolidation, and supersedes SIC-12 *Consolidation – Special Purpose Entities ("SPE")* in its entirety. IFRS 10 provides a single model to be applied in the analysis of control of all investees, including entities that currently are SPEs in the scope of SIC-12. In addition, the consolidation procedures specified in IFRS 10 are carried forward, substantially unmodified, from IAS 27. The adoption of IFRS 10 did not have any impact on the Company's financial statements.

### Joint Arrangements

During the year ended December 31, 2013, the Company adopted IFRS 11 *Joint Arrangements*. IFRS 11 supersedes IAS 31 *Interest in Joint Ventures* and SIC-13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. Through an assessment of the rights and obligations in an arrangement, IFRS 11 establishes principles to determine the type of joint arrangement, which are classified as either joint operations or joint ventures, and provides guidance for financial reporting activities required by the entities that have an interest in arrangements which are controlled jointly. Investments in joint ventures are required to be accounted for using the equity method. The adoption of IFRS 11 did not have any impact on the Company.

### Disclosure of Interests in Other Entities

During the year ended December 31, 2013, the Company adopted IFRS 12 *Disclosure of Interests in Other Entities*. IFRS 12 contains disclosure requirements for companies that have interests in subsidiaries, joint arrangements, associates, and unconsolidated structured entities. Additional disclosures required as a result of the adoption of IFRS 12 are included in Note 25 of the audited consolidated financial statements.

### Fair Value Measurement

During the year ended December 31, 2013, the Company adopted IFRS 13 *Fair Value Measurement* on a prospective basis. IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. The standard also establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. The adoption of IFRS 13 did not have a material impact on the fair value measurements carried out by the Company. Additional disclosures required as a result of the adoption of IFRS 13 are included in Notes 6, 9, 10, and 18 of the audited consolidated financial statements.

### Presentation of Financial Statements

During the year ended December 31, 2013, the Company adopted amendments to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income* on a retrospective basis. The amendment requires that a company present separately the items of other comprehensive income that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. Additional disclosures required as a result of the adoption of IAS 1 are presented in the consolidated statements of comprehensive income and had no impact on the financial results of the Company.

### Employee Benefits

During the year ended December 31, 2013, the Company adopted the revised IAS 19 *Employee Benefits* on a retrospective basis with restatement. The revised standard requires that the calculation of expected return on assets and interest cost be replaced with a net interest charge calculated based on the discount rate as at the beginning of the year multiplied by the net position of the plan. The revised standard also requires that administrative fees of the plan be expensed by the Company as incurred rather than included in the expected return. The impact of the adoption of revised IAS 19 is further explained in Note 32 and the required additional disclosures are included in Note 10. The standard also has other amendments clarifying the timing of recognition of termination benefits, the adoption of which had no impact on the Company.

### Recoverable Amount Disclosures for Non-Financial Assets

During the year ended December 31, 2013, the Company adopted amendments to IAS 36 *Impairment of Assets* on a retrospective basis. The amendment reverses the unintended requirement in IFRS 13 *Fair Value Measurement* to disclose the recoverable amounts of all cash generating units to which significant goodwill or indefinite-life intangible assets have been allocated. Under the amendments, the recoverable amount is required to be disclosed only when an impairment loss has been recognized or reversed. The adoption of these amendments did not have a material impact to the disclosures made by the Company.

## RECENT ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED

### Financial Assets and Liabilities

In December 2011, the IASB published amendments to IAS 32 *Financial Instruments: Presentation*. The effective date for the amendments to IAS 32 is annual periods beginning on or after January 1, 2014. These amendments are to be applied retrospectively. The amendments to IAS 32 clarify when an entity has a legally enforceable right to off-set as well as clarify, when a settlement mechanism provides for net settlement, or gross settlement that is equivalent to net settlement. The Company intends to adopt the amendments to IAS 32 in its financial statements for the annual period beginning January 1, 2014. The impact of the adoption of amendments to IAS 32 is not expected to be material to the financial statements.

### Levies

In May 2013, the IASB issued IFRIC 21 *Levies*. This IFRIC is effective for annual periods commencing on or after January 1, 2014 and is to be applied retrospectively. The IFRIC is applicable to all levies other than outflows that are within the scope of other standards and fines or other penalties for breaches of legislation. The interpretation clarifies that an entity recognises a liability for a levy when the activity that triggers payments, as identified by the relevant legislation, occurs. The Company intends to adopt IFRIC 21 in its financial statements for the annual period beginning January 1, 2014. The Company is currently assessing the impact of the adoption of IFRIC 21.

### Employee Benefits

In November 2013, the IASB published amendments to IAS 19 *Employee Benefits*. The effective date for these amendments is annual periods beginning on or after July 1, 2014. These amendments are to be applied retrospectively. IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. IAS 19 requires such contributions that are linked to service to be attributed to periods of service as a negative benefit. The amendments to IAS 19 provide a practical expedient for simplifying the accounting in certain situations. If the amount of contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the period's service. The Company intends to adopt the amendments to IAS 19 in its financial statements for the annual period beginning January 1, 2015. The extent of the impact of the adoption of amendments to IAS 19 has not yet been determined.

### Financial Instruments – Recognition and Measurement

In November 2009, the IASB issued IFRS 9, *Financial Instruments* (IFRS 9 (2009)) and in October 2010, the IASB published amendments to IFRS 9 (IFRS 9 (2010)). IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. IFRS 9 (2010) introduces additional changes relating to financial liabilities. In November 2013, the IASB published amendments to IFRS 9 *Financial Instruments*, IFRS 7 Financial Instruments: Disclosures, and IAS 39 *Financial Instruments: Disclosures* (collectively, "IFRS 9 (2013)") to include a new general hedge accounting model, and allow the adoption of the treatment of fair value changes due to a Company's own credit risk on financial liabilities designated at fair value through profit or loss. Special transitional requirements have been set for the

application of the new general hedging model. This amendment removes the January 1, 2015, effective date. The new mandatory effective date is expected to be determined once the classification and measurement and impairment phases of IFRS 9 are finalized. Although no effective date has been issued for this standard, early adoption is permitted. The Company does not intend to adopt IFRS 9 (2009), IFRS 9 (2010) and IFRS 9 (2013) in its financial statements for the annual period beginning on January 1, 2014. Once the IASB has issued an effective date for the standard, the Company will determine a date of adoption. The extent of the impact of adoption of IFRS 9 (2009), IFRS 9 (2010) and IFRS 9 (2013) has not yet been determined.

### Novation of Derivatives and Continuation of Hedge Accounting

In June 2013, the IASB issued "Novation of Derivatives and Continuation of Hedge Accounting" (Amendments to IAS 39 *Financial Instruments: Recognition and Measurement*). The amendments add a limited exception to IAS 39, to provide relief from discontinuing an existing hedging relationship when novation that was not contemplated in the original hedging documentation meets specific criteria. The amendments are effective for annual periods beginning on or after January 1, 2014. The Company intends to adopt the amendments in its financial statements for the annual period beginning January 1, 2014. The extent of the impact of the adoption of the amendments has not yet been determined.

### Annual Improvements to IFRS (2010 – 2012) and (2011 – 2013) cycles

In December 2013, the IASB issued narrow-scope amendments to a total of nine standards as part of its annual improvements process. Amendments were made to clarify items including the definition of vesting conditions in IFRS 2 *Share-Based Payment, disclosures* on the aggregation of operating segments in IFRS 8 Operating Segments, measurement of short-term receivables and payables under IFRS 13 *Fair Value Measurement,* definition of related party in IAS 24 *Related Party Disclosures* and Other Amendments. Special transitional requirements have been set for certain of these amendments. Most amendments will apply prospectively for annual periods beginning on or after July 1, 2014, earlier application is permitted. The Company intends to adopt these amendments in its financial statements for the annual period beginning January 1, 2015. The extent of the impact of adoption of the amendments has not yet been determined.

## DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

The Company's Chief Executive Officer and Chief Financial Officer, have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Company's internal control over financial reporting and disclosure controls and procedures as at December 31, 2013, and have concluded that such controls and procedures are effective. There have been no changes in the Company's internal control over financial reporting that occurred during the period beginning on January 1, 2013, and ended on December 31, 2013, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. The Company utilized the Committee of Sponsoring original internal control framework ("COSO 1992").

On January 1, 2014, the Company adopted the Committee of Sponsoring Organizations new internal control framework ("COSO 2013"), which is not expected to have a material impact on the Company's internal controls over financial reporting and disclosure controls and procedures.

## NON-IFRS FINANCIAL MEASURES

The Company uses the following non-IFRS measures: Adjusted Operating Earnings, Adjusted Earnings per Share, Adjusted EBITDA, Net Debt and Return on Net Assets ("RONA"). Management believes that these non-IFRS measures provide useful information to investors in measuring the financial performance of the Company for the reasons outlined below. These measures do not have a standardized meaning prescribed by IFRS and therefore they may not be comparable to similarly titled

measures presented by other publicly traded companies and should not be construed as an alternative to other financial measures determined in accordance with IFRS.

## Adjusted Operating Earnings

Adjusted Operating Earnings, a non-IFRS measure, is used by Management to evaluate financial operating results. It is defined as earnings before income taxes adjusted for items that are not considered representative of on-going operational activities of the business and items where the economic impact of the transactions will be reflected in earnings in future periods when the underlying asset is sold or transferred. The table below provides a reconciliation of net earnings as reported under IFRS in the audited consolidated statements of earnings to Adjusted Operating Earnings for the years then ended, as indicated below. Management believes that this basis is the most appropriate on which to evaluate operating results, as they are representative of the on-going operations of the Company.

| | December 31, 2013 | | | | |
|---|---|---|---|---|---|
| *($ thousands)* | **Meat Products Group** | **Agribusiness Group** [i] | **Bakery Products Group** [i] | **Unallocated costs** | **Consolidated** |
| Net earnings (loss) from continuing operations | | | | | **$ (58,543)** |
| Income taxes | | | | | **(22,842)** |
| **Earnings (loss) before income taxes from continuing operations** | | | | | **$ (81,385)** |
| Interest expense | | | | | **69,842** |
| Change in the fair value of non-designated interest rate swaps | | | | | **(2,022)** |
| Other (income) expense | **(47,745)** | **(1,036)** | **(6,255)** | **(22,959)** | **(77,995)** |
| Restructuring and other related costs | **73,466** | **–** | **17,953** | **1,745** | **93,164** |
| **Earnings (loss) from Continuing Operations** [i] | **$ (86,192)** | **$ (38,258)** | **$ 113,699** | **$ 12,355** | **$ 1,604** |
| Decrease (increase) in fair value of biological assets [ii] | **–** | **–** | **–** | **(13,540)** | **(13,540)** |
| Unrealized (gains) / losses on commodity futures contracts [iii] | **–** | **–** | **–** | **(315)** | **(315)** |
| **Adjusted Operating Earnings** | **$ (86,192)** | **$ (38,258)** | **$ 113,699** | **$ (1,500)** | **$ (12,251)** |

(i) *Figures exclude the results of the Rothsay and Olivieri businesses, which are reported as discontinued operations. Refer to Note 22 of the Company's 2013 audited consolidated financial statements.*

(ii) *Refer to Note 6 of the Company's 2013 audited consolidated financial statements for further details regarding biological assets.*

(iii) *Unrealized gains/losses on commodity futures contracts are reported within cost of goods sold on the Company's 2013 audited consolidated financial statements.*

| | December 31, 2012 [i] | | | | |
|---|---|---|---|---|---|
| *($ thousands)* | **Meat Products Group** | **Agribusiness Group** [ii] | **Bakery Products Group** [ii] | **Unallocated costs** | **Consolidated** |
| Net earnings (loss) from continuing operations | | | | | $ 41,967 |
| Income taxes | | | | | 20,005 |
| **Earnings (loss) before income taxes from continuing operations** | | | | | $ 61,972 |
| Interest expense | | | | | 71,707 |
| Change in the fair value of non-designated interest rate swaps | | | | | (7,297) |
| Other (income) expense | (2,323) | (4,294) | (1,635) | (388) | (8,640) |
| Restructuring and other related costs | 36,438 | – | 11,073 | – | 47,511 |
| **Earnings (loss) from Continuing Operations** [ii] | $ 98,367 | $ (15,453) | $ 96,410 | $ (14,071) | $ 165,253 |
| Decrease (increase) in fair value of biological assets [iii] | – | – | – | 3,436 | 3,436 |
| Unrealized (gains) / losses on commodity futures contracts [iv] | – | – | – | 3,330 | 3,330 |
| **Adjusted Operating Earnings** | $ 98,367 | $ (15,453) | $ 96,410 | $ (7,305) | $ 172,019 |

(i) *2012 figures have been restated for the impact of adopting the revised International Accounting Standard 19 Employee Benefits ("IAS 19"), as disclosed in Note 32 of the Company's 2013 audited consolidated financial statements.*

(ii) *Figures exclude the results of the Rothsay and Olivieri businesses, which are reported as discontinued operations. Refer to Note 22 of the Company's 2013 audited consolidated financial statements.*

(iii) *Refer to Note 6 of the Company's 2013 audited consolidated financial statements for further details regarding biological assets.*

(iv) *Unrealized gains/losses on commodity futures contracts are reported within cost of goods sold on the Company's 2013 audited consolidated financial statements.*

| | December 31, 2011 (i) | | | | |
|---|---|---|---|---|---|
| *($ thousands)* | **Meat Products Group** | **Agribusiness Group (ii)** | **Bakery Products Group (ii)** | **Unallocated costs** | **Consolidated** |
| Net earnings (loss) from continuing operations | | | | | $ (7,258) |
| Income taxes | | | | | (10,733) |
| **Earnings (loss) before income taxes from continuing operations** | | | | | $ (17,990) |
| Interest expense | | | | | 70,736 |
| Change in the fair value of non-designated interest rate swaps | | | | | 10,960 |
| Other (income) expense | (8,547) | (178) | (409) | (413) | (9,547) |
| Restructuring and other related costs | 31,130 | – | 46,338 | 2,309 | 79,777 |
| **Earnings (loss) from Continuing Operations (ii)** | $ 70,710 | $ (5,664) | $ 70,096 | $ (1,206) | $ 133,936 |
| Decrease (increase) in fair value of biological assets (iii) | – | – | – | 1,027 | 1,027 |
| Unrealized (gains) / losses on commodity futures contracts (iv) | – | – | – | (4,981) | (4,981) |
| **Adjusted Operating Earnings** | $ 70,710 | $ (5,664) | $ 70,096 | $ (5,160) | $ 129,982 |

(i) *2011 figures have been restated for the impact of adopting International Accounting Standard 19 Employee Benefits ("IAS 19"). Refer to Note 32 of the audited consolidated financial statements for information regarding implementation of this accounting standard.*

(ii) *Figures exclude the results of the Rothsay and Olivieri businesses, which are reported as discontinued operations. Refer to Note 22 of the Company's 2013 audited consolidated financial statements.*

(iii) *Refer to Note 6 of the Company's 2013 audited consolidated financial statements for further details regarding biological assets.*

(iv) *Unrealized gains/losses on commodity futures contracts are reported within cost of goods sold.*

## Adjusted Earnings per Share

Adjusted Earnings per Share, a non-IFRS measure, is used by Management to evaluate on-going financial operating results. It is defined as basic earnings per share attributable to common shareholders. It is adjusted for items that are not considered representative of on-going operational activities of the business and items where the economic impact of the transactions will be reflected in earnings in future periods when the underlying asset is sold or transferred. The table below provides a reconciliation of basic earnings per share as reported under IFRS in the audited consolidated statements of earnings for the years then ended to Adjusted Earnings per Share. Management believes this basis is the most appropriate on which to evaluate financial results as they are representative of the on-going operations of the Company.

| | December 31, | | |
|---|---|---|---|
| *($ per share)* | **2013** | 2012 (i) | 2011 (i) |
| Basic earnings (loss) per share from continuing operations | **$ (0.48)** | $ 0.25 | $ (0.08) |
| Restructuring and other related costs (ii) | **0.49** | 0.25 | 0.41 |
| Items included in other income not considered representative of on-going operations (iii) | **(0.43)** | (0.02) | (0.02) |
| Change in the fair value of non-designated interest rate swaps (iv) | **(0.01)** | (0.04) | 0.06 |
| Change in the fair value of unrealized (gains) losses on commodity futures contracts (iv) | **–** | 0.02 | (0.03) |
| Change in the fair value of biological assets (iv) | **(0.07)** | 0.02 | 0.01 |
| **Adjusted Earnings per Share (v)** | **$ (0.51)** | $ 0.47 | $ 0.34 |

(i) *2012 and 2011 figures have been restated for the classification of the Rothsay and Olivieri businesses as a discontinued operation, as disclosed in Note 22 of the Company's audited consolidated financial statements, and have been restated for the impact of adopting the revised International Accounting Standard 19 Employee Benefits ("IAS 19"), as disclosed in Note 32 of the Company's audited consolidated financial statements.*

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

(iii) *Includes gains/losses associated with non-operational activities, including gains/losses related to restructuring activities, business combinations, discontinued operations, assets held for sale, and hedge ineffectiveness recognized in earnings, all net of tax.*

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

(v) *May not add due to rounding.*

## Adjusted Earnings Before Interest, Tax, Depreciation, and Amortization

Adjusted EBITDA is calculated as earnings from operations and before interest and income taxes plus depreciation and intangible asset amortization (adjusted for items that are not considered representative of on-going operational activities of the business) and items where the economic impact of the transactions will be reflected in earnings in future periods when the underlying asset is sold or transferred. The following table provides a reconciliation of net earnings as reported under IFRS in the audited consolidated statements of earnings for the years then ended to Adjusted EBITDA. Management believes Adjusted EBITDA is useful in assessing the performance of the Company's on-going operations and its ability to generate cash flows to fund its cash requirements, including the Company's capital investment program.

| | December 31, | | |
|---|---|---|---|
| *($ thousands)* | **2013** | 2012 [(i)] | 2011 [(i)] |
| Net earnings (loss) from continuing operations | **$ (58,543)** | $ 41,967 | $ (7,258) |
| Income taxes | **(22,842)** | 20,005 | (10,733) |
| Earnings (loss) before income taxes from continuing operations | **$ (81,385)** | $ 61,972 | $ (17,991) |
| Interest expense | **69,842** | 71,707 | 70,736 |
| Items included in other income not representative of on-going operations [(ii)] | **(70,626)** | (3,354) | (4,128) |
| Restructuring and other related costs | **93,164** | 47,511 | 79,777 |
| Change in the fair value of non-designated interest rate swaps, biological assets and unrealized (gains) losses on commodity futures contracts | **(15,878)** | (531) | 7,006 |
| Depreciation and amortization | **128,963** | 117,313 | 111,961 |
| **Adjusted EBITDA** | **$ 124,080** | $ 294,618 | $ 247,361 |

(i) *2012 and 2011 figures have been restated for the classification of the Rothsay and Olivieri businesses as a discontinued operation, as disclosed in Note 22 of the Company's audited consolidated financial statements, and have been restated for the impact of adopting the revised International Accounting Standard 19 Employee Benefits ("IAS 19"), as disclosed in Note 32 of the Company's audited consolidated financial statements.*

(ii) *Includes gains/losses associated with non-operational activities, including gains/losses related to restructuring activities, business combinations, discontinued operations, and assets held for sale.*

## Net Debt

The following table reconciles Net Debt used in net debt to Adjusted EBITDA ratios reflected on page 13 to amounts reported under IFRS in the audited consolidated balance sheets as at the years ended as indicated below.

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

| | December 31, | | |
|---|---|---|---|
| *($ thousands)* | **2013** | 2012 | 2011 |
| Bank indebtedness | **$ 4,408** | $ 48,243 | $ 36,404 |
| Current portion of long-term debt | **209,780** | 6,573 | 5,618 |
| Long-term debt | **744,212** | 1,206,945 | 941,956 |
| **Sub-total** | **$ 958,400** | $ 1,261,761 | $ 983,978 |
| Cash and cash equivalents | **(506,670)** | (90,414) | – |
| **Net Debt** | **$ 451,730** | $ 1,171,347 | $ 983,978 |

## Return on Net Assets

Return on Net Assets is calculated by dividing tax-effected earnings from operations (adjusted for items which are not considered representative of the underlying operations of the business) by average monthly net assets. Net assets are defined as total assets less cash, deferred tax assets and non-interest bearing liabilities. Management believes that RONA is an appropriate basis upon which to evaluate long-term financial performance.

# FORWARD-LOOKING STATEMENTS

This document contains, and the Company's oral and written public communications often contain, "forward-looking information" within the meaning of applicable securities law. These statements are based on current expectations, estimates, forecasts, and projections about the industries in which the Company operates, as well as beliefs and assumptions made by the Management of the Company. Such statements include, but are not limited to, statements with respect to objectives and goals, in addition to statements with respect to beliefs, plans, objectives, expectations, anticipations, estimates, and intentions. Specific forward-looking information in this document includes, but is not limited to, statements with respect to: the expected timing of the completion of the sale of shares of Canada Bread to Grupo Bimbo (there can be no assurances that any transaction will be completed); the anticipated benefits, timing, actions, costs, and investments associated with the Plan;

expectations regarding Net Debt to EBITDA ratios during the implementation of the Plan; expectations regarding the use of derivatives, futures and options; expectations regarding improving efficiencies; the expected use of cash balances; source of funds for ongoing business requirements; capital investments and debt repayment; expectations regarding acquisitions and divestitures; the timing of new plant openings and old plant closures, job losses and LEED® certification; expectations regarding the impact of new accounting standards; expectations regarding sufficiency of the allowance for uncollectible accounts; and expectations regarding pension plan performance and future pension plan liabilities and contributions. Words such as "expect", "anticipate", "intend", "may", "will", "plan", "believe", "seek", "estimate", and variations of such words and similar expressions are intended to identify such forward-looking information. These statements are not guarantees of future performance and involve assumptions and risks and uncertainties that are difficult to predict.

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

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

- risks associated with the acquisition of Canada Bread by Grupo Bimbo;
- risks associated with implementing and executing the Plan;
- risks associated with the availability of capital and the Company's outstanding indebtedness;
- risks associated with changes in the Company's systems and processes;
- risks posed by food contamination, consumer liability, and product recalls;
- risks associated with acquisitions, divestitures, and capital expansion projects;
- impact on pension expense and funding requirements of fluctuations in the market prices of fixed income and equity securities and changes in interest rates;
- cyclical nature of the cost and supply of hogs and the competitive nature of the pork market generally;
- risks related to the health status of livestock;
- impact of a pandemic on the Company's operations;
- the Company's exposure to currency exchange risks;
- ability of the Company to hedge against the effect of commodity price changes through the use of commodity futures and options;
- impact of changes in the market value of the biological assets and hedging instruments;
- impact of international events on commodity prices and the free flow of goods;
- risks posed by compliance with extensive government regulation;
- risks posed by litigation;
- impact of changes in consumer tastes and buying patterns;
- impact of extensive environmental regulation and potential environmental liabilities;
- risks associated with a consolidating retail environment;
- risks posed by competition;
- risks associated with complying with differing employment laws and practices globally, the potential for work stoppages due to non-renewal of collective agreements, and recruiting and retaining qualified personnel;
- risks associated with the Company's independent distributors;
- risks associated with pricing the Company's products;
- risks associated with managing the Company's supply chain; and

- risks associated with failing to identify and manage the strategic risks facing the Company.

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

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

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

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

Maple Leaf Foods Inc. is a leading Canadian value-added meat, meals, and bakery company committed to delivering quality food products to consumers around the world. Headquartered in Toronto, Canada, the Company employs approximately 18,000 people at its operations across Canada and in the United States, Europe and Asia.

# Independent Auditors' Report

To the Shareholders of Maple Leaf Foods Incorporated:

We have audited the accompanying consolidated financial statements of Maple Leaf Foods Inc., which are comprised of the consolidated balance sheets as at December 31, 2013, December 31, 2012, and January 1, 2012, the consolidated statements of earnings, comprehensive income, changes in total equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

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

### *Auditors' Responsibility*

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

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

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

### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Maple Leaf Foods Inc. as at December 31, 2013, December 31, 2012, and January 1, 2012, its consolidated financial performance, and its consolidated cash flows for the years then ended December 31, 2013, and December 31, 2012, in accordance with International Financial Reporting Standards.

Chartered Professional Accountants, Licensed Public Accountants
Toronto, Canada

February 26, 2014

# Consolidated Balance Sheets

| *(In thousands of Canadian dollars)* | **As at December 31, 2013** | As at December 31, 2012 | As at January 1, 2012 |
|---|---|---|---|
| | | *(Restated) (Note 32)* | *(Restated) (Note 32)* |
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | **$ 506,670** | $ 90,414 | $ – |
| Accounts receivable *(Note 4)* | **111,034** | 117,533 | 133,504 |
| Notes receivable *(Note 25)* | **115,514** | 124,457 | 123,545 |
| Inventories *(Note 5)* | **287,786** | 301,804 | 293,231 |
| Biological assets *(Note 6)* | **95,740** | 78,127 | 49,265 |
| Income taxes and other taxes recoverable | **43,300** | 41,527 | 43,789 |
| Assets held for sale *(Note 7)* | **5,206** | 37,087 | – |
| Prepaid expenses and other assets | **17,921** | 12,590 | 24,688 |
| | **$ 1,183,171** | $ 803,539 | $ 668,022 |
| Property and equipment *(Note 8)* | **1,323,318** | 1,212,177 | 1,067,246 |
| Investment property *(Note 9)* | **12,865** | 11,979 | 11,232 |
| Employee benefits *(Note 10)* | **117,615** | 107,831 | 133,942 |
| Deferred tax asset *(Note 21)* | **26,119** | 132,558 | 127,456 |
| Goodwill *(Note 11)* | **720,798** | 753,156 | 753,739 |
| Intangible assets *(Note 12)* | **198,578** | 208,793 | 191,896 |
| Other long-term assets | **16,628** | 13,663 | 11,926 |
| Total assets | **$ 3,599,092** | $ 3,243,696 | $ 2,965,459 |
| **LIABILITIES AND EQUITY** | | | |
| **Current liabilities** | | | |
| Bank indebtedness *(Note 14)* | **$ 4,408** | $ 48,243 | $ 36,404 |
| Accounts payable and accruals | **649,554** | 446,911 | 507,059 |
| Provisions *(Note 13)* | **54,853** | 26,335 | 44,255 |
| Current portion of long-term debt *(Note 14)* | **209,780** | 6,573 | 5,618 |
| Other current liabilities | **47,927** | 14,961 | 20,409 |
| | **$ 966,522** | $ 543,023 | $ 613,745 |
| Long-term debt *(Note 14)* | **744,212** | 1,206,945 | 941,956 |
| Employee benefits *(Note 10)* | **174,503** | 420,933 | 350,853 |
| Provisions *(Note 13)* | **19,603** | 25,800 | 28,936 |
| Other long-term liabilities *(Note 15)* | **28,744** | 80,084 | 88,153 |
| Deferred tax liability *(Note 21)* | **23,516** | 8,912 | 11,703 |
| Total liabilities | **$ 1,957,100** | $ 2,285,697 | $ 2,035,346 |
| **Shareholders' equity** | | | |
| Share capital *(Note 16)* | **$ 905,216** | $ 902,810 | $ 902,810 |
| Retained earnings (deficit) | **602,717** | (72,701) | (78,674) |
| Contributed surplus | **79,139** | 75,913 | 64,327 |
| Accumulated other comprehensive loss *(Note 16)* | **(4,593)** | (13,263) | (17,042) |
| Treasury stock | **(1,350)** | (1,845) | (6,347) |
| Total shareholders' equity | **$ 1,581,129** | $ 890,914 | $ 865,074 |
| Non-controlling interest | **60,863** | 67,085 | 65,039 |
| Total equity | **$ 1,641,992** | $ 957,999 | $ 930,113 |
| Total liabilities and equity | **$ 3,599,092** | $ 3,243,696 | $ 2,965,459 |

Commitments and contingencies *(Note 26)*

Subsequent events *(Note 31)*

See accompanying Notes to the Consolidated Financial Statements

On behalf of the Board:

**MICHAEL H. MCCAIN**
Director

**DIANE MCGARRY**
Director

# Consolidated Statements of Earnings

| Years ended December 31,<br>*(In thousands of Canadian dollars, except share amounts)* | **2013** | 2012 |
|---|---|---|
| | | *(Restated)*<br>*(Note 22, 32)* |
| Sales | **$ 4,406,448** | $ 4,551,828 |
| Cost of goods sold | **3,920,652** | 3,878,219 |
| Gross margin | **$ 485,796** | $ 673,609 |
| Selling, general, and administrative expenses | **484,192** | 508,356 |
| Earnings from continuing operations before the following: | **$ 1,604** | $ 165,253 |
| Restructuring and other related costs *(Note 17)* | **(93,164)** | (47,511) |
| Change in fair value of non-designated interest rate swaps | **2,022** | 7,297 |
| Other income (expense) *(Note 19)* | **77,995** | 8,640 |
| Earnings (loss) before interest expense, other financing costs, and income taxes from continuing operations | **$ (11,543)** | $ 133,679 |
| Interest expense and other financing costs *(Note 20)* | **69,842** | 71,707 |
| Earnings (loss) before income taxes from continuing operations | **$ (81,385)** | $ 61,972 |
| Income taxes *(Note 21)* | **(22,842)** | 20,005 |
| Net earnings (loss) from continuing operations | **$ (58,543)** | $ 41,967 |
| Net earnings and gain on disposal of discontinued operations *(Note 22)* | **570,706** | 54,595 |
| Net earnings | **$ 512,163** | $ 96,562 |
| | | |
| Attributed to: | | |
| Common shareholders | **$ 496,310** | $ 89,416 |
| Non-controlling interest | **15,853** | 7,146 |
| | **$ 512,163** | $ 96,562 |
| Earnings (loss) per share attributable to common shareholders *(Note 23)* | | |
| Basic earnings per share | **$ 3.55** | $ 0.64 |
| Diluted earnings per share | **$ 3.55** | $ 0.63 |
| Basic earnings (loss) per share from continuing operations | **$ (0.48)** | $ 0.25 |
| Diluted earnings (loss) per share from continuing operations | **$ (0.48)** | $ 0.24 |
| Weighted average number of shares (millions) | **139.9** | 139.4 |

See accompanying Notes to the Consolidated Financial Statements

# Consolidated Statements of Comprehensive Income

| Years ended December 31,<br>*(In thousands of Canadian dollars)* | **2013** | 2012<br>*(Restated)*<br>*(Note 32)* |
|---|---|---|
| Net earnings | **$ 512,163** | $ 96,562 |
| Other comprehensive income (loss) | | |
| Items that will not be reclassified to profit or loss: | | |
| Change in actuarial gains and losses (Net of tax of $70.6 million; 2012: ($21.3) million) | **$ 203,365** | $ (61,591) |
| Total items that will not be reclassified to profit or loss | **$ 203,365** | $ (61,591) |
| Items that are or may be reclassified subsequently to profit or loss: | | |
| Change in accumulated foreign currency translation adjustment (Net of tax of $nil; 2012: $nil) | **$ 10,728** | $ (1,730) |
| Change in unrealized gains and losses on cash flow hedges (Net of tax of $(0.2) million; 2012: $1.6 million) | **(546)** | 5,251 |
| Total items that are or may be reclassified subsequently to profit or loss | **$ 10,182** | $ 3,521 |
| | **$ 213,547** | $ (58,070) |
| Comprehensive income | **$ 725,710** | $ 38,492 |
| Attributed to: | | |
| Common shareholders | **$ 706,515** | $ 31,981 |
| Non-controlling interest | **$ 19,195** | $ 6,511 |

See accompanying Notes to the Consolidated Financial Statements

# Consolidated Statements of Changes in Total Equity

| (In thousands of Canadian dollars) | Attributable to Common Shareholders: Share capital | Retained earnings (deficit) | Contributed surplus | Total accumulated other comprehensive loss | Treasury stock | Non-controlling interest | Total equity |
|---|---|---|---|---|---|---|---|
| **Balance at December 31, 2012** | | | | | | | |
| *(Restated) (Note 32)* | **$ 902,810** | **$ (72,701)** | **$ 75,913** | **$ (13,263)** | **$ (1,845)** | **$ 67,085** | **$ 957,999** |
| Net earnings | **–** | **496,310** | **–** | **–** | **–** | **15,853** | **512,163** |
| Other comprehensive income | **–** | **201,535** | **–** | **8,670** | **–** | **3,342** | **213,547** |
| Dividends declared ($0.16 per share) | **–** | **(22,427)** | **–** | **–** | **–** | **(25,417)** | **(47,844)** |
| Stock-based compensation expense | **–** | **–** | **12,604** | **–** | **–** | **–** | **12,604** |
| Exercise of stock options | **2,406** | **–** | **–** | **–** | **–** | **–** | **2,406** |
| Issuance of treasury stock | **–** | **–** | **(495)** | **–** | **495** | **–** | **–** |
| Cash settlement of stock compensation *(Note 24)* | **–** | **–** | **(14,391)** | **–** | **–** | **–** | **(14,391)** |
| Modification of stock compensation plan | **–** | **–** | **3,508** | **–** | **–** | **–** | **3,508** |
| Other | **–** | **–** | **2,000** | **–** | **–** | **–** | **2,000** |
| **Balance at December 31, 2013** | **$ 905,216** | **$ 602,717** | **$ 79,139** | **$ (4,593)** | **$ (1,350)** | **$ 60,863** | **$ 1,641,992** |

| | Attributable to Common Shareholders: Share capital | Retained deficit | Contributed surplus | Total accumulated other comprehensive loss | Treasury stock | Non-controlling interest | Total equity |
|---|---|---|---|---|---|---|---|
| | | | | | | | *(Restated) (Note 32)* |
| **Balance at January 1, 2012** | | | | | | | |
| *(Restated) (Note 32)* | $ 902,810 | $ (78,674) | $ 64,327 | $ (17,042) | $ (6,347) | $ 65,039 | $ 930,113 |
| Net earnings | – | 89,416 | – | – | – | 7,146 | 96,562 |
| Other comprehensive income (loss) | – | (61,214) | – | 3,779 | – | (635) | (58,070) |
| Dividends declared ($0.16 per share) | – | (22,229) | – | – | – | (4,473) | (26,702) |
| Stock-based compensation expense | – | – | 24,711 | – | – | – | 24,711 |
| Issuance of treasury stock | – | – | (13,525) | – | 13,525 | – | – |
| Repurchase of treasury stock | – | – | – | – | (9,023) | – | (9,023) |
| Acquisition of business | – | – | – | – | – | (82) | (82) |
| Other | – | – | 400 | – | – | 90 | 490 |
| **Balance at December 31, 2012** | $ 902,810 | $ (72,701) | $ 75,913 | $ (13,263) | $ (1,845) | $ 67,085 | $ 957,999 |

See accompanying Notes to the Consolidated Financial Statements

# Consolidated Statements of Cash Flows

| Years ended December 31, *(In thousands of Canadian dollars)* | **2013** | 2012 *(Restated) (Note 32)* |
|---|---|---|
| **CASH PROVIDED BY (USED IN):** | | |
| **Operating activities** | | |
| Net earnings | **$ 512,163** | $ 96,562 |
| Add (deduct) items not affecting cash: | | |
| Change in fair value of biological assets | **(13,540)** | 3,436 |
| Depreciation and amortization | **141,818** | 132,739 |
| Stock-based compensation | **12,604** | 24,711 |
| Deferred income taxes | **52,847** | 9,967 |
| Income tax current | **23,443** | 28,922 |
| Interest expense | **68,496** | 71,685 |
| Gain on sale of property and equipment *(Note 19)* | **(2,320)** | (624) |
| Gain on sale of business *(Note 22)* | **(605,901)** | – |
| Gain on sale of assets held for sale *(Note 19)* | **(67,640)** | (459) |
| Gain on sale of investment property *(Note 19)* | **(323)** | – |
| Gain on business combination *(Note 30)* | **985** | (5,330) |
| Change in fair value of non-designated interest rate swaps | **(2,022)** | (7,297) |
| Change in fair value of derivative financial instruments | **117** | 3,107 |
| Impairment of assets (net of reversals) *(Note 19)* | **5,837** | – |
| Increase in pension liability | **15,789** | 13,282 |
| Net income taxes paid | **(28,537)** | (21,861) |
| Interest paid | **(62,949)** | (69,896) |
| Change in provision for restructuring and other related costs | **55,497** | 13,179 |
| Other | **(13,194)** | (9,427) |
| Change in non-cash operating working capital | **166,955** | (64,616) |
| Cash provided by operating activities | **$ 260,125** | $ 218,080 |
| **Financing activities** | | |
| Dividends paid | **$ (22,427)** | $ (22,229) |
| Dividends paid to non-controlling interest | **(5,084)** | (3,710) |
| Net increase (decrease) in long-term debt | **(279,178)** | 272,546 |
| Purchase of treasury stock | **–** | (9,023) |
| Exercise of stock options | **2,406** | – |
| Cash settlement of stock compensation | **(14,391)** | – |
| Increase in financing costs | **(1,388)** | – |
| Other | **–** | (1,619) |
| Cash provided by (used in) financing activities | **$ (320,062)** | $ 235,965 |
| **Investing activities** | | |
| Additions to long-term assets | **$ (361,155)** | $ (306,334) |
| Acquisition of business *(Note 30)* | **(922)** | (77,690) |
| Capitalization of interest expense | **(15,980)** | (6,901) |
| Proceeds from sale of long-term assets | **12,094** | 7,481 |
| Proceeds from sale of business | **744,811** | – |
| Proceeds from sale of assets held for sale | **141,180** | 7,974 |
| Cash provided by (used in) investing activities | **$ 520,028** | $ (375,470) |
| **Increase in cash and cash equivalents** | **$ 460,091** | $ 78,575 |
| Net cash and cash equivalents, beginning of period | **42,171** | (36,404) |
| Net cash and cash equivalents, end of period | **$ 502,262** | $ 42,171 |
| Net cash and cash equivalents is comprised of: | | |
| Cash and cash equivalents | **$ 506,670** | $ 90,414 |
| Bank indebtedness | **(4,408)** | (48,243) |
| Net cash and cash equivalents, end of period | **$ 502,262** | $ 42,171 |

See accompanying Notes to the Consolidated Financial Statements

# Notes to the Consolidated Financial Statements

(Tabular amounts in thousands of Canadian dollars, unless otherwise indicated)
Years ended December 31, 2013 and 2012

## 1. THE COMPANY

Maple Leaf Foods Inc. ("Maple Leaf Foods" or the "Company") is a leading Canadian-based value-added meat, meals, and bakery company serving wholesale, retail, and foodservice customers across North America and internationally. The address of the Company's registered office is Suite 1500, 30 St. Clair Avenue West, Toronto, Ontario, M4V 3A2, Canada. The consolidated financial statements of the Company as at and for the year ended December 31, 2013, include the accounts of the Company and its subsidiaries. The principle activities and composition of the Company are further described in Note 25. The Company's results are organized into three segments: Meat Products Group, Agribusiness Group, and Bakery Products Group.

## 2. BASIS OF PREPARATION

### (a) Statement of Compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and using the accounting policies described herein.

The consolidated financial statements were authorized for issue by the Board of Directors on February 26, 2014.

### (b) Basis of Measurement

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

### (c) Functional and Presentation Currency

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

### (d) Use of Estimates and Judgements

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

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

Judgements included in the financial statements are decisions made by Management, based on an analysis of relevant information available at the time the decision is made. Judgements relate to the application of accounting policies and decisions related to the measurement, recognition, and disclosure of financial amounts.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies, that have the most significant effects on the amounts recognized in the consolidated financial statements, are included both below and in the statement notes relating to items subject to significant estimation uncertainty and critical judgements.

#### *Long-Lived Assets Valuation*

The Company performs impairment testing annually for goodwill and intangible assets and, when circumstances indicate that there may be impairment, for other long-lived assets. Management judgement is involved in determining if there are circumstances indicating that testing for impairment is required, and in identifying their Cash Generating Units ("CGUs") for the purpose of impairment testing.

The Company assesses impairment by comparing the recoverable amount of a long-lived asset, CGU, or CGU group to its carrying value. The recoverable amount is defined as the higher of: (i) value in use; or (ii) fair value less cost to sell. The determination of the recoverable amount involves Management judgement and estimation.

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

#### *Measurement of Fair Values*

A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When the measurement of fair values cannot be determined, based on quoted prices in active markets, fair value is measured using valuation techniques and models. The inputs to these models are taken from observable markets where possible but, where this is not feasible, a degree of judgement is required in establishing fair values. Changes in assumptions about these inputs to these models could affect the reported fair value of the Company's financial and non-financial assets and liabilities.

When measuring fair value of an asset or liability, the Company uses market observable data as far as possible. To the extent that these estimates differ from those realized, the measured asset or liability, net earnings, and/or comprehensive income (loss) will be affected in future periods.

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed in Notes 6, 9, 18, and 24.

### *Nature of Interests in Other Entities*

Management applies significant judgement in assessing the nature of its interest in an unconsolidated structured entity. The Company does not hold any equity interest in the structured entity and based on the terms of the agreements under which the entity is established, the Company receives none of the returns related to their operations and is exposed to limited recourse with respect to losses.

Further information about the unconsolidated structured entity is disclosed in Note 25.

### *Valuation of Inventory*

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

### *Biological Assets*

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

### *Trade Merchandise Allowances and Other Trade Discounts*

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

### *Employee Benefit Plans*

The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected unit credit method prorated on service, and Management's best estimate of salary escalation and mortality rates. 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 and service costs. Management employs external experts to advise the Company when deciding upon the appropriate estimates to use to value employee benefit plan obligations and expenses. To the extent that these estimates differ from those realized, employee benefit plan liabilities and comprehensive income (loss) will be affected in future periods.

### *Income Taxes*

Provisions for income taxes are based on domestic and international statutory income tax rates and the amount of income earned in the jurisdictions in which the Company operates. Significant judgement is required in determining income tax provisions and the recoverability of deferred tax assets. The calculation of current and deferred income tax balances requires Management to make estimates

regarding the carrying values of assets and liabilities that include estimates of future cash flows and earnings related to such assets and liabilities, the interpretation of income tax legislation in the jurisdictions in which the Company operates, and the timing of reversal of temporary differences. The Company establishes additional provisions for income taxes when, despite Management's opinion that the Company's tax positions are fully supportable, there is sufficient complexity or uncertainty in the application of legislation that certain tax positions may be reassessed by tax authorities. The Company adjusts these additional accruals in light of changing facts and circumstances. To the extent that these adjustments differ from original estimates, future deferred tax assets and liabilities, net earnings, and comprehensive income (loss) will be affected.

### *Provisions*

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

### *Stock-based Compensation*

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

Some of the Company's stock-based payment plans are settled in either cash or equity instruments at the option of the Company. Management uses judgement in determining the appropriate accounting treatment for these plans, based on expectations and historical settlement decisions. Changes to accounting treatment based on management's judgement may impact contributed surplus, liabilities and net earnings and comprehensive income (loss).

### *Depreciation and Amortization*

The Company's property and equipment and definite life intangible assets are depreciated and amortized on a straight-line basis, taking into account the estimated useful lives of the assets and residual values. Changes to these estimates may affect the carrying value of these assets, inventories, net earnings and comprehensive income (loss) in future periods.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

### (a) Principles of Consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries from the date that control commences until the date that control ceases. Control exists when the Company is exposed to or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Non-controlling interest represents the portion of a subsidiary's net earnings and net assets that are attributable to shares of such a subsidiary not held by the Company. Acquisitions of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity holders; therefore, no goodwill is recognized as a result of such transactions.

All intercompany accounts and transactions have been eliminated on consolidation.

### (b) Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method at the acquisition date, which is the date that control is transferred to the Company. In assessing control, the Company takes into consideration potential voting rights that are currently exercisable.

Goodwill is measured as the excess of the sum of the fair value of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the Company's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If the excess is negative, a purchase gain is recognized immediately in earnings. Transaction costs, other than those associated with the issue of debt or equity, are recognized in earnings as incurred.

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

Non-controlling interests that are present ownership interests at the acquisition date, and entitle their holders to a proportionate share of the entity's net assets in the

event of liquidation, are initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquired business's identifiable assets. The choice of measurement basis is made on a transaction-by-transaction basis depending on individual factors of the transaction. Other types of non-controlling interest are measured at fair value or, when applicable, on the basis specified in the applicable IFRS.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not re-measured and settlement is accounted for in equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognized in earnings.

When the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Company reports provisional amounts for the items for which the accounting is incomplete. These provisional amounts are adjusted during the measurement period, which does not exceed one year from the acquisition date, or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

### (c) Fair Value Measurements

The Company measures certain financial and non-financial assets and liabilities at fair value at each balance sheet date. In addition, fair value measurements are disclosed for certain financial and non-financial assets and liabilities.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and disclosure purposes is determined on such a basis, except for share-based payment transactions, leasing transactions, and measurements that have some similarities to fair value but are not fair value, such as net realizable value or value in use.

Assets and liabilities, for which fair value is measured or disclosed in the financial statements, are classified using a three-level fair value hierarchy that reflects the significance and transparency of the inputs used in making the fair value measurements. Each level is based on the following:

Level 1 – inputs are unadjusted quoted prices of identical assets or liabilities in active markets

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3 – one or more significant inputs used in a valuation technique are unobservable in determining fair values of the asset or liability

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

### (d) Non-current Assets (or Disposal Groups) Held for Sale and Discontinued Operations

The Company classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. The criteria for held for sale classification is regarded as met when a sale is highly probable, the asset or disposal group is available for immediate sale in its present condition, and management is committed to the sale, which is expected to be completed within one year from the date of classification. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets are not depreciated once classified as held for sale.

A discontinued operation is a component of the Company's business which can be clearly distinguished from the rest of the Company, both operationally and for financial reporting purposes. Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held for sale. When an operation is classified as a discontinued operation, the comparative statements of earnings and comprehensive income are re-presented as if the operation has been discontinued from the start of the comparative year. Discontinued operations are excluded from the results of continuing operations and are presented as a single amount net of tax as net earnings from discontinued operations in the statements of earnings.

### (e) Translation of Foreign Currencies

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

hedges, which are recognized in other comprehensive income. Non-monetary assets and liabilities that are measured at historical cost are translated using the exchange rate at the date of the transaction.

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

When a foreign operation is disposed of in its entirety or partially such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. If the Company disposes of part of its interest in a subsidiary but retains control, then the relevant proportion of the cumulative amount is reattributed to non-controlling interest. When the Company disposes of only part of an associate or joint venture while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

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

### (f) Financial Instruments

The Company's financial assets and financial liabilities, upon initial recognition, are measured at fair value and are classified as held for trading, loans and receivables, or other financial liabilities. The classification depends on the purpose for which the financial instruments were acquired and their characteristics. Held for trading is the required classification for all derivative financial instruments unless they are specifically designated within an effective hedge relationship. Held for trading financial instruments not designated within an effective hedging relationship are measured at fair value with changes in fair value recognized in consolidated statements of earnings in the period in which such changes arise. Loans and receivables and other financial liabilities are initially recorded at fair value and are subsequently measured at amortized cost.

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

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

### (g) 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, the risk management objective, and its strategy for undertaking the hedge. The documentation identifies the specific asset, liability, or anticipated cash flows being hedged, the risk that is being hedged, the type of hedging instrument used, and how effectiveness will be assessed.

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

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

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

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

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

### (h) Cash and Cash Equivalents

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

### (i) Inventories

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

### (j) Biological Assets

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

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

### (k) Impairment or Disposal of Long-lived Assets

The Company reviews long-lived assets or asset groups held and used, including property and equipment and intangible assets subject to amortization, for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Asset groups referred to as CGUs include an allocation of corporate assets and are reviewed at their lowest level for which identifiable cash inflows are largely independent of cash inflows of other assets or groups of assets. The recoverable amount is the greater of its value in use and its fair value less cost to sell.

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

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

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

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

### (l) Property and Equipment

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

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

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

### (m) Investment Property

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

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

### (n) Intangible Assets

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

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

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

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

### (o) Employee Benefit Plans

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

#### *Defined Benefit Plans*

The Company accrues obligations and costs in respect of employee defined benefit plans. The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected unit credit method prorated on service and Management's best estimate of salary escalation, retirement ages of employees, mortality rates, and expected health care costs. Changes in these assumptions could affect future pension expense. The fair value of plan assets is used as the basis of calculating the expected return on plan assets. The discount rate used to value the defined benefit obligation is based on high quality corporate bonds in the same currency in which the benefits are expected to be paid and with terms to maturity that, on average, match the terms of the defined benefit obligations.

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

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

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

*Defined Contribution Plans*

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

*Multi-Employer Plans*

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

### (p) Stock-Based Compensation

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

The Company has stock compensation plans which are able to be settled in either cash or equity instruments at the option of the Company. Each grant is accounted for based on the expected settlement method at the time of issue. The expectation is re-evaluated at the end of each reporting period.

### (q) Provisions

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

### (r) Revenue Recognition

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

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

### (s) Borrowing Costs

Borrowing costs are primarily comprised of interest on the Company's indebtedness. Borrowing costs are capitalized when they are attributable to the acquisition,

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

### (t) Government Incentives

Government incentives are not recognized until there is reasonable assurance that they will be received and the Company will be in compliance with any conditions associated with the incentives. Incentives that compensate the Company for expenses or losses are recognized in earnings with the same classification as the related expense or loss in the same periods in which the expenses or losses are recognized.

Government incentives received with the primary condition that the Company should purchase, construct, or otherwise acquire non-current assets are recognized as a deduction from the associated asset on the balance sheet. The incentive is recognized in earnings over the useful life of the asset as a reduction of the related depreciation expense.

Government incentives that are receivable as compensation for expenses or losses already incurred, or for the purpose of giving immediate financial support to the Company with no future related costs, are recognized in earnings in the period in which they become receivable.

The benefit of a government loan at a below-market rate of interest is treated as a government incentive, and is measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

### (u) Income Taxes

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

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

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

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

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

### (v) Accounting Standards Adopted During the Period

#### *Financial Assets and Liabilities*

During the year ended December 31, 2013, the Company adopted certain amendments to IFRS 7 *Financial Instruments: Disclosures* on a retrospective basis. These amendments contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position and subject to master netting arrangements or similar arrangements. As the Company is not offsetting financial instruments and does not have relevant offsetting arrangements, the retrospective adoption of these amendments to IFRS 7 did not have any impact on the disclosures of the Company.

#### *Consolidated Financial Statements*

During the year ended December 31, 2013, the Company adopted IFRS 10 *Consolidated Financial Statements* on a retrospective basis. IFRS 10 replaces

portions of IAS 27 *Consolidated and Separate Financial Statements* that addresses consolidation, and supersedes SIC-12 *Consolidation – Special Purpose Entities ("SPE")* in its entirety. IFRS 10 provides a single model to be applied in the analysis of control of all investees, including entities that currently are SPEs in the scope of SIC-12. In addition, the consolidation procedures specified in IFRS 10 are carried forward, substantially unmodified, from IAS 27. The adoption of IFRS 10 did not have any impact on the Company's financial statements.

### *Joint Arrangements*

During the year ended December 31, 2013, the Company adopted IFRS 11 *Joint Arrangements*. IFRS 11 supersedes IAS 31 *Interest in Joint Ventures* and SIC-13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. Through an assessment of the rights and obligations in an arrangement, IFRS 11 establishes principles to determine the type of joint arrangement, which are classified as either joint operations or joint ventures, and provides guidance for financial reporting activities required by the entities that have an interest in arrangements which are controlled jointly. Investments in joint ventures are required to be accounted for using the equity method. The adoption of IFRS 11 did not have any impact on the Company.

### *Disclosure of Interests in Other Entities*

During the year ended December 31, 2013, the Company adopted IFRS 12 *Disclosure of Interests in Other Entities*. IFRS 12 contains disclosure requirements for companies that have interests in subsidiaries, joint arrangements, associates, and unconsolidated structured entities. Additional disclosures required as a result of the adoption of IFRS 12 are included in Note 25.

### *Fair Value Measurement*

During the year ended December 31, 2013, the Company adopted IFRS 13 *Fair Value Measurement* on a prospective basis. IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. The standard also establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. The adoption of IFRS 13 did not have a material impact on the fair value measurements carried out by the Company. Additional disclosures required as a result of the adoption of IFRS 13 are included in Notes 6, 9, 10, and 18.

### *Presentation of Financial Statements*

During the year ended December 31, 2013, the Company adopted amendments to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income* on a retrospective basis. The amendment requires that a company present separately the items of other comprehensive income that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. Additional disclosures required as a result of the adoption of IAS 1 are presented in the consolidated statements of comprehensive income and had no impact on the financial results of the Company.

### *Employee Benefits*

During the year ended December 31, 2013, the Company adopted the revised IAS 19 *Employee Benefits* on a retrospective basis with restatement. The revised standard requires that the calculation of expected return on assets and interest cost be replaced with a net interest charge calculated based on the discount rate as at the beginning of the year multiplied by the net position of the plan. The revised standard also requires that administrative fees of the plan be expensed by the Company as incurred rather than included in the expected return. The impact of the adoption of revised IAS 19 is further explained in Note 32 and the required additional disclosures are included in Note 10. The standard also has other amendments clarifying the timing of recognition of termination benefits, the adoption of which had no impact on the Company.

### *Recoverable Amount Disclosures for Non-Financial Assets*

During the year ended December 31, 2013, the Company adopted amendments to IAS 36 *Impairment of Assets* on a retrospective basis. The amendment reverses the unintended requirement in IFRS 13 *Fair Value Measurement* to disclose the recoverable amounts of all cash generating units to which significant goodwill or indefinite-life intangible assets have been allocated. Under the amendments, the recoverable amount is required to be disclosed only when an impairment loss has been recognized or reversed. The adoption of these amendments did not have a material impact to the disclosures made by the Company.

## (w) Recent Accounting Pronouncements Not Yet Adopted

### *Financial Assets and Liabilities*

In December 2011, the IASB published amendments to IAS 32 *Financial Instruments: Presentation*. The effective date for the amendments to IAS 32 is annual periods beginning on or after January 1, 2014. These amendments are to be applied retrospectively. The amendments to IAS 32 clarify when an entity has a legally enforceable right to off-set as well as clarify, when

a settlement mechanism provides for net settlement, or gross settlement that is equivalent to net settlement. The Company intends to adopt the amendments to IAS 32 in its financial statements for the annual period beginning January 1, 2014. The impact of the adoption of amendments to IAS 32 is not expected to be material to the financial statements.

### *Levies*

In May 2013, the IASB issued IFRIC 21 *Levies*. This IFRIC is effective for annual periods commencing on or after January 1, 2014 and is to be applied retrospectively. The IFRIC is applicable to all levies other than outflows that are within the scope of other standards and fines or other penalties for breaches of legislation. The interpretation clarifies that an entity recognises a liability for a levy when the activity that triggers payments, as identified by the relevant legislation, occurs. The Company intends to adopt IFRIC 21 in its financial statements for the annual period beginning January 1, 2014. The Company is currently assessing the impact of the adoption of IFRIC 21.

### *Employee Benefits*

In November 2013, the IASB published amendments to IAS 19 *Employee Benefits*. The effective date for these amendments is annual periods beginning on or after July 1, 2014. These amendments are to be applied retrospectively. IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. IAS 19 requires such contributions that are linked to service to be attributed to periods of service as a negative benefit. The amendments to IAS 19 provide a practical expedient for simplifying the accounting in certain situations. If the amount of contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the period's service. The Company intends to adopt the amendments to IAS 19 in its financial statements for the annual period beginning January 1, 2015. The extent of the impact of the adoption of amendments to IAS 19 has not yet been determined.

### *Financial Instruments – Recognition and Measurement*

In November 2009, the IASB issued IFRS 9, *Financial Instruments (IFRS 9 (2009))* and in October 2010, the IASB published amendments to IFRS 9 (IFRS 9 (2010)). IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. IFRS 9 (2010) introduces additional changes relating to financial liabilities. In November 2013, the IASB published amendments to IFRS 9 *Financial Instruments*, IFRS 7 *Financial Instruments: Disclosures,* and IAS 39 *Financial Instruments: Disclosures* (collectively, "IFRS 9 (2013)") to include a new general hedge accounting model, and allow the adoption of the treatment of fair value changes due to a company's own credit risk on financial liabilities designated at fair value through profit or loss. Special transitional requirements have been set for the application of the new general hedging model. This amendment removes the January 1, 2015, effective date. The new mandatory effective date is expected to be determined once the classification and measurement and impairment phases of IFRS 9 are finalized. Although no effective date has been issued for this standard, early adoption is permitted. The Company does not intend to adopt IFRS 9 (2009), IFRS 9 (2010), and IFRS 9 (2013) in its financial statements for the annual period beginning on January 1, 2014. Once the IASB has issued an effective date for the standard, the Company will determine a date of adoption. The extent of the impact of adoption of IFRS 9 (2009), IFRS 9 (2010), and IFRS 9 (2013) has not yet been determined.

### *Novation of Derivatives and Continuation of Hedge Accounting*

In June 2013, the IASB issued "Novation of Derivatives and Continuation of Hedge Accounting" (Amendments to IAS 39 *Financial Instruments: Recognition and Measurement*). The amendments add a limited exception to IAS 39, to provide relief from discontinuing an existing hedging relationship when novation that was not contemplated in the original hedging documentation meets specific criteria. The amendments are effective for annual periods beginning on or after January 1, 2014. The Company intends to adopt the amendments in its financial statements for the annual period beginning January 1, 2014. The extent of the impact of the adoption of the amendments has not yet been determined.

### *Annual Improvements to IFRS (2010 – 2012) and (2011 – 2013) cycles*

In December 2013, the IASB issued narrow-scope amendments to a total of nine standards as part of its annual improvements process. Amendments were made to clarify items including the definition of vesting conditions in IFRS 2 *Share-based payment*, disclosures on the aggregation of operating segments in IFRS 8 *Operating Segments*, measurement of short-term receivables and payables under IFRS 13 *Fair Value Measurement*, definition of related party in IAS 24 *Related Party Disclosures* and other amendments. Special transitional requirements have been set for certain of these amendments. Most amendments will apply prospectively for annual periods beginning on or after July 1, 2014, earlier application is

permitted. The Company intends to adopt these amendments in its financial statements for the annual period beginning January 1, 2015. The extent of the impact of adoption of the amendments has not yet been determined.

## 4. ACCOUNTS RECEIVABLE

Components of Accounts Receivable are as follows:

| | **As at December 31, 2013** | As at December 31, 2012 | As at January 1, 2012 |
|---|---|---|---|
| Trade receivables | **$ 37,173** | $ 55,954 | $ 81,477 |
| Less: Allowance for doubtful accounts | **(80)** | (204) | (5,789) |
| Net trade receivables | **$ 37,093** | $ 55,750 | $ 75,688 |
| Other receivables: | | | |
| Commodity taxes | **27,727** | 34,561 | 26,141 |
| Interest rate swap | **8,446** | 7,855 | 8,204 |
| Government | **14,727** | 3,209 | 5,684 |
| Insurance | **1,664** | 1,500 | 1,850 |
| Other | **21,377** | 14,658 | 15,937 |
| | **$ 111,034** | $ 117,533 | $ 133,504 |

The aging of trade receivables is as follows:

| | **As at December 31, 2013** | As at December 31, 2012 | As at January 1, 2012 |
|---|---|---|---|
| Current | **$ 31,273** | $ 54,547 | $ 72,232 |
| Past due 0-30 days | **5,600** | 976 | 7,938 |
| Past due 31-60 days | **84** | 39 | 534 |
| Past due 61-90 days | **–** | 119 | 434 |
| Past due > 90 days | **216** | 273 | 339 |
| | **$ 37,173** | $ 55,954 | $ 81,477 |

The Company maintains an allowance for doubtful accounts that represents its estimate of the uncollectible amounts based on specific losses estimated on individual exposures.

The Company recorded an amount receivable from the securitization facilities of $1.0 million on December 31, 2012 (January 1, 2012: $25.3 million net payable to the facilities) netted against the notes receivable balance. These amounts should not have been presented on a net basis. These balances have been reclassified in the comparative figures. The Company has determined that these amounts were not material to its consolidated statements for any prior interim or annual periods.

The Company has sold certain of its trade accounts receivable under revolving securitization programs as described in Note 25.

## 5. INVENTORIES

| | **As at December 31, 2013** | As at December 31, 2012 | As at January 1, 2012 |
|---|---|---|---|
| Raw materials | **$ 39,302** | $ 41,901 | $ 46,247 |
| Work in process | **18,662** | 18,811 | 16,805 |
| Finished goods | **166,407** | 176,707 | 166,251 |
| Packaging | **22,582** | 22,736 | 24,580 |
| Spare parts | **40,833** | 41,649 | 39,348 |
| | **$ 287,786** | $ 301,804 | $ 293,231 |

During the year, inventory in the amount of $3,401.1 million (2012: $3,490.0 million) was expensed through cost of goods sold. There were no reversals of previous write-downs recognized.

## 6. BIOLOGICAL ASSETS

| | Hog stock | | Poultry stock | | |
|---|---|---|---|---|---|
| | Commercial | Parent | Commercial | Parent | Total |
| **Balance at December 31, 2012** | **$ 50,081** | **$ 16,144** | **$ 5,757** | **$ 6,145** | **$ 78,127** |
| **Additions and purchases** | **254,661** | **6,720** | **52,828** | **3,557** | **317,766** |
| **Depreciation** | **–** | **(5,116)** | **–** | **(5,183)** | **(10,299)** |
| **Change in fair value – realized** | **3,123** | **–** | **(163)** | **–** | **2,960** |
| **Change in fair value – unrealized** | **10,580** | **–** | **–** | **–** | **10,580** |
| **Further processing and sales** | **(245,100)** | **–** | **(52,545)** | **–** | **(297,645)** |
| **Transfers to assets held for sale** | **–** | **–** | **(2,765)** | **(2,984)** | **(5,749)** |
| **Balance at December 31, 2013** | **$ 73,345** | **$ 17,748** | **$ 3,112** | **$ 1,535** | **$ 95,740** |

| | Hog stock | | Poultry stock | | |
|---|---|---|---|---|---|
| | Commercial [(i)] | Parent | Commercial [(i)] | Parent | Total |
| Balance at January 1, 2012 | $ 31,613 | $ 8,149 | $ 4,623 | $ 4,880 | $ 49,265 |
| Additions and purchases | 138,856 | 4,090 | 52,412 | 7,975 | 203,333 |
| Additions due to business acquisitions | 17,255 | 7,410 | – | – | 24,665 |
| Depreciation | – | (3,505) | – | (6,710) | (10,215) |
| Change in fair value – realized | (274) | – | (518) | – | (792) |
| Change in fair value – unrealized | (3,125) | – | 481 | – | (2,644) |
| Further processing and sales | (134,244) | – | (51,241) | – | (185,485) |
| Balance at December 31, 2012 | $ 50,081 | $ 16,144 | $ 5,757 | $ 6,145 | $ 78,127 |

(i) *Amounts have been adjusted to conform to the current year's presentation, as the result of the adoption of IFRS 13 Fair Value Measurement.*

Hog stock is comprised of approximately 0.7 million animals as of December 31, 2013 (December 31, 2012: 0.6 million; January 1, 2012: 0.3 million). During the year, substantially all hog stock was transferred to the Company's primary processing operations.

Poultry stock is comprised of approximately 6.5 million eggs and 0.2 million birds as of December 31, 2013 (2012: 6.1 million eggs and 0.6 million birds; January 1, 2012: 6.2 million eggs and 0.5 million birds). During the year, substantially all poultry stock was transferred to the Company's primary processing operations.

The change in fair value of commercial hog and poultry stock for the year was a gain of $13.5 million as at December 31, 2013 (2012: loss of $3.4 million) recorded in cost of sales. The fair value measures of commercial hog stock have been categorized as Level 3 fair value based on inputs to the valuation techniques used. There were no transfers between levels during the year ended December 31, 2013.

The Company uses the market comparison approach to determine the fair value of its commercial hog stock. The valuation model is based on the market price of hog stock of similar age, weight, breed, and genetic make-up. The model is based on the U.S. dollar market price per cut weight and adjusted for foreign exchange, conversion from pounds to kilograms, and specific significant unobservable inputs, including a quality index adjustment and a market conversion factor, as defined below.

The quality index adjustment is a value adjustment based on the relative quality of a processed hog based on the lean yield (being the ratio between muscle and fat content) and total weight. Quality adjustments range from 7.1% to 7.8%. A higher (lower) quality adjustment percentage will result in an increase (decrease) to the fair market value of the commercial hog stock.

The market conversion factor is a market adjustment used to discount the formula from a U.S. market price to a Canadian pricing model. The market conversion factor experiences minimal fluctuation. A higher (lower) market conversion factor will result in an increase (decrease) to the fair market value of the commercial hog stock.

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

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

## 7. ASSETS HELD FOR SALE

| | **As at December 31, 2013** | | As at December 31, 2012 | | | |
|---|---|---|---|---|---|---|
| | **Investment Properties** | **Total** | Poultry farm | Potato processing facility | Investment Properties | Total |
| **Assets held for sale** | | | | | | |
| Inventories | **$ –** | **$ –** | $ – | $ 6,148 | $ – | $ 6,148 |
| Property and equipment | **–** | **–** | 2,560 | 6,528 | – | 9,088 |
| Investment properties | **5,206** | **5,206** | – | – | 1,419 | 1,419 |
| Intangible assets | **–** | **–** | 20,432 | – | – | 20,432 |
| | **$ 5,206** | **$ 5,206** | $ 22,992 | $ 12,676 | $ 1,419 | $ 37,087 |

There were no assets held for sale as at January 1, 2012.

A brief description of the assets and liabilities held for sale is as follows:

### Sale of Businesses

During the year, certain assets and liabilities of the animal by-product recycling operations ("Rothsay") and the fresh pasta and sauce business ("Olivieri") were transferred to assets held for sale and were subsequently de-recognized upon the sale in the fourth quarter. Refer to Note 22 for further details.

### Investment Properties

The Company intends to dispose of various investment properties it no longer utilises. Investment properties are included in non-allocated assets. During the year, the Company sold various investment properties for total proceeds of $15.7 million, resulting in a pre-tax gain of $12.6 million.

### Turkey Agricultural Operations

Assets related to the Company's turkey agricultural operations in Thamesford, Ontario were classified as held for sale during the year. The sale of these assets was completed during the third quarter, for net proceeds of $46.3 million, resulting in a pre-tax gain of $9.7 million. Prior to their disposal, the assets of the turkey agricultural operations were included in the Meats Products Group for segmented reporting.

### Poultry Farm

These assets related to a poultry farm and related production quotas in Brooks, Alberta, originally purchased on February 1, 2012, and immediately classified as assets held for sale. During the year, the Company sold the poultry farm assets for proceeds of $21.1 million, resulting in a $nil pre-tax gain. Prior to its disposal, the poultry farm assets were included in the Meat Products Group for segmented reporting.

### Potato Processing Facility

The assets related to the Company's potato processing facility in Lethbridge, Alberta, were classified as held for sale on December 31, 2012, and the sale of these assets to Cavendish Farms Corporation was completed on January 4, 2013, for proceeds of $58.1 million, resulting in a pre-tax gain of $45.4 million. Prior to its disposal, the assets of the potato processing facility were included in the Meat Products Group for segmented reporting.

Further details on the gain from disposal of assets held for sale is described in Note 19.

## 8. PROPERTY AND EQUIPMENT

| Cost | Land | Buildings | Machinery and equipment | Under construction | Total |
|---|---|---|---|---|---|
| **Balance at December 31, 2012** | $ 75,289 | $ 729,168 | $ 1,619,862 | $ 272,529 | $ 2,696,848 |
| Additions [i] | – | 272 | 12,414 | 358,016 | 370,702 |
| Disposal of business | (4,756) | (46,534) | (202,601) | (15,398) | (269,289) |
| Disposals | (2,793) | (23,065) | (87,542) | (47) | (113,447) |
| Transfers from under construction | 2,385 | 173,813 | 146,380 | (322,578) | – |
| Transfers to investment properties | (3,173) | (19,519) | – | – | (22,692) |
| Interest capitalized | – | 120 | 587 | 14,501 | 15,208 |
| Foreign currency translation | 269 | 3,867 | 13,660 | 1,902 | 19,698 |
| Other | 432 | 1,358 | (1,063) | (327) | 400 |
| **Balance at December 31, 2013** | $ 67,653 | $ 819,480 | $ 1,501,697 | $ 308,598 | $ 2,697,428 |

| Accumulated depreciation | Land | Buildings | Machinery and equipment | Under construction | Total |
|---|---|---|---|---|---|
| **Balance at December 31, 2012** | $ – | $ 330,074 | $ 1,154,597 | $ – | $ 1,484,671 |
| Depreciation | – | 19,088 | 109,469 | – | 128,557 |
| Disposal of business | – | (24,176) | (139,606) | – | (163,782) |
| Disposals | – | (14,732) | (84,091) | – | (98,823) |
| Impairment | – | – | 3,044 | – | 3,044 |
| Reversal of impairment | – | (1,388) | – | – | (1,388) |
| Restructuring related write-downs | – | 15,242 | 9,837 | – | 25,079 |
| Transfers to investment properties | – | (13,972) | – | – | (13,972) |
| Foreign currency translation | – | 1,173 | 9,626 | – | 10,799 |
| Other | – | 17 | (92) | – | (75) |
| **Balance at December 31, 2013** | $ – | $ 311,326 | $ 1,062,784 | $ – | $ 1,374,110 |
| **Net at December 31, 2013** | $ 67,653 | $ 508,154 | $ 438,913 | $ 308,598 | $ 1,323,318 |

*(i) Includes a change in accruals of $24.2 million.*

| Cost | Land | Buildings | Machinery and equipment | Under construction | Total |
|---|---|---|---|---|---|
| **Balance at January 1, 2012** | $ 61,464 | $ 697,024 | $ 1,571,184 | $ 161,560 | $ 2,491,232 |
| Additions | 13,302 | 24,403 | 92,307 | 149,101 | 279,113 |
| Acquisitions of business | 5,229 | 18,914 | 4,852 | 52 | 29,047 |
| Transfers to assets held for sale | (249) | (4,904) | (22,069) | – | (27,222) |
| Restructuring related write-downs | (1,048) | (6,547) | (60,475) | – | (68,070) |
| Transfers from under construction | – | 5,473 | 27,609 | (33,082) | – |
| Transfers to investment properties | (1,036) | (6,432) | – | – | (7,468) |
| Interest capitalized | 403 | 1,868 | 2,800 | – | 5,071 |
| Foreign currency translation | (15) | (403) | (1,965) | 38 | (2,345) |
| Other | (2,761) | (228) | 5,619 | (5,140) | (2,510) |
| **Balance at December 31, 2012** | $ 75,289 | $ 729,168 | $ 1,619,862 | $ 272,529 | $ 2,696,848 |
| **Accumulated depreciation** | | | | | |
| **Balance at January 1, 2012** | $ – | $ 300,256 | $ 1,123,730 | $ – | $ 1,423,986 |
| Additions | – | 21,871 | 101,248 | – | 123,119 |
| Transfers to assets held for sale | – | (552) | (17,583) | – | (18,135) |
| Disposals | – | 6,683 | (41,395) | – | (34,712) |
| Transfers to investment properties | – | (4,344) | – | – | (4,344) |
| Foreign currency translation | – | (188) | (1,757) | – | (1,945) |
| Other | – | 6,348 | (9,646) | – | (3,298) |
| **Balance at December 31, 2012** | $ – | $ 330,074 | $ 1,154,597 | $ – | $ 1,484,671 |
| **Net at December 31, 2012** | $ 75,289 | $ 399,094 | $ 465,265 | $ 272,529 | $ 1,212,177 |

### *Borrowing Costs*

During the year, borrowing costs of $15.2 million were capitalized (2012: $5.1 million), using an average capitalization rate of 5.4% (2012: 5.5%).

## 9. INVESTMENT PROPERTY

Investment property is comprised of surplus land and buildings primarily resulting from restructuring activities.

During the year, the Company earned $0.2 million (2012: $0.3 million) of rental revenue from investment properties and recorded operating costs related to investment properties of $2.7 million (2012: $2.1 million). Rental revenue and related operating costs are recorded in other income unless these amounts were anticipated under a restructuring plan, in which case they are recorded against a related restructuring provision, to the extent that one exists, with any excess then recorded in other income.

The fair value of the Company's investment properties was $30.5 million at December 31, 2013, (December 31, 2012: $33.8 million; January 1, 2012: $27.6 million) and is determined using the market comparable approach, which reflects recent transaction prices for similar properties and are categorized as a Level 3 in the fair value hierarchy. In estimating the fair value of the properties, the highest and best use of the properties is for utilization in manufacturing operations or redevelopment, which differs from the current use as idle properties. The difference in use arises as these properties have become surplus land and buildings, primarily resulting from restructuring activities, and are therefore no longer utilized in the Company's ongoing operations.

In 2013, the Company obtained external appraisals or opinions of value for a total of $10.5 million of the Company's investment properties (December 31, 2012: $nil; January 1, 2012: $14.0 million). For the other investment properties, the Company determined the fair value based on comparable market information.

The continuity of investment property for the years ended December 31, 2013 and 2012 is as follows:

| Cost | Land | Buildings | Total |
|---|---|---|---|
| **Balance at December 31, 2012** | **$ 6,099** | **$ 22,993** | **$ 29,092** |
| Transfers from property and equipment | **3,173** | **19,519** | **22,692** |
| Reclassification to assets held for sale | **(2,864)** | **(10,709)** | **(13,573)** |
| Disposals | **(196)** | **(2,044)** | **(2,240)** |
| Foreign currency translation | **88** | **57** | **145** |
| **Balance at December 31, 2013** | **$ 6,300** | **$29,816** | **$36,116** |

| Accumulated depreciation | | | |
|---|---|---|---|
| **Balance at December 31, 2012** | **$ –** | **$ 17,113** | **$ 17,113** |
| Transfers from property and equipment | **–** | **13,972** | **13,972** |
| Reclassification to assets held for sale | **–** | **(8,367)** | **(8,367)** |
| Depreciation | **–** | **184** | **184** |
| Disposals | **–** | **(1,212)** | **(1,212)** |
| Impairment | **1,124** | **383** | **1,507** |
| Foreign currency translation | **7** | **47** | **54** |
| **Balance at December 31, 2013** | **$ 1,131** | **$22,120** | **$23,251** |
| **Net at December 31, 2013** | **$ 5,169** | **$ 7,696** | **$12,865** |

| Cost | Land | Buildings | Total |
|---|---|---|---|
| **Balance at January 1, 2012** | $ 5,680 | $ 22,105 | $ 27,785 |
| Transfers from property and equipment | 1,036 | 6,432 | 7,468 |
| Reclassification to assets held for sale | (485) | (4,351) | (4,836) |
| Disposals | (123) | (1,145) | (1,268) |
| Other | – | 22 | 22 |
| Foreign currency translation | (9) | (70) | (79) |
| **Balance at December 31, 2012** | $ 6,099 | $ 22,993 | $ 29,092 |

| Accumulated depreciation | | | |
|---|---|---|---|
| **Balance at January 1, 2012** | $ – | $ 16,553 | $ 16,553 |
| Transfers from property and equipment | – | 4,344 | 4,344 |
| Reclassification to assets held for sale | – | (3,417) | (3,417) |
| Depreciation | – | 333 | 333 |
| Disposals | – | (698) | (698) |
| Foreign currency translation | – | (2) | (2) |
| **Balance at December 31, 2012** | $ – | $ 17,113 | $ 17,113 |
| **Net at December 31, 2012** | $ 6,099 | $ 5,880 | $ 11,979 |

## 10. EMPLOYEE BENEFITS

The Company sponsors several defined benefit pension plans for Canadian employees which are either final salary plans, career salary plans, service based plans, or a combination thereof. The Company also sponsors a final salary defined benefit pension plan in the U.K. in which membership is closed. These defined benefit plans require contributions to be made to a separately administered fund. Certain retired employees are covered under a post-retirement benefit plan, which reimburses certain medical costs and provides life insurance coverage.

The Canadian plans are governed by the pension laws of the province in which the respective plan is registered. The U.K. plan is governed by the employment laws of the U.K.

The Company's pension funding policy is to contribute amounts sufficient, at minimum, to meet local statutory funding requirements. For the Company's defined benefit pension plans, local regulatory bodies either define minimum funding requirements or approve funding plans submitted by the Company. From time to time the Company may make additional discretionary contributions taking into account actuarial assessments and other factors. The contributions that have been made to support ongoing plan obligations have been recorded in the respective asset or liability accounts on our consolidated balance sheet. Actuarial valuations for the Company's defined benefit pension plans are completed based on the regulations in place in the jurisdictions where the plans operate.

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

| | **Other post-retirement benefits** | **Total pension** | **2013 Total** | Other post-retirement benefits | Total pension | 2012 Total |
|---|---|---|---|---|---|---|
| | | | | | *(Restated) (Note 32)* | *(Restated) (Note 32)* |
| **Accrued benefit obligation:** | | | | | | |
| **Balance, beginning of year** | **$ 84,924** | **$ 1,356,759** | **$ 1,441,683** | $ 78,278 | $ 1,236,999 | $ 1,315,277 |
| Current service cost | **232** | **21,668** | **21,900** | 645 | 19,773 | 20,418 |
| Interest cost | **3,113** | **50,434** | **53,547** | 3,458 | 55,209 | 58,667 |
| Benefits paid from plan assets | **–** | **(78,067)** | **(78,067)** | – | (75,391) | (75,391) |
| Benefits paid directly from the Company | **(3,309)** | **(1,713)** | **(5,022)** | (3,217) | (1,816) | (5,033) |
| Actuarial (gains) losses – experience | **(22,938)** | **(14,871)** | **(37,809)** | (937) | (2,425) | (3,362) |
| Actuarial (gains) losses – demographic experience | **–** | **–** | **–** | 805 | 8,742 | 9,547 |
| Actuarial (gains) losses – financial assumptions | **(4,560)** | **(117,594)** | **(122,154)** | 7,002 | 123,964 | 130,966 |
| Employee contributions | **–** | **4,633** | **4,633** | – | 4,515 | 4,515 |
| Special termination benefits | **–** | **2,547** | **2,547** | – | 2,080 | 2,080 |
| Curtailments | **–** | **(5,182)** | **(5,182)** | (1,110) | (1,780) | (2,890) |
| Settlements | **–** | **(17,274)** | **(17,274)** | – | (13,111) | (13,111) |
| **Balance, end of year** | **$ 57,462** | **$ 1,201,340** | **$ 1,258,802** | $ 84,924 | $ 1,356,759 | $ 1,441,683 |
| Unfunded | **$ 57,462** | **$ 31,055** | **$ 88,517** | $ 84,924 | $ 31,243 | $ 116,167 |
| Funded [i] | **–** | **1,170,285** | **1,170,285** | – | 1,325,516 | 1,325,516 |
| **Total obligation** | **$ 57,462** | **$ 1,201,340** | **$ 1,258,802** | $ 84,924 | $ 1,356,759 | $ 1,441,683 |

[i] *Includes wholly and partially funded plans*

| | | | | | | |
|---|---|---|---|---|---|---|
| **Plan Assets** | | | | | | |
| **Fair value, beginning of year** | **$ –** | **$ 1,130,060** | **$ 1,130,060** | $ – | $ 1,099,993 | $ 1,099,993 |
| Interest income | **–** | **41,350** | **41,350** | – | 48,392 | 48,392 |
| Actuarial gains [ii] | **–** | **114,018** | **114,018** | – | 54,420 | 54,420 |
| Employer contributions | **–** | **15,526** | **15,526** | – | 17,744 | 17,744 |
| Employee contributions | **–** | **4,633** | **4,633** | – | 4,515 | 4,515 |
| Benefits paid | **–** | **(78,067)** | **(78,067)** | – | (75,391) | (75,391) |
| Administrative costs | **–** | **(4,593)** | **(4,593)** | – | (5,580) | (5,580) |
| Settlements | **–** | **(19,752)** | **(19,752)** | – | (14,033) | (14,033) |
| **Fair value, end of year** | **$ –** | **$ 1,203,175** | **$ 1,203,175** | $ – | $ 1,130,060 | $ 1,130,060 |
| Other | **$ –** | **$ (1,261)** | **$ (1,261)** | – | $ (1,479) | (1,479) |
| **Accrued benefit asset (liability), end of year** | **$ (57,462)** | **$ 574** | **$ (56,888)** | $ (84,924) | $ (228,178) | $ (313,102) |

[ii] *Return on plan assets greater (less) than discount rate*

Amounts recognized in the consolidated balance sheet consist of:

| | **As at December 31, 2013** | As at December 31, 2012 | As at January 1, 2012 |
|---|---|---|---|
| Employee benefit assets | **$ 117,615** | $ 107,831 | $ 133,942 |
| Employee benefit liabilities | **174,503** | 420,933 | 350,853 |
| | **$ (56,888)** | $ (313,102) | $ (216,911) |

Pension benefit expense recognized in net earnings (loss):

| | **2013** | 2012 |
|---|---|---|
| | | *(Restated) (Note 32)* |
| Current service cost – defined benefit | **$ 21,668** | $ 19,773 |
| Current service cost – defined contribution and multi-employer plans | **26,439** | 24,871 |
| Net interest cost | **9,084** | 6,817 |
| Administrative costs | **4,593** | 5,580 |
| Curtailment gain [(i)] | **(5,182)** | (1,780) |
| Special termination benefits [(i)] | **367** | 2,080 |
| Settlement loss [(ii)] | **2,478** | 922 |
| Net benefit plan expense | **$ 59,447** | $ 58,263 |

(i) *Includes $4.2 million on business disposal and $1.0 million of restructuring costs (2012: $1.8 million).*

(ii) *Includes $1.8 million related to the final asset and liability transfer on the 2007 sale of Maple Leaf Animal Nutrition, as well as $0.7 million of restructuring costs (2012: $0.3 million).*

During the year, the Company expensed salaries and benefits of $1,117.8 million (2012: $1,120.5 million), excluding pension and other post-retirement benefits.

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

| | **2013** | 2012 |
|---|---|---|
| | | *(Restated) (Note 32)* |
| Actuarial gains (losses) | **$ 273,981** | $ (82,732) |
| | **$ 273,981** | $ (82,732) |

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

| | **2013** | 2012 |
|---|---|---|
| Weighted average discount rate used to calculate the net benefit plan expense | **3.75%** | 4.50% |
| Weighted average discount rate used to calculate year end benefit obligation | **4.50%** | 3.75% |
| Rate of compensation increase | **3.50%** | 3.50% |
| Medical cost trend rates | **5.50%** | 6.00% |

Plan assets comprise of:

| | **As at December 31, 2013** | As at December 31, 2012 | As at January 1, 2012 |
|---|---|---|---|
| Equity securities | **62%** | 60% | 59% |
| Debt securities | **36%** | 37% | 38% |
| Other investments and cash | **2%** | 3% | 3% |
| | **100%** | 100% | 100% |

Of the equity securities 30% are a level 1 on the fair value hierarchy, with the remainder being level 2. All of the debt securities are a level 2, on the fair value hierarchy.

Other post-retirement benefits expense:

| | **2013** | 2012 |
|---|---|---|
| Current service cost | **$ 232** | $ 645 |
| Curtailment gain [(i)] | **–** | (1,110) |
| Interest cost | **3,113** | 3,458 |
| | **$ 3,345** | $ 2,993 |

(i) *Included in restructuring and other related costs*

Impact of 1% change in health care cost trend:

| | | | Increase (decrease) in defined benefit obligation | | |
|---|---|---|---|---|---|
| **Actuarial Assumption** | | **Sensitivity** | **Total pensions** | **Other post-retirement benefits** | **Total** |
| Period end Discount rate | 4.50% | 0.25% decrease | $ 37,353 | $ 1,481 | $ 38,834 |
| | | 0.25% increase | $ (36,205) | $ (1,444) | $ (37,649) |
| Rate of salary increase | 3.50% | 0.50% increase | $ 3,452 | N/A | $ 3,452 |
| Mortality | UP 94 Generational Mortality Table | Increase of 1 year in expected lifespan of plan participants | $ 37,058 | $ 1,829 | $ 38,887 |

Measurement dates:

| | |
|---|---|
| 2013 expense | December 31, 2012 |
| Balance sheet | December 31, 2013 |

The average expected maturity of the pension obligations is 12.7 years (December 31, 2012: 12.6 years, January 1, 2012: 13.8 years).

The Company expects to contribute $46.2 million to pension plans in 2014, inclusive of defined contribution plans and multi-employer plans.

### *Governance and Risk Management*

The Company administers its pension plans through its Board of Directors. The Company's Board of Directors has established a governance structure and delegated to the Audit Committee and the Pension Investment Advisory Committee all aspects of the investment of the funds. The Company's Board of Directors has delegated to the Pension Policy and Administration Committee the authority to make amendments to the documents that govern the pension plans of an administrative or compliance nature, that relate to collective bargaining agreements entered into by the Company or that have a minimal financial impact on the plans.

In fulfilling their responsibilities, the Audit Committee and the Pension Investment Advisory Committee may delegate functions or responsibilities to, or otherwise utilize employees of the Company where appropriate. The Audit Committee and the Pension Investment Advisory Committee may rely on independent experts for certain aspects of the funds' operations. The Audit Committee or the Pension Investment Advisory Committee, as appropriate, retain responsibility and utilize suitable personnel for such activities and monitor the activities undertaken by the selected personnel.

The Supplemental Retirement Plan for the Managers of Multi-Marques Inc. is registered in Québec, Canada, and therefore, operates under the regulations established by the Régis des rentes du Québec. As required by the regulations, the plan is administered by the Multi-Marques Pension Committee and is responsible for all aspects of the operations of the Multi-Marques Plan. The Multi-Marques Pension Committee has delegated certain aspects of its responsibilities and powers, regarding the operations of the Multi-Marques Plan, to the Company.

The plan assets are invested primarily in well diversified pooled funds that meet the constraints set out in legislation of the jurisdictions in which the plans operate. Further diversification criteria set out in investment funds' governing documents require the division of investments between equities and fixed income. There are no significant concentration of risks.

### *Multi-Employer Plans*

The Company contributes to both the Canadian Commercial Workers Industry Pension Plan and the Bakery and Confectionery Union and Industry Canada Pension Fund, which are multi-employer defined benefit plans for employees who are members of the United Food and Commercial Workers Union and the Canadian Bakery and Confectionary Union, respectively. These are large-scale plans for union workers of multiple companies across Canada and the U.S. Adequate information to account for these contributions as a defined benefit plan in the Company's statements is not available due to the size and number of contributing employers in the plan. Included in pension benefit expense is $6.0 million (2012: $5.1 million) related to payments into these plans. The Company expects to contribute $5.7 million into these plans for the 2014 year.

## 11. GOODWILL

The continuity of goodwill for the years ended December 31, 2013 and 2012 is as follows:

| **Cost** | **December 31, 2013** | December 31, 2012 |
|---|---|---|
| Opening balance | **$ 851,659** | $ 850,922 |
| Acquisitions *(Note 30)* | **–** | 470 |
| Disposals | **(33,647)** | – |
| Foreign currency translation | **8,028** | 267 |
| Balance | **$ 826,040** | $ 851,659 |
| **Impairment losses** | | |
| Opening balance | **$ (98,503)** | $ (97,183) |
| Impairment | **(356)** | – |
| Foreign currency translation | **(6,383)** | (1,320) |
| Balance | **$(105,242)** | $ (98,503) |
| **Net carrying amounts** | **$ 720,798** | $ 753,156 |

For the purposes of annual impairment testing, goodwill is allocated to the following groups of CGUs, being the groups expected to benefit from the synergies of the business combinations in which the goodwill arose:

| | **As at December 31, 2013** | As at December 31, 2012 | As at January 1, 2012 |
|---|---|---|---|
| **CGU Groups** | | | |
| Meat products | **$ 428,236** | $ 442,925 | $ 442,336 |
| By-product recycling [(i)] | **–** | 13,845 | 13,845 |
| Canadian Fresh Bakery | **173,839** | 173,839 | 173,839 |
| North American Frozen Bakery | **118,723** | 117,077 | 118,249 |
| Fresh Pasta [(i)] | **–** | 5,470 | 5,470 |
| | **$ 720,798** | $ 753,156 | $ 753,739 |

[(i)] *The goodwill related to the by-product recycling operations ("Rothsay") and Fresh Pasta ("Olivieri") were disposed of during the year ended December 31, 2013. Refer to Note 22 for further details.*

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

- Cash flows were projected based on the Company's long-term business plan. Cash flows for a further perpetual period were extrapolated using the growth rates listed below. These rates do not exceed the long-term average growth rate for the countries in which the segments operate. The Company's cash flow projections include estimated benefits from the implementation of the Company's Strategic Value Creation Initiatives, as discussed in Note 17. Material differences in these estimates could have a significant impact on the determination of the recoverable amount.
- The business plan contains forecasts up to, and including, the year 2015, and was based on past experience of actual operating results in conjuncture with anticipated future growth opportunities. While the forecast does assume some base business expansion, largely related to innovation, the primary engine of growth is strategic in nature and is consistent with the projects and expectations as articulated in the Company's strategic plan.
- Discount rates as shown in the table below were applied in determining the recoverable amount of each CGU group. The discount rate was estimated based on past experience and the weighted average cost of capital of the Company and other competitors in the industry.

| | **Discount Rate** | | **Growth Rate** | |
|---|---|---|---|---|
| **CGU Group** | **2013** | 2012 | **2013** | 2012 |
| Meat products | **14.2%** | 13.7% | **2.3%** | 2.2% |
| By-product recycling [(i)] | **N/A** | 8.8% | **N/A** | 2.2% |
| Canadian Fresh Bakery | **10.6%** | 10.7% | **2.3%** | 2.2% |
| North American Frozen Bakery | **9.8%** | 8.6% | **2.6%** | 2.5% |
| Fresh Pasta [(i)] | **N/A** | 9.1% | **N/A** | 2.2% |

[(i)] *The recoverable amount for the by-product recycling and Fresh Pasta CGU Groups were determined based on anticipated net proceeds of disposal. Therefore, determination of discount rate and growth rate for discounting future cash flows was not required.*

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

## 12. INTANGIBLE ASSETS

| | **As at December 31, 2013** | As at December 31, 2012 | As at January 1, 2012 |
|---|---|---|---|
| Indefinite life | **$ 71,676** | $ 81,335 | $ 81,569 |
| Definite life | **126,902** | 127,458 | 110,327 |
| **Total intangible assets** | **$ 198,578** | $ 208,793 | $ 191,896 |

| Cost | Definite Life | | | | |
|---|---|---|---|---|---|
| | Software in use | Software in process | Trademarks | Customer relationships | Total |
| **Balance at December 31, 2012** | **$ 102,889** | **$ 28,228** | **$ 8,215** | **$ 13,143** | **$ 152,475** |
| Additions | **–** | **12,280** | **–** | **–** | **12,280** |
| Capitalization of interest | **–** | **772** | **–** | **–** | **772** |
| Transfers | **18,631** | **(18,631)** | **–** | **–** | **–** |
| Other | **1,599** | **(686)** | **–** | **–** | **913** |
| Effect of movement in exchange rates | **–** | **–** | **5** | **900** | **905** |
| **Balance at December 31, 2013** | **$ 123,119** | **$ 21,963** | **$ 8,220** | **$ 14,043** | **$ 167,345** |
| **Amortization and impairment losses** | | | | | |
| **Balance at December 31, 2012** | **$ 14,035** | **$ –** | **$ 7,468** | **$ 3,514** | **$ 25,017** |
| Amortization | **12,034** | **–** | **567** | **476** | **13,077** |
| Impairment loss | **–** | **–** | **–** | **1,255** | **1,255** |
| Other | **913** | **–** | **–** | **–** | **913** |
| Effect of movement in exchange rates | **–** | **–** | **–** | **181** | **181** |
| **Balance at December 31, 2013** | **$ 26,982** | **$ –** | **$ 8,035** | **$ 5,426** | **$ 40,443** |
| **Net at December 31, 2013** | **$ 96,137** | **$ 21,963** | **$ 185** | **$ 8,617** | **$ 126,902** |

| Carrying amount | Indefinite Life | | | |
|---|---|---|---|---|
| | Trademarks | Delivery routes | Quota | Total |
| **Balance at December 31, 2012** | **$ 52,282** | **$ 846** | **$ 28,207** | **$ 81,335** |
| Additions | **–** | **2,403** | **–** | **2,403** |
| Transfer to assets held for sale | **–** | **–** | **(8,054)** | **(8,054)** |
| Disposals | **(1,335)** | **(2,673)** | **–** | **(4,008)** |
| **Balance at December 31, 2013** | **$ 50,947** | **$ 576** | **$ 20,153** | **$ 71,676** |

| Cost | Definite Llife | | | | |
|---|---|---|---|---|---|
| | Software in use | Software in process | Trademarks | Customer relationships | Total |
| **Balance at January 1, 2012** | $ 40,959 | $ 63,597 | $ 8,220 | $ 12,948 | $ 125,724 |
| Additions | – | 24,731 | – | – | 24,731 |
| Capitalization of interest | – | 1,830 | – | – | 1,830 |
| Transfers | 61,930 | (61,930) | – | – | – |
| Effect of movement in exchange rates | – | – | (5) | 195 | 190 |
| **Balance at December 31, 2012** | $ 102,889 | $ 28,228 | $ 8,215 | $ 13,143 | $ 152,475 |
| **Amortization and impairment losses** | | | | | |
| **Balance at January 1, 2012** | $ 5,589 | $ – | $ 6,777 | $ 3,031 | $ 15,397 |
| Amortization | 8,446 | – | 691 | 483 | 9,620 |
| **Balance at December 31, 2012** | $ 14,035 | $ – | $ 7,468 | $ 3,514 | $ 25,017 |
| **Net at December 31, 2012** | $ 88,854 | $ 28,228 | $ 747 | $ 9,629 | $ 127,458 |

| Carrying amount | Indefinite Life | | | |
|---|---|---|---|---|
| | Trademarks | Delivery routes | Quota | Total |
| **Balance at January 1, 2012** | $ 52,282 | $ 924 | $ 28,363 | $ 81,569 |
| Additions | – | 2,490 | – | 2,490 |
| Acquisition of business | – | – | 28,100 | 28,100 |
| Transfer to assets held for sale | – | – | (28,100) | (28,100) |
| Disposals | – | (2,568) | (156) | (2,724) |
| **Balance at December 31, 2012** | $ 52,282 | $ 846 | $ 28,207 | $ 81,335 |

### *Amortization*

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

### *Borrowing Costs*

During the year borrowing costs of $0.8 million (2012: $1.8 million) were capitalized using an average capitalization rate of 5.4% (2012: 5.5%).

### *Indefinite Life Intangibles*

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

| | **As at December 31, 2013** | As at December 31, 2012 | As at January 1, 2012 |
|---|---|---|---|
| **CGU Groups** | | | |
| Meat Products | **$ 66,853** | $ 74,908 | $ 75,063 |
| Fresh Bakery | **4,823** | 6,427 | 6,506 |
| | **$ 71,676** | $ 81,335 | $ 81,569 |

The Company performs annual impairment testing on its indefinite life intangible assets. Annual impairment testing, consistent with the impairment testing for goodwill, as described in Note 11, involves determining the recoverable amount of each indefinite life intangible asset and comparing it to the carrying value. The recoverable values of the Company's indefinite life intangible assets are determined as follows:

### *Trademarks*

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

| | **2013** | **2012** |
|---|---|---|
| Royalty rate range | **0.5 - 2.0%** | 0.5 - 2.0% |
| Growth rate range | **1.0 - 2.0%** | 1.0 - 4.0% |
| Discount rate | **10.0%** | 10.0% |

### *Quotas*

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

### *Delivery Routes*

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

## 13. PROVISIONS

| | **Legal** | **Environ-mental** | **Lease make-good** | **Restructuring and other related costs** [(i)] | **Total** |
|---|---|---|---|---|---|
| **Balance at December 31, 2012** | **$ 741** | **$ 16,071** | **$ 6,098** | **$ 29,225** | **$ 52,135** |
| Charges | **–** | **–** | **83** | **74,393** | **74,476** |
| Reversals | **(43)** | **(3,148)** | **(1,769)** | **(7,365)** | **(12,325)** |
| Cash payments | **(137)** | **(314)** | **–** | **(37,667)** | **(38,118)** |
| Non-cash items | **–** | **–** | **–** | **(2,231)** | **(2,231)** |
| Foreign currency translation | **–** | **(6)** | **324** | **201** | **519** |
| **Balance at December 31, 2013** | **$ 561** | **$ 12,603** | **$ 4,736** | **$ 56,556** | **$ 74,456** |
| Current | | | | | **$ 54,853** |
| Non-current | | | | | **19,603** |
| **Total at December 31, 2013** | | | | | **$ 74,456** |

| | **Legal** | **Environ-mental** | **Lease make-good** | **Restructuring and other related costs** [(i)] | **Total** |
|---|---|---|---|---|---|
| **Balance at January 1, 2012** [(ii)] | $ 909 | $ 22,480 | $ 5,849 | $ 43,953 | $ 73,191 |
| Charges | 538 | 482 | 174 | 24,030 | 25,224 |
| Reversals | (335) | (6,274) | – | (6,631) | (13,240) |
| Cash payments | (167) | (255) | – | (34,331) | (34,753) |
| Non-cash items | (204) | (362) | 75 | 2,204 | 1,713 |
| **Balance at December 31, 2012** | $ 741 | $ 16,071 | $ 6,098 | $ 29,225 | $ 52,135 |
| Current | | | | | $ 26,335 |
| Non-current | | | | | 25,800 |
| **Total at December 31, 2012** | | | | | $ 52,135 |

(i) *For additional information on restructuring and other related costs, see the table below.*

(ii) *The January 1, 2012, balance included $44.3 million of current provisions, and $28.9 million of non-current provisions*

The following tables provide a summary of provisions recorded in respect of restructuring and other related costs as at December 31, 2013 and 2012 all on a pre-tax basis:

| | **Severance** | **Site closing and other cash costs** | **Retention** | **Pension** | **Restructuring and other related costs** |
|---|---|---|---|---|---|
| **Balance at December 31, 2012** | **$ 14,996** | **$ 11,490** | **$ 561** | **$ 2,178** | **$ 29,225** |
| Charges | **44,480** | **7,792** | **22,075** | **46** | **74,393** |
| Reversals | **(5,529)** | **(769)** | **(1,067)** | **–** | **(7,365)** |
| Cash payments | **(26,421)** | **(6,244)** | **(5,002)** | **–** | **(37,667)** |
| Non-cash items | **612** | **(660)** | **41** | **(2,224)** | **(2,231)** |
| Foreign currency translation | **(314)** | **515** | **–** | **–** | **201** |
| **Balance at December 31, 2013** | **$ 27,824** | **$ 12,124** | **$ 16,608** | **$ –** | **$ 56,556** |

| | Severance | Site closing and other cash costs | Retention | Pension | Restructuring and other related costs |
|---|---|---|---|---|---|
| **Balance at January 1, 2012** | $ 25,692 | $ 16,813 | $ 1,448 | $ – | $ 43,953 |
| Charges | 17,006 | 4,464 | 1,101 | 1,459 | 24,030 |
| Reversals | (3,955) | (2,524) | (152) | – | (6,631) |
| Cash payments | (24,691) | (8,442) | (1,198) | – | (34,331) |
| Non-cash items | – | 1,485 | – | 719 | 2,204 |
| Other | 944 | (306) | (638) | – | – |
| **Balance at December 31, 2012** | $ 14,996 | $ 11,490 | $ 561 | $ 2,178 | $ 29,225 |

## 14. BANK INDEBTEDNESS AND LONG-TERM DEBT

| | **As at December 31, 2013** | As at December 31, 2012 | As at January 1, 2012 |
|---|---|---|---|
| **Bank indebtedness** *(a), (b)* | **$ 4,408** | $ 48,243 | $ 36,404 |
| Notes payable: | | | |
| due 2011 to 2016 (CAD$24.9 million) *(c)* | **$ –** | $ 26,270 | $ 32,029 |
| due 2014 (US$98.0 million and CAD$105.0 million) *(d)* | **208,894** | 202,069 | 203,883 |
| due 2015 (CAD$90.0 million) *(e)* | **89,330** | 89,488 | 89,270 |
| due 2015 (CAD$7.0 million) *(f)* | **7,000** | 7,000 | 7,000 |
| due 2016 (US$7.0 million and CAD$20.0 million) *(d)* | **27,228** | 26,778 | 26,942 |
| due 2020 (CAD$30.0 million) *(f)* | **29,689** | 29,814 | 29,777 |
| due 2021 (US$213.0 million and CAD$102.5 million) *(f)* | **327,399** | 312,715 | 316,868 |
| Revolving term facility *(a)* | **255,000** | 510,000 | 240,000 |
| Other *(g)* | **9,452** | 9,384 | 1,805 |
| | **$ 953,992** | $ 1,213,518 | $ 947,574 |
| Less: Current portion | **209,780** | 6,573 | 5,618 |
| **Long-term debt** | **$ 744,212** | $ 1,206,945 | $ 941,956 |

The notes payable and the revolving term facility require the maintenance of certain covenants. As at December 31, 2013, the Company was in compliance with all of these covenants.

(a) On October 31, 2012, the Company increased its existing committed revolving credit facility by $250.0 million to $1.05 billion and extended the term by one year to May 16, 2016. The facility was increased using the same syndicate of Canadian, U.S., and international institutions. The facility can be drawn in Canadian or U.S. dollars and bears interest payable monthly, based on Banker's Acceptance and Prime rates for Canadian dollar loans and LIBOR for U.S. dollar loans. As at December 31, 2013, Canadian dollar loans of $255.0 million (December 31, 2012: $510.0 million; January 1, 2012: $240.0 million) were drawn and letters of credit of $93.8 million (December 31, 2012: $111.3 million; January 1, 2012: $131.5 million) were

outstanding. In addition, within the facility, there is a $70.0 million available swing-line. As at December 31, 2013, there were no overdraft loans drawn on the swing-line (December 31, 2012: $39.5 million; January 1, 2012: $49.0 million, classified as bank indebtedness). Total utilization under the facility at December 31, 2013, was $348.8 million (December 31, 2012: $660.8 million; January 1, 2012: $420.5 million). Due to the sale of Rothsay, the Company has $251.1 million of its credit facility restricted exclusively for debt repayment purposes until no later than January 2015. The facility will be used to meet the Company's funding requirements for general corporate purposes, and to provide appropriate levels of liquidity. The lending covenants in the facility are largely consistent with the Company's existing credit arrangements.

(b) The Company has a demand operating line of credit bearing interest at LIBOR of £5.0 million ($8.8 million) to provide short-term funding for its U.K. operations. As at December 31, 2013, £2.5 million ($4.4 million) (December 31, 2012: £nil ($nil); January 1, 2012: £2.0 million ($3.2 million)) was outstanding on the line of credit and has been classified as bank indebtedness. The Company has an overdraft operating facility bearing interest at the Bank of England Base Rate of £5.0 million ($8.8 million). As at December 31, 2013, £2.0 million ($3.6 million) (December 31, 2012: £2.1 million ($3.3 million); January 1, 2012: £4.4 million ($6.8 million)) was outstanding on the overdraft operating facility and reduced the Company's cash and cash equivalents. The Company also has additional on demand operating facilities of $40.0 million available in Canada and US$10.0 million in the U.S. ($10.7 million) bearing interest at Prime rates. As at December 31, 2013, $nil (December 31, 2012: $20.0 million; January 1, 2012: $20.0 million) was outstanding and reduced the Company's cash and cash equivalents. All of these facilities are uncommitted.

(c) In April 2004 as part of the acquisition of the Schneider Corporation, the Company assumed liabilities outstanding in respect of debentures previously issued by the Schneider Corporation. The debentures provided for principal payments totaling $13.1 million and $60.0 million, bearing interest at fixed annual rates of 10.0% and 7.5%, respectively. The debentures required annual principal repayments over the term of the bonds and had a final maturity date of October 2016. These debentures were recorded at their fair value on the acquisition closing date. The difference between the acquisition date fair value and the face value of the bonds is amortized over the remaining life of the debentures on an effective yield basis. In October 2013, the Company repaid the remaining principal balance of the debentures, including a make-whole premium, for a total of $28.2 million resulting in a $1.4 million loss on early retirement of debt, which was recorded in interest expense as other financing costs.

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

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

Details of the remaining four tranches are as follows:

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

Interest is payable semi-annually. Through the use of cross-currency interest rate swaps, the Company hedged US$98.0 million of debt maturing in 2014 into Canadian dollar-denominated debt bearing interest at an annual fixed rate of 6.0%; as well as US$2.0 million of debt maturing in 2016 into Canadian dollar-denominated debt bearing interest at an annual fixed rate of 6.1%. At December 31, 2013, the fair value of the swap liabilities were $31.6 million (December 31, 2012: $40.1 million; January 1, 2012: $38.6 million) based on year end exchange rates.

(e) In April 2010 and May 2010, the Company issued $75.0 million of notes payable, bearing interest at 6.08% per annum and $15.0 million of notes payable, bearing interest at 5.76% per annum, respectively. The notes payable have a maturity date of April 2015.

(f) In December 2010, the Company issued notes payable in tranches of U.S. and Canadian dollar-denominations, with maturity dates from 2015 to 2021 and bearing interest at fixed annual coupon rates. The Company received proceeds of CAD$37.0 million in December 2010 and US$213.0 million and CAD$102.5 million in January 2011.

Details of the four tranches are as follows:

| Principal | Maturity Date | Annual Coupon |
|---|---|---|
| CAD$7.0 million | 2015 | 4.9% |
| CAD$30.0 million | 2020 | 5.9% |
| CAD$102.5 million | 2021 | 5.9% |
| US$213.0 million | 2021 | 5.2% |

Interest is payable semi-annually. Through the use of cross-currency interest rate swaps, the Company hedged US$213.0 million of debt maturing in 2021 into Canadian dollar-denominated debt with interest at an annual fixed rate of 6.1%. At December 31, 2013, the fair value of the swap assets were $5.9 million (December 31, 2012: swap liabilities $6.0 million; January 1, 2012: swap liabilities $8.9 million) based on year end exchange rates.

(g) The Company has other various lending facilities, with interest rates ranging from non-interest bearing to 2.9% per annum. These facilities are repayable over various terms from 2014 to 2022. As at December 31, 2013, $23.9 million (December 31, 2012: $20.6 million; January 1, 2012: $11.6 million) was outstanding, of which $14.5 million (December 31, 2012: $11.2 million; January 1, 2012: $9.8 million) was in respect to letters of credit. All of these facilities are committed except for the letters of credit.

(h) The Company's estimated average effective cost of borrowing for 2013 was approximately 5.7% (2012: 5.7%) after taking into account the impact of interest rate hedges. The weighted average term of the Company's debt is 3.5 years (2012: 4.0 years).

Required repayments of long-term debt are as follows:

| | |
|---|---|
| 2014 | $ 209,780 |
| 2015 | 97,187 |
| 2016 | 283,126 |
| 2017 | 808 |
| 2018 | 572 |
| Thereafter | 362,519 |
| **Total long-term debt** | **$ 953,992** |

## 15. OTHER LONG-TERM LIABILITIES

| | **As at December 31, 2013** | As at December 31, 2012 | As at January 1, 2012 |
|---|---|---|---|
| Derivative instruments *(Note 18)* | **$ 12,728** | $ 62,032 | $ 70,722 |
| Other | **16,016** | 18,052 | 17,431 |
| | **$ 28,744** | $ 80,084 | $ 88,153 |

## 16. CAPITAL AND OTHER COMPONENTS OF EQUITY

### *Share Capital*

| | **Common shares** | | **Treasury stock** | |
|---|---|---|---|---|
| *(thousands of shares)* | **2013** | 2012 | **2013** | 2012 |
| **On issue at January 1** | **139,885** | 139,517 | **159** | 527 |
| Distributions under stock compensation plans | **45** | 1,168 | **(45)** | (1,168) |
| Exercise of share options | **212** | – | **–** | – |
| Purchase of treasury stock | **–** | (800) | **–** | 800 |
| **Balance at December 31** | **140,142** | 139,885 | **114** | 159 |

### *Common Shares*

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

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

### *Treasury Stock*

Treasury Stock is comprised of shares purchased by a trust in order to satisfy the requirements of the Company's Share Incentive Plan, as described in Note 24.

*Accumulated Other Comprehensive Loss Attributable to Common Shareholders*

| | Foreign currency translation adjustments [i] | Unrealized gain (loss) on cash flow hedges [i] | Change in actuarial gains and (losses) [ii] | Total accumulated other comprehensive income (loss) |
|---|---|---|---|---|
| **Balance at December 31, 2012** | **$ (8,976)** | **$ (4,287)** | **$ –** | **$ (13,263)** |
| Other comprehensive income (loss) | **9,245** | **(575)** | **201,535** | **210,205** |
| Transferred to retained earnings (deficit) | **–** | **–** | **(201,535)** | **(201,535)** |
| **Balance at December 31, 2013** | **$ 269** | **$ (4,862)** | **$ –** | **$ (4,593)** |

| | Foreign currency translation adjustments [i] | Unrealized gain (loss) on cash flow hedges [i] | Change in actuarial gains and (losses) [ii] | Total accumulated other comprehensive income (loss) |
|---|---|---|---|---|
| | | | *(Restated) (Note 32)* | *(Restated) (Note 32)* |
| **Balance at January 1, 2012** | $ (7,443) | $ (9,599) | $ – | $ (17,042) |
| Other comprehensive income (loss) | (1,533) | 5,312 | (61,214) | (57,435) |
| Transferred to retained deficit | – | – | 61,214 | 61,214 |
| **Balance at December 31, 2012** | $ (8,976) | $ (4,287) | $ – | $ (13,263) |

(i) *Items that may be subsequently reclassified to profit or loss.*

(ii) *Items that will not be reclassified to profit or loss.*

The change in accumulated foreign currency translation adjustments attributable to common shareholders includes tax of $nil for the year ended December 31, 2013 (2012: $nil).

The change in unrealized loss on cash flow hedges attributable to common shareholders includes tax recovery of $0.2 million for the year ended December 31, 2013 (2012: expense of $1.6 million).

The change in actuarial gains and losses attributable to common shareholders includes tax of $69.9 million (2012: recovery of $21.2 million).

The Company estimates that $0.6 million of the unrealized loss included in accumulated other comprehensive income (loss) will be reclassified into net earnings (loss) within the next 12 months. The actual amount of this reclassification will be impacted by future changes in the fair value of financial instruments designated as cash flow hedges and the actual amount reclassified could differ from this estimated amount. During the year ended December 31, 2013, a loss of approximately $0.5 million, net of tax of $0.2 million (2012: loss of approximately $1.0 million, net of tax recoveries of $0.3 million), was released to earnings from accumulated other comprehensive loss and is included in the net change for the period.

## 17. RESTRUCTURING AND OTHER RELATED COSTS

| | **2013** | 2012 |
|---|---|---|
| **MEAT PRODUCTS GROUP** | | |
| **Management structure changes** | | |
| Severance | **$ 2,737** | $ 6,509 |
| Pension | **–** | 330 |
| Site closing and other costs | **344** | 7 |
| Asset impairment and accelerated depreciation | **154** | – |
| | **$ 3,235** | $ 6,846 |
| **Strategic value creation initiatives** | | |
| Severance | **$ 23,484** | $ 3,475 |
| Site closing and other costs | **476** | (1,843) |
| Asset impairment and accelerated depreciation | **25,353** | 24,423 |
| Retention | **20,347** | – |
| Pension | **–** | 290 |
| | **$ 69,660** | $ 26,345 |
| **Plant closure** | | |
| Severance | **$ 111** | $ 1,793 |
| Retention | **–** | 506 |
| Pension | **460** | 569 |
| Asset impairment and accelerated depreciation | **–** | 379 |
| | **$ 571** | $ 3,247 |
| Total Meat Products Group | **$ 73,466** | $ 36,438 |

| | 2013 | 2012 |
|---|---|---|
| **BAKERY PRODUCTS GROUP** | | |
| **Management structure changes** | | |
| Severance | **$ 8,703** | $ 69 |
| Site closing and other costs | **–** | 146 |
| Retention | **88** | – |
| | **$ 8,791** | $ 215 |
| **Bakery closures** | | |
| Severance | **$ 2,171** | $ 1,205 |
| Site closing and other costs | **5,456** | 3,630 |
| Asset impairment and accelerated depreciation | **1,376** | 5,310 |
| Retention | **573** | 443 |
| Pension | **(414)** | 270 |
| | **$ 9,162** | $ 10,858 |
| Total Bakery Products Group | **$ 17,953** | $ 11,073 |
| **NON-ALLOCATED** | | |
| **Management structure changes** | | |
| Severance | **$ 1,745** | $ – |
| **Total restructuring and other related costs** | **$ 93,164** | $ 47,511 |

*Amounts in the table above are net of reversals.*

A brief description of the projects is as follows:

### Management Structure Changes

The Company has recorded restructuring and other related costs pertaining to organizational delayering and changes to its management structure.

### Strategic Value Creation Initiatives

The Company's Meat Products Group has recorded restructuring costs related to changes in its manufacturing and distribution network as part of implementing its Value Creation Plan, a comprehensive strategy to step-change productivity and profitability in its Meat business by closing inefficient plants and consolidating production into efficient scale, high technology facilities.

### Plant Closure

The Company's Meat Products Group has recorded restructuring costs related to the closure of a plant located in Ayr, Ontario.

### Bakery Closures

During the year, the Company's Bakery Products Group recorded charges in connection with the closure of bakeries in: Grand Falls, New Brunswick; Edmonton, Alberta; Toronto, Ontario; and Shawinigan, Québec.

During the year ended December 31, 2012, the Company's Bakery Products Group recorded charges in connection with the closure of two bakeries in the U.K.; two bakeries in Toronto, Ontario; a bakery in Delta, British Columbia; and two distribution centres in Québec.

### Impairment

During the year, the Company recorded $0.6 million (2012: $0.4 million) of impairment of fixed assets through restructuring and other related costs and recognized reversals of impairments of $nil million (2012: $0.2 million) also through restructuring and other related costs.

## 18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT ACTIVITIES

### Capital

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

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

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

| | 2013 | 2012 |
|---|---|---|
| | | *(Restated) (Note 32)* |
| Interest coverage (Adjusted EBITDA to net interest expense) | **1.8 x** | 5.3 x |
| Leverage ratio (Net debt to Adjusted EBITDA) | **3.6 x** | 3.1 x |

The Company's various credit facilities, all of which are unsecured, are subject to certain financial covenants. As at December 31, 2013, the Company was in compliance with all of these covenants.

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

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

### Financial Instruments

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

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

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

The fair values and notional amounts of derivative financial instruments at December 31 are shown below:

| | **2013** | | | 2012 | | |
|---|---|---|---|---|---|---|
| | **Notional amount** [(i)] | **Fair value Asset** | **Fair value Liability** | Notional amount [(ii)] | Fair value Asset | Fair value Liability |
| **Cash flow hedges** | | | | | | |
| Cross-currency interest rate swaps | **US$ 313,000** | **$ 5,903** | **$ 31,643** | US$ 313,000 | $ – | $ 46,128 |
| Foreign exchange contracts [(ii)] | **225,714** | **–** | **2,854** | 77,509 | 238 | – |
| Commodity futures contracts [(ii)] | **16,509** | **–** | **240** | 14,620 | 14 | – |
| Interest rate swaps | **–** | **–** | **–** | 260,000 | – | 22,434 |
| **Fair value hedges** | | | | | | |
| Commodity futures contracts [(ii)] | **$ 38,747** | **$ 381** | **$ –** | $ 24,411 | $ – | $ 90 |
| **Derivatives not designated in a formal hedging relationship** | | | | | | |
| Interest rate swaps | **$ 1,180,000** | **$ –** | **$ 18,764** | $ 660,000 | $ – | $ 6,151 |
| Foreign exchange contracts [(ii)] | **134,814** | **–** | **187** | 104,507 | 246 | – |
| Commodity futures contracts [(ii)] | **494,445** | **3,965** | **2,588** | 272,502 | 1,062 | – |
| **Total** | | **$ 10,249** | **$ 56,276** | | $ 1,560 | $ 74,803 |
| Current | | **$ 8,366** | **$ 43,548** | | $ 1,560 | $ 12,771 |
| Non-current | | **1,883** | **12,728** | | – | 62,032 |
| **Total** | | **$ 10,249** | **$ 56,276** | | $ 1,560 | $ 74,803 |

[(i)] *Unless otherwise stated, notional amounts are stated at the contractual Canadian dollar equivalent.*

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

The fair value of financial assets and liabilities classified as loans and receivables and other financial liabilities (excluding long-term debt) approximate their carrying value due to their short-term nature.

The fair value of long-term debt as at December 31, 2013, was $1,035.2 million (December 31, 2012: $1,293.4 million; January 1, 2012: $993.0 million) as compared to its carrying value of $954.0 million (December 31, 2012: $1,213.5 million; January 1, 2012: $947.6 million) on the consolidated balance sheet. The fair value of the Company's long-term debt was estimated based on discounted future cash flows using current rates for similar financial instruments subject to similar risks and maturities.

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

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

For the year ended December 31, 2013, the pre-tax amount of hedge ineffectiveness recognized in earnings was a gain of $3.2 million (2012: $nil), primarily related to the Company's designated interest rate swaps.

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

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Assets:** | | | | |
| Foreign exchange forward contracts | $ – | $ – | $ – | **$ –** |
| Commodity futures contracts | 4,346 | – | – | **4,346** |
| Interest rate swaps | – | 5,903 | – | **5,903** |
| | **$ 4,346** | **$ 5,903** | **$ –** | **$ 10,249** |
| **Liabilities:** | | | | |
| Foreign exchange forward contracts | $ – | $ 3,041 | $ – | **$ 3,041** |
| Commodity futures contracts | 2,828 | – | – | **2,828** |
| Interest rate swaps | – | 50,407 | – | **50,407** |
| | **$ 2,828** | **$ 53,448** | **$ –** | **$ 56,276** |

There were no transfers between levels during the year ended December 31, 2013. Determination of fair value and the resulting hierarchy requires the use of observable market data whenever available. The classification of a financial instrument in the hierarchy is based upon the lowest level of input that is significant to the measurement of fair value. For financial instruments that are recognized at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization at the end of each reporting period.

The risks associated with the Company's financial instruments and policies for managing these risks are detailed below.

### Credit Risk

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

In the normal course of business, the Company is exposed to credit risk from its customers. The Company performs ongoing credit evaluations of new and existing customers' financial condition, and reviews the collectibility of its trade and other receivables in order to mitigate any possible credit losses. As at December 31, 2013 approximately $0.2 million (December 31, 2012: $0.4 million; January 1, 2012: $0.8 million) of the Company's accounts receivable were greater than 60 days past due. The Company maintains an allowance for doubtful accounts that represents its estimate of uncollectible amounts. This allowance includes a provision related to specific losses estimated on individually significant exposures. As at December 31, 2013, the Company has recorded an allowance for doubtful accounts of $0.1 million (December 31, 2012: $0.2 million; January 1, 2012: $5.8 million). Average accounts receivable days sales outstanding for the year is consistent with historic trends. There are no significant impaired accounts receivable that have not been provided for in the allowance for doubtful accounts. The Company believes that the allowance for doubtful accounts sufficiently covers any credit risk related to past due or impaired accounts receivable balances.

Management believes concentrations of credit risk, with respect to accounts receivable, is limited due to the generally high credit quality of the Company's major customers, as well as the large number and geographic dispersion of smaller customers. The Company does, however, conduct a significant amount of business with a small number of large grocery retailers. The Company's two largest customers as at December 31, 2013, comprise of approximately 21.1% (2012: 21.5%) of consolidated sales.

The Company is exposed to credit risk on its notes receivable from a financial institution that holds an equity interest in an unconsolidated structured entity as described in Note 25. Management believes that this credit risk is limited due to the long-term AA- debt rating held by this counterparty.

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

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

### Liquidity Risk

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

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

| | December 31, 2013 | | | | |
|---|---|---|---|---|---|
| | Due within 1 year | Due between 1 and 2 years | Due between 2 and 3 years | Due after 3 years | Total |
| **Financial liabilities** | | | | | |
| Bank indebtedness | $ 4,408 | $ – | $ – | $ – | $ 4,408 |
| Accounts payable and accruals | 649,554 | – | – | – | 649,554 |
| Long-term debt [(i)] | 209,780 | 97,187 | 283,126 | 363,899 | 953,992 |
| Foreign exchange contracts | 3,041 | – | – | – | 3,041 |
| Commodity futures contracts | 2,828 | – | – | – | 2,828 |
| Interest rate swaps [(i), (ii)] | – | 3,573 | – | 15,191 | 18,764 |
| Cross-currency interest rate swaps [(i), (ii)] | 31,643 | – | – | – | 31,643 |
| Other liabilities | 2,952 | 2,534 | 911 | 851 | 7,248 |
| **Total** | **$ 904,206** | **$ 103,294** | **$ 284,037** | **$ 379,941** | **$ 1,671,478** |

(i) *Does not include contractual interest payments*

(ii) *Total fair value of cross-currency interest rate swaps in a liability position*

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

As at December 31, 2013, the Company had available undrawn committed credit of $701.2 million (December 31, 2012: $389.2 million; January 1, 2012: $379.5 million) under the terms of its principal banking arrangements. Of this amount, $251.1 million is restricted exclusively for debt repayment purposes until no later than January 2015, as described in Note 14. These banking arrangements, which mature in 2016, are subject to certain covenants and other restrictions.

### Market Risk

#### *Interest Rate Risk*

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

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

At December 31, 2013, the Company had variable rate debt of $259.4 million with a weighted average interest rate of 3.5% (December 31, 2012: $510.1 million with a weighted average interest rate of 3.1%; January 1, 2012: $243.2 million with a weighted average of 3.5%). In addition, the Company is exposed to floating interest rates on its accounts receivable securitization programs. As at December 31, 2013, the amount of cash received pursuant to these programs was $156.5 million at a weighted average interest rate of 2.1% (December 31, 2012: $161.8 million at a weighted average interest rate of 2.0%; January 1, 2012: $155.8 million with a weighted average rate of 2.1%). The maximum amount available to the Company under these programs is $170.0 million (December 31, 2012: $170.0 million; January 1, 2012: $170.0 million).

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

On December 8, 2011, the Company entered into interest rate swaps totalling $260.0 million expiring December 8, 2017. Effective December 13, 2012, the Company designated these swaps as hedging instruments in a hedging relationship to partially reduce the impact of changes in interest costs attributable to variability in market interest rates. Due to a change in the Company's projected future cash flows, as a result of the decision to divest its animal by-products recycling operations, the Company has discontinued hedge accounting for these swaps. This resulted in a reclassification of $4.7 million from accumulated other comprehensive income to other income on September 30, 2013.

As at December 31, 2013, 62.7% (December 31, 2012: 70.1%; January 1, 2012: 87.4%) of the Company's outstanding debt and revolving accounts receivable securitization program were not exposed to interest rate movements.

### *Foreign Exchange Risk*

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

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

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

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

| *(thousands of currency units)* **Maturity** | **Notional amount** | **Receive rate** (i) | Notional amount | Pay rate (i) |
|---|---|---|---|---|
| | *US$* | | *CAD$* | |
| 2014 | 100,000 | 5.6% | 138,000 | 6.0% |
| 2021 | 213,000 | 5.2% | 220,150 | 6.1% |

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

A portion of the Company's U.S. dollar-denominated notes payable is not swapped into Canadian dollars and is designated as a net investment hedge of its U.S. operations. At December 31, 2013, the amount of notes payable designated as a hedge of the Company's net investment in U.S. operations was US$5.0 million (December 31, 2012: US$5.0 million; January 1, 2012: US$5.0 million). Foreign exchange gains and losses on the designated notes payable are recorded in shareholders' equity in the foreign currency translation adjustment component of accumulated other comprehensive income and offset translation adjustments on the underlying net assets of the U.S. operations, which are also recorded in accumulated other comprehensive income (loss). The loss on the net investment hedge recorded in other comprehensive income (loss) for the year ended December 31, 2013, was $0.4 million before taxes (2012: gain of $0.1 million).

The Company uses foreign exchange forward contracts to manage foreign exchange transaction exposures. The primary currencies to which the Company is exposed to are the U.S. dollar and the Japanese yen. Qualifying foreign currency forward contracts are accounted for as cash flow hedges. As of December 31, 2013, $225.7 million of anticipated foreign currency-denominated sales and purchases have been hedged with underlying foreign exchange forward contracts settling at various dates beginning January 2014. The aggregate fair value of these forward contracts was a loss of $2.9 million at December 31, 2013 (December 31, 2012: gain of $0.2 million; January 1, 2012: gain of $2.6 million) that was recorded in accumulated other comprehensive income with an offsetting amount recorded in other current liabilities (December 31, 2012: prepaid expenses and other assets; January 1, 2012: prepaid expenses and other assets). The Company also holds foreign exchange contracts for $134.8 million related to anticipated foreign currency-denominated sales and purchases that are not held in a qualifying hedge relationship.

At December 31, 2013, the Company had fixed-rate debt of $699.0 million (December 31, 2012: $703.4 million; January 1, 2012: $707.5 million) with a weighted average notional interest rate of 5.7%. Changes in market interest rates cause the fair value of long-term debt with fixed interest rates to fluctuate but do not affect net earnings, as the Company's debt is carried at amortized cost and the carrying value does not change as interest rates change.

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

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

It is estimated that, all else constant, an adverse hypothetical 10% change in the value of the Canadian dollar against all relevant currencies would result in a change in the fair value of the Company's foreign exchange forward contracts of $17.5 million, with an offsetting change in net earnings of $0.7 million and in other comprehensive income (loss) of $16.8 million.

### *Commodity Price Risk*

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

The Company uses futures to minimize the price risk assumed under forward priced contracts with suppliers. This includes futures contracts that are designated and accounted for as fair value hedges as well as non-designated instruments.

The Company also uses futures to minimize the price risk of anticipated or forecasted transactions which are accounted for as cash flow hedges.

Changes in the fair value of the cash flow hedging derivatives are recorded in other comprehensive income to the extent the hedge is effective in mitigating the exposure to the related anticipated transaction, and subsequently reclassified to earnings to offset the impact of the hedged items when they affect earnings. The aggregate fair value of these futures contracts was a loss of $0.2 million as at December 31, 2013 (December 31, 2012: $nil; January 1, 2012: $0.4 million) that was recorded in accumulated other comprehensive income with an offsetting amount recorded in other current liabilities.

It is estimated that, all else constant, an adverse hypothetical 10% change in market prices of the underlying commodities would result in a change in the fair value of underlying outstanding derivative contracts of $15.1 million, with an offsetting change in net earnings of a loss of $12.6 million and in other current liabilities a loss of $3.6 million. These amounts exclude the offsetting impact of the commodity price risk inherent in the transactions being hedged.

### Non-Designated Interest Rate Swaps

During the second quarter of 2010, the Company entered into $590.0 million of interest rate swaps. Swaps totalling $330.0 million started on April 28, 2010 and have an expiry date of April 28, 2015 with an average interest rate of 3.3%. The remaining swaps totalling $260.0 million, started on December 8, 2011, with an average interest rate of 4.2% and were extended and designated in a formal hedging relationship in 2011. These swaps have been de-designated during the current year as previously described. During the fourth quarter of 2013, the Company entered into swaps to offset the $260.0 million of de-designated interest rate swaps with an expiry of December 8, 2017. Under the offsetting interest rate swaps, the Company receives an average fixed rate of 1.8% and pays a floating rate of interest on a notional amount of $260.0 million. These offsetting interest rate swaps effectively neutralize the mark-to-market income volatility on the notional amount of $260.0 million created by the existing interest rate swaps with an expiry date of December 8, 2017.

During the first quarter of 2011, the Company entered into swaps to offset $330.0 million of existing interest rate swaps with an expiry date of April 28, 2015. The offsetting interest rate swaps were executed as new fixed-rate private placement debt, finalized in the fourth quarter of 2010, reduced the Company's expected floating rate debt requirements by $355.0 million. Under the offsetting interest rate swaps, the Company receives an average fixed rate of 2.5% and pays a floating rate of interest on a notional amount of $330.0 million. These offsetting interest rate swaps effectively neutralize the mark-to-market income volatility on the notional amount of $330.0 million created by the existing interest rate swaps with an expiry date of April 28, 2015.

## 19. OTHER INCOME (EXPENSE)

| | **2013** | 2012 (*Restated*) (*Note 22*) |
|---|---|---|
| Gain on sale of investment properties | **$ 323** | $ – |
| Adjustment of prior gain on acquisition *(Note 30)* | **(985)** | – |
| Gain on business combinations | **–** | 5,330 |
| Recovery from insurance claims | **4,803** | 3,100 |
| Legal settlements | **–** | 1,400 |
| Gain on sale of property and equipment | **2,320** | 557 |
| Gain on sale of assets and liabilities held for sale *(i)* | **67,640** | 459 |
| Net investment property (expenses) income | **(2,534)** | (1,803) |
| Ineffective hedges | **3,239** | 52 |
| De-designation of interest rate swaps | **4,748** | – |
| Impairment of assets *(ii)* | **(7,985)** | – |
| Reversal of impairment of assets *(ii)* | **2,148** | – |
| Pension curtailment on sale of business | **4,040** | – |
| Legal and other fees on acquisition and disposal | **(2,616)** | (1,976) |
| Property tax rebate | **2,455** | – |
| Other | **399** | 1,521 |
| | **$ 77,995** | $ 8,640 |

### (i) Gain on sale of assets and liabilities held for sale

Gain (loss) on sale of assets and liabilities held for sale recorded by the Company related to the following:

| | **Year ended December 31, 2013** | | Year ended December 31, 2012 | |
|---|---|---|---|---|
| | **Net proceeds** | **Gain (loss)** | Net proceeds | Gain (loss) |
| Potato processing facility | **$ 58,067** | **$ 45,388** | $ – | $ – |
| Investment properties held for sale | **15,701** | **12,591** | – | – |
| Turkey agricultural operations | **46,278** | **9,696** | – | – |
| Poultry farm | **21,134** | **(35)** | 7,974 | 459 |
| **Total** | **$ 141,180** | **$ 67,640** | $ 7,974 | $ 459 |

A description of the asset groups is provided in Note 7.

### (ii) Impairments and reversals of impairments

Impairments and reversals recorded by the Company related to the following:

| | **2013** | 2012 |
|---|---|---|
| Impairments: | | |
| Property and equipment | **$ 3,044** | $ – |
| Investment properties | **1,507** | – |
| Assets held for sale | **1,823** | – |
| Intangibles | **1,255** | – |
| Goodwill | **356** | – |
| Total impairments | **$ 7,985** | $ – |
| Reversal of impairments: | | |
| Investment properties | **$ (760)** | $ – |
| Property and equipment | **(1,388)** | – |
| Total reversal of impairments | **$ (2,148)** | $ – |

## 20. INTEREST EXPENSE AND OTHER FINANCING COSTS

| | **2013** | 2012 *(Restated) (Note 22)* |
|---|---|---|
| Interest expense on long-term debt | **$ 42,659** | $ 39,672 |
| Interest on bankers acceptance and prime loans | **18,785** | 14,228 |
| Interest expense on interest rate swaps | **21,319** | 21,319 |
| Interest income on interest rate swaps | **(17,421)** | (16,778) |
| Net interest expense on non-designated interest rate swaps | **8,059** | 10,114 |
| Interest expense on securitized receivables | **3,106** | 3,151 |
| Amortization of deferred finance charges | **3,788** | 3,286 |
| Other interest charges | **4,139** | 3,616 |
| Interest capitalized *(Note 8, 12)* | **(15,980)** | (6,901) |
| Other financing costs *(Note 14)* | **1,388** | – |
| | **$ 69,842** | $ 71,707 |

## 21. INCOME TAXES

The components of income tax expense from continuing operations were as follows:

| | **2013** | 2012 *(Restated) (Note 22, 32)* |
|---|---|---|
| **Current tax expense** | | |
| Current year | **$ 21,460** | $ 28,904 |
| Adjustment for prior periods | **(144)** | 18 |
| | **$ 21,316** | $ 28,922 |
| **Deferred tax expense** | | |
| Origination and reversal of temporary differences | **$ (45,820)** | $ (8,978) |
| Change in tax rates | **1,662** | 61 |
| | **$ (44,158)** | $ (8,917) |
| **Total income tax expense** | **$ (22,842)** | $ 20,005 |

### *Reconciliation of Effective Tax Rate*

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

| | **2013** | 2012 *(Restated) (Note 22, 32)* |
|---|---|---|
| Income tax expense (recovery) according to combined statutory rate of 26.5% (2012: 26.4%) | **$ (21,582)** | $ 16,382 |
| Increase (decrease) in income tax resulting from: | | |
| Deferred tax expense relating to changes in tax rates | **985** | 61 |
| Tax rate differences in other jurisdictions | **275** | (165) |
| Manufacturing and processing credit | **653** | (378) |
| Share-based compensation adjustments | **3,698** | 2,400 |
| Non-taxable gains | **(8,702)** | (57) |
| Non-deductible expenses | **2,460** | 1,125 |
| Unrecognized income tax benefit of losses | **–** | 1,824 |
| Other | **(629)** | (1,187) |
| | **$ (22,842)** | $ 20,005 |

*Income Tax Recognized in Other Comprehensive Income (Loss)*

| | **2013** | 2012 *(Restated) (Note 32)* |
|---|---|---|
| Derivative instruments | **$ (196)** | $ 1,612 |
| Pension adjustments | **70,616** | (21,311) |
| | **$70,420** | $ (19,699) |

**Deferred Tax Assets and Liabilities**

*Recognized Deferred Tax Assets and Liabilities*

Deferred tax assets and liabilities are attributable to the following:

| | **As at December 31, 2013** | As at December 31, 2012 | As at January 1, 2012 |
|---|---|---|---|
| Deferred tax assets: | | | |
| Tax losses carried forward | **$ 28,454** | $ 88,698 | $ 91,964 |
| Accrued liabilities | **39,813** | 31,442 | 34,449 |
| Employee benefits | **–** | 63,123 | 42,517 |
| Other | **1,568** | 8,769 | 13,634 |
| | **$ 69,835** | $ 192,032 | $ 182,564 |
| Deferred tax liabilities: | | | |
| Property and equipment | **$ 46,694** | $ 35,934 | $ 47,289 |
| Cash basis farming | **3,862** | 12,600 | – |
| Employee benefits | **4,152** | – | – |
| Goodwill and other intangible assets | **10,213** | 14,925 | 14,684 |
| Other | **2,311** | 4,927 | 4,838 |
| | **$ 67,232** | $ 68,386 | $ 66,811 |
| Classified in the consolidated financial statements as: | | | |
| Deferred tax asset – non-current | **$ 26,119** | $ 132,558 | $ 127,456 |
| Deferred tax liability – non-current | **(23,516)** | (8,912) | (11,703) |
| | **$ 2,603** | $ 123,646 | $ 115,753 |

*Recognized Deferred Tax Assets*

The Company has recognized deferred tax assets in the amount of approximately $28.5 million (December 31, 2012: $88.7 million; January 1, 2012: $92.0 million), relating primarily to tax losses carried forward by subsidiaries in the U.K. and Canada. These deferred tax assets are based on the Company's estimate that the relevant subsidiaries will earn sufficient taxable profits to fully utilize these tax losses in the appropriate carry over periods.

*Unrecognized Deferred Tax Assets*

The Company has unrecognized deferred tax assets in the amount of approximately $39.0 million (December 31, 2012: $37.1 million; January 1, 2012: $34.8 million), relating primarily to tax losses carried forward in the U.S. and Canada. These tax losses carried forward consist primarily of net operating losses ("NOLs") relating to a U.S subsidiary and a capital loss of a subsidiary of the Company. The amount of NOLs is approximately $105.9 million (December 31, 2012: $102.1 million; January 1, 2012: $98.6 million). These NOLs expire in the years from 2023 to 2032. The capital loss of the subsidiary of the Company is approximately $39.6 million (2012: $50.0 million; 2011: $49.9 million). This capital loss does not expire.

*Unrecognized Deferred Tax Liabilities*

Deferred tax is not recognized on the unremitted earnings of subsidiaries and other investments, as the Company is in a position to control the reversal of the temporary difference and it is probable that such differences will not reverse in the foreseeable future. The unrecognized temporary difference at December 31, 2013 for the Company's subsidiaries was $60.1 million (December 31, 2012: $48.7 million; January 1, 2012: $54.9 million).

## 22. DISCONTINUED OPERATIONS

On November 25, 2013, the Company sold substantially all of the net assets of its Olivieri fresh pasta and sauce business ("Olivieri"), a component of the Bakery Products Group, to Catelli Foods Corporation for net proceeds of approximately $116.3 million, resulting in a pre-tax gain of $79.4 million.

On October 28, 2013, the Company sold substantially all of the net assets of its Rothsay animal by-product recycling operations ("Rothsay"), a component of the Agribusiness group, to Darling International Inc. for net proceeds of $628.5 million, resulting in a pre-tax gain of $526.5 million.

At December 31, 2013, the Olivieri and Rothsay operations have been classified as discontinued operations on the Statements of Earnings (Loss). The comparative consolidated statements of earnings (loss) have been restated to show the discontinued operations separately from continuing operations, as detailed below:

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| **Years ended December 31,** | **Olivieri** | **Rothsay** | **Total** | Olivieri | Rothsay | Total |
| Sales | **$ 78,407** | **$ 206,194** | **$ 284,601** | $ 88,631 | $ 232,551 | $ 321,182 |
| Cost of goods sold | **64,749** | **138,959** | **203,708** | 77,856 | 148,950 | 226,806 |
| Gross margin | **$ 13,658** | **$ 67,235** | **80,893** | $ 10,775 | $ 83,601 | 94,376 |
| Selling, general, and administrative expenses | **11,327** | **5,674** | **17,001** | 13,175 | 8,335 | 21,510 |
| Operating Earnings before the following: | **$ 2,331** | **$ 61,561** | **$ 63,892** | $ (2,400) | $ 75,266 | $ 72,866 |
| Gain on disposal of discontinued operations | **79,424** | **526,477** | **605,901** | – | – | – |
| Other income (expense) | **–** | **87** | **87** | – | 591 | 591 |
| Earnings before interest and income taxes from discontinued operations | **$ 81,755** | **$ 588,125** | **$ 669,880** | $ (2,400) | $ 75,857 | $ 73,457 |
| Interest expense (income) | **–** | **42** | **42** | (15) | (7) | (22) |
| Earnings before income taxes from discontinued operations | **$ 81,755** | **$ 588,083** | **$ 669,838** | $ (2,385) | $ 75,864 | $ 73,479 |
| Income taxes | **11,699** | **87,433** | **99,132** | (613) | 19,497 | 18,884 |
| Net earnings (loss) from discontinued operations | **$ 70,056** | **$ 500,650** | **$ 570,706** | $ (1,772) | $ 56,367 | $ 54,595 |
| Attributed to: | | | | | | |
| Common shareholders | **$ 62,805** | **$ 500,650** | **$ 563,455** | $ (1,369) | $ 56,367 | $ 54,998 |
| Non-controlling interest | **$ 7,251** | **$ –** | **7,251** | $ (403) | $ – | (403) |
| | **$ 70,056** | **$ 500,650** | **$ 570,706** | $ (1,772) | $ 56,367 | $ 54,595 |
| Earnings per share from discontinued operations attributable to common shareholders *(Note 23)* | | | | | | |
| Basic earnings per share from discontinued operations | | | **$ 4.03** | | | $ 0.39 |
| Diluted earnings per share from discontinued operations | | | **$ 4.03** | | | $ 0.39 |
| Weighted average number of shares (millions) | | | **139.9** | | | 139.4 |

There are no amounts included in other comprehensive income relating to the disposal groups for the years ended December 31, 2013, or December 31, 2012.

In order to accurately represent the continuing and discontinuing operations sales and cost of goods sold, certain intercompany eliminations have been reversed in the amounts presented above and in the statement of earnings (loss) for all periods presented.

The net cash flows provided by (used in) the discontinued operations for the year ended December 31, 2013, are as follows:

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| **Years ended December 31,** | **Olivieri** | **Rothsay** | **Total** | Olivieri | Rothsay | Total |
| Operating | **$ 4,143** | **$ 67,601** | **$ 71,744** | $ 1,355 | $ 62,686 | $ 64,041 |
| Financing | **–** | **–** | **–** | – | (23) | (23) |
| Investing | **115,578** | **616,268** | **731,846** | (5,694) | (13,213) | (18,907) |
| Net cash flows | **$ 119,721** | **$ 683,869** | **$ 803,590** | $ (4,339) | $ 49,450 | $ 45,111 |

## 23. EARNINGS (LOSS) PER SHARE

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

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

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

| | 2013 | | | 2012 (iii) | | |
|---|---|---|---|---|---|---|
| | Attributable to Common Shareholders | | | | | |
| **Years ended December 31,** | **Net earnings (loss)** | **Weighted average number of shares (ii)** | **EPS** | Net earnings | Weighted average number of shares (ii) | EPS |
| Basic | | | | | | |
| Continuing operations | **$ (67,145)** | **139.9** | **$ (0.48)** | $ 34,418 | 139.4 | $ 0.25 |
| Discontinued operations | **563,455** | **139.9** | **4.03** | 54,998 | 139.4 | 0.39 |
| | **$ 496,310** | **139.9** | **$ 3.55** | $ 89,416 | 139.4 | $ 0.64 |
| Potential Shares (i) | | **–** | **–** | | 3.3 | (0.01) |
| Diluted | | | | | | |
| Continuing operations | **$ (67,145)** | **139.9** | **$ (0.48)** | $ 34,418 | 142.7 | $ 0.24 |
| Discontinued operations | **563,455** | **139.9** | **4.03** | 54,998 | 142.7 | 0.39 |
| | **$ 496,310** | **139.9** | **$ 3.55** | $ 89,416 | 142.7 | $ 0.63 |

(i) *Excludes the effect of approximately 6.4 million options and restricted share units (2012: 2.9 million) to purchase common shares that are anti-dilutive.*

(ii) *In millions.*

(iii) *Restated, see Note 22 and Note 32.*

## 24. SHARE-BASED PAYMENT

Under the Maple Leaf Foods Share Incentive Plan in effect as at December 31, 2013, the Company may grant options to its employees and employees of its subsidiaries to purchase shares of common stock and may grant Restricted Share Units ("RSUs") and Performance Share Units ("PSUs") entitling employees to receive common shares. Options, RSUs, and PSUs are granted from time to time by the Board of Directors on the recommendation of the Human Resources Compensation Committee. The vesting conditions are specified by the Board of Directors and may include the continued service of the employee with the Company and/or other criteria based on measures of the Company's performance.

Under the Company's Share Purchase and Deferred Share Unit Plan ("DSU Plan"), eligible Directors may elect to receive their retainer and fees in the form of Deferred Share Units ("DSUs") or as common shares of the Company.

### *Stock Options*

A summary of the status of the Company's outstanding stock options as at years ended December 31, 2013 and 2012, and changes during these years are presented below:

| | **2013** | | 2012 | |
|---|---|---|---|---|
| | **Options outstanding** | **Weighted average exercise price** | Options outstanding | Weighted average exercise price |
| Outstanding, beginning of year | **2,601,000** | **$ 11.36** | 2,925,600 | $ 11.36 |
| Granted | **2,345,500** | **11.85** | – | – |
| Exercised | **(212,300)** | **11.36** | – | – |
| Forfeited | **(50,400)** | **11.72** | (35,000) | 11.36 |
| Expired | **(4,000)** | **13.50** | (289,600) | 16.36 |
| Outstanding, end of year | **4,679,800** | **$ 11.60** | 2,601,000 | $ 11.36 |
| Options currently exercisable | **1,519,100** | **$ 11.36** | 869,700 | $ 11.37 |

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

The number of options outstanding at December 31, 2013, is as follows:

| | **Options outstanding** | | | **Options currently exercisable** | | **Options subject to time vesting** | |
|---|---|---|---|---|---|---|---|
| **Range of exercise prices** | **Number outstanding** | **Weighted average exercise price** | **Weighted average remaining vesting term (in years)** | **Number exercisable** | **Weighted average exercise price** | **Number outstanding** | **Weighted average exercise price** |
| **$ 11.36 to $ 11.85** | **4,679,800** | **$ 11.60** | **2.4** | **1,519,100** | **$ 11.36** | **3,160,700** | **$ 11.72** |

The number of options outstanding at December 31, 2012, is as follows:

| | Options outstanding | | | Options currently exercisable | | Options subject to time vesting | |
|---|---|---|---|---|---|---|---|
| Range of exercise prices | Number outstanding | Weighted average exercise price | Weighted average remaining vesting term (in years) | Number exercisable | Weighted average exercise price | Number outstanding | Weighted average exercise price |
| $ 11.36 to $ 13.50 | 2,601,000 | $ 11.36 | 5.7 | 869,700 | $ 11.37 | 1,731,300 | $ 11.36 |

At grant date, each option series is measured for fair value based on the Black-Scholes formula. Expected volatility is estimated by considering historic average share price volatility. The inputs used in this model for the options granted during the year ended December 31, 2013 (none in 2012) are as follows:

| | **2013** |
|---|---|
| **Share price at grant date** | **$ 11.82** |
| **Exercise price** | **$ 11.85** |
| **Expected volatility** [(i)] | **26.53%** |
| **Option life** [(ii)] | **4.5 years** |
| **Expected dividends** | **1.35%** |
| **Risk-free interest rate** [(iii)] | **1.42%** |

(i) *Weighted average volatility.*

(ii) *Expected weighted average life.*

(iii) *Based on Government of Canada bonds.*

The fair value of options granted during the year was $5.1 million (2012: $nil) and is amortized to income on a graded basis over the vesting periods of the related options. Amortization charges relating to current and prior year options were $4.6 million (2012: $3.3 million).

*Restricted Stock Units*

The Company has one plan under which RSUs may be granted to employees. The awards granted under the Restricted Share Unit Plan (adopted in 2006) are satisfied either by shares to be purchased on the open market by a trust established for that purpose, or cash based on the time of vesting.

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

A summary of the status of the Company's RSU plans (including PSUs) as at December 31, 2013 and 2012, and changes during these years, is presented below:

| | **2013** | | 2012 | |
|---|---|---|---|---|
| | **RSUs outstanding** | **Weighted average fair value at grant** | RSUs outstanding | Weighted average fair value at grant |
| Outstanding, beginning of year | **3,587,172** | **$ 11.23** | 6,062,622 | $ 10.30 |
| Granted | **1,318,450** | **11.35** | 28,550 | 11.30 |
| Exercised | **(982,775)** | **11.39** | (1,163,610) | 8.91 |
| Forfeited | **(194,072)** | **11.22** | (99,600) | 10.38 |
| Expired | **(982,775)** | **11.39** | (1,240,790) | 8.92 |
| Outstanding, end of year | **2,746,000** | **$ 11.17** | 3,587,172 | $ 11.23 |

Of the RSUs exercised during 2013 the Company settled 909,300 units in cash rather than equity instruments. The Company had accounted for these as equity-settled stock-based compensation and this payment has been recorded directly through equity. The remainder of the Company's outstanding RSUs are accounted for as equity-settled.

The fair value of RSUs (including PSUs) granted in 2013 was $13.7 million (2012: $ 0.3 million) and is amortized into earnings on a graded basis over the vesting periods of the related RSUs. Amortization charges in 2013, relating to current and prior year RSUs, were $7.6 million (2012: $21.4 million).

The key assumptions used in the valuation of fair value of RSUs granted during the year include the following:

| | **2013** | 2012 |
|---|---|---|
| Expected RSU life (in years) | **3.3** | 2.9 |
| Forfeiture rate | **8.6%** | 14.6% |
| Risk-free discount rate | **1.2%** | 1.0% |

*Share Purchase and Deferred Share Unit Plan*

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

Prior to 2013, if an eligible Director elected to receive his or her fees and retainer in the form of DSUs, each DSU had a value equal to the market value of one common share of the Company at the time the DSU is credited to the Director. DSUs attract dividends in the form of additional DSUs at the same rate as dividends on common shares of the Company. The value of each DSU is measured at each reporting date and is equivalent to the market value of a common share of the Company at the reporting date.

During the year, the Company adopted a new Share Purchase and Deferred Share Unit Plan (the "2013 DSU Plan", which replaced the Company's existing Share Purchase and Deferred Share Unit Plan (the "2002 DSU Plan"). The 2002 DSU Plan only allows for DSUs to be satisfied in cash, which the 2013 DSU Plan allows the Company the flexibility to satisfy DSUs in common shares, either issued from treasury or purchased by the Company on the open market. DSUs outstanding under the 2002 DSU Plan will be governed by the terms of the 2002 DSU Plan, unless a participant elected in writing that his or her DSUs outstanding under the 2002 DSU Plan are to be governed by the 2013 DSU Plan.

A summary of the status of the Company's outstanding DSUs as at December 31, 2013 and 2012, and changes during these years is presented below:

| Units outstanding | 2013 (2013 Plan) | 2013 (2002 Plan) | 2012 |
|---|---|---|---|
| **Outstanding, beginning of year** | **–** | **441,531** | 364,234 |
| Additions: granted | **30,163** | **50,148** | 108,810 |
| Additions: dividend reinvestment | **2,542** | **1,570** | 5,848 |
| Exercised | **–** | **(180,329)** | (37,361) |
| Transfer between plans | **284,300** | **(284,300)** | – |
| **Outstanding, end of year** | **317,005** | **28,620** | 441,531 |
| **Value of liability at December 31** (i) | **–** | **$ 485** | $ 5,286 |

(i) *Value of liability is only applicable to the 2002 plan.*

## 25. COMPOSITION OF THE COMPANY

### Subsidiary

The consolidated financial statements of the Company include a 90.0% controlling interest (2012: 90.0%) in Canada Bread Company, Limited ("Canada Bread" or the "Subsidiary"). Canada Bread is a publicly traded company incorporated in Canada with wholly owned operations across North America and the U.K. that manufacture and distribute fresh and frozen bakery products.

Any material related party transactions outside of the ordinary course of business between the Subsidiary and the Company are subject to approval by the Board of Directors of Canada Bread. The Company's Management has no unilateral right to transfer cash or other assets from the Subsidiary to Maple Leaf Foods.

The financial information before inter-company eliminations of Canada Bread is provided below:

| As at December 31, | 2013 | 2012 |
|---|---|---|
| Cash | **$ 325,062** | $ 90,415 |
| Other current assets | **139,509** | 161,236 |
| Non-current assets | **674,077** | 718,340 |
| Total assets | **1,138,648** | $ 969,991 |
| Bank Indebtedness | **$ 4,408** | $ – |
| Other current liabilities | **432,543** | 199,263 |
| Non-current liabilities | **79,364** | 85,207 |
| Total liabilities | **$ 516,315** | $ 284,470 |
| Total shareholders' equity | **$ 622,333** | $ 685,521 |

| Year ended December 31, | 2013 | 2012 |
|---|---|---|
| Sales from continuing operations | **$ 1,453,586** | $ 1,479,243 |
| Net earnings from continuing operations | **85,043** | 75,514 |
| Net earnings (loss) from discontinued operations | **72,513** | (4,034) |
| Net earnings | **157,556** | 71,480 |
| Other comprehensive income (loss) | **33,424** | (6,363) |
| Total comprehensive income | **$ 190,980** | $ 65,117 |
| Attributed to non-controling interest: | | |
| Net earnings | **$ 15,756** | $ 7,148 |
| Total comprehensive income | **19,098** | 6,511 |

| Year ended December 31, | 2013 | 2012 |
|---|---|---|
| Operating activities | **$ 188,976** | $ 109,107 |
| Financing activities | **(51,145)** | (36,494) |
| Investing activities | **92,408** | (38,268) |
| Increase in cash and equivalents | **$ 230,239** | $ 34,345 |

The following is a continuity of non-controlling interests:

| | **Canada Bread** | **Other minority interests** | **2013** |
|---|---|---|---|
| Balance at December 31, 2012 | **$ 67,169** | **$(84)** | **$ 67,085** |
| Net earnings | **15,756** | **97** | **15,853** |
| Other comprehensive income | **3,342** | **–** | **3,342** |
| Dividends declared | **(25,417)** | **–** | **(25,417)** |
| **Balance at December 31, 2013** | **$ 60,850** | **$ 13** | **$ 60,863** |

| | Canada Bread | Other minority interests | 2012 |
|---|---|---|---|
| Balance at January 1, 2012 | $ 65,039 | $ – | $ 65,039 |
| Net earnings | 7,148 | (2) | 7,146 |
| Other comprehensive loss | (635) | – | (635) |
| Dividends declared | (4,473) | – | (4,473) |
| Acquisition of business | – | (82) | (82) |
| Other | 90 | – | 90 |
| Balance at December 31, 2012 | $ 67,169 | $ (84) | $ 67,085 |

The Company's financial results attributed to non-controlling interest is further detailed in the Consolidated Statements of Changes in Total Equity.

### Unconsolidated Structured Entity

The Company has sold certain of its trade accounts receivable to an unconsolidated structured entity owned by a financial institution, under revolving securitization programs. The Company retains servicing responsibilities for these receivables. The structured entity finances the purchase of these receivables by issuing senior debt instruments to the financial institution, short-term mezzanine notes back to the Company, and an equity interest held by the financial institution.

At December 31, 2013, trade accounts receivable being serviced under these programs amounted to $166.4 million (December 31, 2012: $287.3 million; January 1, 2012: $254.3 million). In return for the sale of its trade receivables, the Company will receive cash of $50.9 million (December 31, 2012: $162.8 million; January 1, 2012: $130.8 million) and notes receivable in the amount of $115.5 million (December 31, 2012: $124.5 million; January 1, 2012: $123.5 million). The notes receivable are non-interest bearing and are adjusted on the settlement dates of the securitized accounts receivable. Due to the timing of receipts and disbursements, the Company may, from time to time, also record a receivable or payable related to the securitization facility. As at December 31, 2013, the Company recorded net payable amounting to $105.5 million (December 31, 2012: $1.0 million receivable; January 1, 2012: $25.3 million net payable) in accounts payable and accruals.

The Company's maximum exposure to loss due to its involvement with a structured entity is equal to the current carrying value of the interest in the notes receivable due from the structured entity. The maximum potential loss that could be borne by subordinated interests in the structured entity is a $2.0 million equity interest (2012: $0.7 million).

The Company has not recognized any income or losses with its interest in an unconsolidated structured entity for the year ended December 31, 2013.

During the year, the securitization agreements were renewed with substantially the same terms and conditions, with an expiry date of September 2016.

## 26. COMMITMENTS AND CONTINGENCIES

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

(b) In the normal course of business, the Company and its subsidiaries enter into sales commitments with customers, and purchase commitments with suppliers. These commitments are for varying terms and can provide for fixed or variable prices. With respect to certain of its contracts, the Company provided letters of credit to guarantee third party obligations in the amount of $5.2 million (2012: $4.9 million). The Company believes that these contracts serve to reduce risk, and does not anticipate that losses will be incurred on these contracts.

(c) The Company has entered into a number of construction contracts as a part of its Value Creation Plan related to the construction of new and

expansion of existing facilities. Contract commitments at the end of 2013 were $158.4 million (2012: $428.4 million).

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

| | |
|---|---|
| 2014 | $ 62,792 |
| 2015 | 55,771 |
| 2016 | 46,957 |
| 2017 | 32,960 |
| 2018 | 23,786 |
| Thereafter | 100,697 |
| | $ 322,963 |

During the year ended December 31, 2013, an amount of $45.7 million was recognized as an expense in earnings in respect of operating leases (2012: $54.2 million).

## 27. RELATED PARTY TRANSACTIONS

The Company has a 90.0% controlling interest in Canada Bread Company, Limited ("Canada Bread"), a publicly traded subsidiary that is consolidated into the Company's results. Transactions between the Company and its consolidated entities have been eliminated on consolidation.

The Company sponsors a number of defined benefit and defined contribution plans as described in Note 10. During 2013, the Company received $1.0 million (2012: $1.1 million) from the defined benefit pension plans for the reimbursement of expenses incurred by the Company to provide services to these plans. In 2013, the Company's contributions to these plans were $40.9 million (2012: $42.5 million).

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

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

| | **2013** | 2012 |
|---|---|---|
| Short-term employee benefits | | |
| Salaries, bonuses, and fees | **$ 12,779** | $ 13,388 |
| Company car allowance | **466** | 474 |
| Other benefits | **3,462** | 1,135 |
| Total short-term employee benefits | **$ 16,707** | $ 14,997 |
| Post-employment benefits | **1,560** | 1,555 |
| Share-based benefits | **10,983** | 18,553 |
| Total remuneration | **$ 29,250** | $ 35,105 |

During 2013, key management personnel of the Company exercised 162,000 share options granted under Maple Leaf Foods Share Incentive Plan for an amount of $1.8 million (2012: $nil).

## 28. GOVERNMENT INCENTIVES

During 2013, the Company recorded government incentives in earnings totalling $7.5 million (2012: $10.1 million). Of this amount, $5.0 million (2012: $7.8 million) related to incentives from the Canadian government to support the development of renewable energies related to the Rothsay by-product recycling business, which has been presented in discontinued operations. The Company also received $2.0 million (2012: $nil) related to incentives from the Government of Manitoba supporting an employment and training program. The Company also recorded other incentives totalling $0.5 million (2012: $0.8 million). In addition, the Company recorded $1.5 million from the Province of Ontario in AgriStability benefits during 2012.

Additionally, during 2013, the Company recorded a $2.0 million interest-free loan from the Canadian government related to the purchase of equipment for its recently commissioned bakery in Hamilton, Ontario. The loan is repayable over a period of seven years.

During 2012, the Company recorded a $4.4 million interest-free loan from the Canadian government related to improvements and cost reduction in primary pork processing. The loan is repayable over a period of 10 years beginning in 2013. The benefit of the below-market rate of interest is treated as a government incentive and has been capitalized to the assets associated with the project and is recognised in earnings over their useful life as a reduction of depreciation.

## 29. SEGMENTED FINANCIAL INFORMATION

### *Reportable Segmented Information*

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

(a) The Meat Products Group is comprised of value-added processed packaged meats; chilled meal entrees and lunch kits; primary pork and poultry processing.

(b) The Agribusiness Group is comprised of the Company's hog production and animal by-products recycling operations. The animal by-product recycling operations were sold during the

year and have been presented as discontinued operations for the year ended December 31, 2013. Refer to Note 22 for further details.

(c) The Bakery Products Group is comprised of the Company's 90.0% (2012: 90.0%) ownership in Canada Bread Company, Limited, a producer of fresh and frozen par-baked bakery products including breads, rolls, bagels, artisan and sweet goods, and fresh pasta and sauces. The fresh pasta and sauce business was sold during the year and has been classified as discontinued operations for the year ended December 31, 2013. Refer to Note 22 for further details. The Company also exited the artisan and sweet goods categories during 2013.

(d) Non-allocated costs is comprised of expenses not separately identifiable to business segment groups and are not part of the measures used by the Company when assessing the segment's operating results. These costs include general expenses related to systems implementation, consulting fees related to the Company's Board renewal program, research involving the Company's Value Creation Plan, changes in fair value of biological assets, and unrealized gains or losses on commodity contracts.

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

| | **Years ended December 31,** | |
|---|---|---|
| | **2013** | 2012 |
| | | *(Restated) (Note 22, 32)* |
| **Sales** | | |
| Meat Products Group | **$ 2,923,857** | $ 3,046,633 |
| Agribusiness Group [(i)] | **235,199** | 259,181 |
| Bakery Products Group [(i)] | **1,531,993** | 1,567,196 |
| Total sales | **$ 4,691,049** | $ 4,873,010 |
| Sales from discontinued operations *(Note 22)* | **(284,601)** | (321,182) |
| **Sales from continuing operations** | **$ 4,406,448** | $ 4,551,828 |
| **Earnings before restructuring and other related costs and other income** | | |
| Meat Products Group | **$ (86,192)** | $ 98,367 |
| Agribusiness Group [(i)] | **23,303** | 59,813 |
| Bakery Products Group [(i)] | **116,030** | 94,010 |
| Non-allocated earnings | **12,355** | (14,071) |
| Total earnings before restructuring and other related costs and other income | **$ 65,496** | $ 238,119 |
| Earnings before restructuring and other related costs and other income from discontinued operations *(Note 22)* | **(63,892)** | (72,866) |
| **Earnings before restructuring and other related costs and other income from continuing operations** | **$ 1,604** | $ 165,253 |
| **Capital expenditures** | | |
| Meat Products Group | **$ 318,995** | $ 234,663 |
| Agribusiness Group [(i)] | **17,917** | 16,361 |
| Bakery Products Group [(i)] | **48,473** | 55,310 |
| | **$ 385,385** | $ 306,334 |
| **Depreciation and amortization** | | |
| Meat Products Group | **$ 69,111** | $ 61,260 |
| Agribusiness Group [(i)] | **14,748** | 15,980 |
| Bakery Products Group [(i)] | **57,959** | 55,499 |
| | **$ 141,818** | $ 132,739 |

[(i)] *The results of discontinued operations from the animal by-product recycling operations and Fresh Pasta and Sauces businesses were included in the total results of the Agribusiness Group and Bakery Products Group respectively.*

| | **As at December 31, 2013** | As at December 31, 2012 | As at January 1, 2012 |
|---|---|---|---|
| **Total assets** | | | |
| Meat Products Group | **$ 1,823,866** | $ 1,617,413 | $ 1,482,741 |
| Agribusiness Group (i) | **195,537** | 275,167 | 224,108 |
| Bakery Products Group (i) | **1,169,669** | 1,005,432 | 944,032 |
| Non-allocated assets | **410,020** | 345,684 | 314,578 |
| | **$ 3,599,092** | $ 3,243,696 | $ 2,965,459 |
| **Goodwill** | | | |
| Meat Products Group | **$ 428,236** | $ 442,925 | $ 442,336 |
| Agribusiness Group (i) | **–** | 13,845 | 13,845 |
| Bakery Products Group (i) | **292,562** | 296,386 | 297,558 |
| | **$ 720,798** | $ 753,156 | $ 753,739 |

(i) *The prior year results of the Agribusiness Group and Bakery Products Group include assets and goodwill from the animal by-product recycling operations and Fresh Pasta and Sauces businesses respectively.*

### *Information About Geographic Areas*

Property and equipment and investment property located outside Canada was $112.9 million (December 31, 2012: $98.6 million; January 1, 2012: $105.9 million). Of this amount, $57.6 million (December 31, 2012: $59.1 million; January 1, 2012: $65.0 million) was located in the U.S. and $55.0 million (December 31, 2012: $39.2 million; January 1, 2012: $40.7 million) was located in the U.K.

Goodwill attributed to operations located outside Canada was $61.9 million (December 31, 2012: $58.5 million; January 1, 2012: $59.5 million) which is all attributed to operations in the U.S.

Revenues earned outside Canada were $978.4 million (2012: $1,112.8 million). Of this amount $435.9 million (2012: $524.8 million) was earned in the U.S., $236.1 million (2012: $266.0 million) was earned in Japan, and $137.9 million (2012: $128.8 million) was earned in the U.K. Revenue by geographic area is determined based on the shipping location.

### *Information About Major Customers*

During the year, the Company reported sales to one customer representing 11.0% (2012: 11.4%) of total sales and another representing 10.1% (2012: 10.1%) of total sales. These revenues are reported in both the Meat Products Group and Bakery Products Group. No other sales were made to any one customer that represented in excess of 10% of total sales.

## 30. BUSINESS COMBINATIONS

On November 27, 2012, the Company acquired specific assets and liabilities held by Paradigm Farms Ltd. ("Paradigm"), a privately held entity engaged in hog production, related to the purchase of the business of The Puratone Corporation. The purchase price was $2.2 million and the Company settled the transaction in cash.

On December 14, 2012, the Company acquired specific assets and liabilities held by The Puratone Corporation, Pembina Valley Pigs Ltd., and Niverville Swine Breeders Ltd., (collectively "Puratone"), privately held entities engaged in hog production. The net assets recognized in the December 31, 2012 financial statements were based on a provisional assessment of the fair value while the Company negotiated the final purchase price and finalized the valuation of the assets and liabilities acquired. The valuation was completed in March 2013 and the Company agreed on a final acquisition purchase price of $45.4 million, an increase of $0.9 million from the provisional amount of $44.5 million recorded for the year ended December 31, 2012. The Company settled the transaction in cash. The acquisition date fair value of the net identifiable assets remains consistent with the provisional value.

The acquisitions of Paradigm and Puratone have been accounted for as business combinations and resulted in a final combined gain of $4.3 million ($3.1 million net of tax), compared to a provisional combined gain of $5.3 million ($4.1 million net of tax) recorded in other income for the year ended December 31, 2012. The decrease in the combined gain of $1.0 million relates entirely to Puratone, with no change in the estimate for Paradigm. The decrease in the gain is primarily due to the change in negotiated purchase price. The gain on the business combinations was the result of acquiring Paradigm and Puratone at a price that was less than the fair values assigned to the assets and liabilities acquired.

Transaction costs of $1.1 million associated with the acquisitions have been excluded from the consideration paid and have been recognized as an expense in other income (expense) for the year ended December 31, 2012.

The assets acquired and liabilities recognised at the date of acquisition are as follows:

| | Puratone Fair Value December 14, 2012 | Paradigm Fair Value November 27, 2012 |
|---|---|---|
| **Current assets** | | |
| Accounts receivable | **$ 366** | **$ –** |
| Inventory | **4,182** | **55** |
| Biological assets | **23,698** | **967** |
| Prepaid expenses and other assets | **467** | **–** |
| **Non-current assets** | | |
| Property and equipment | **24,471** | **2,016** |
| Other long-term assets | **305** | **–** |
| **Current liabilties** | | |
| Bank indebtedness | **(217)** | **–** |
| Other payables | **(1,570)** | **(55)** |
| Current portion of long-term debt | **(204)** | **–** |
| **Non-current liabilities** | | |
| Long-term debt | **(634)** | **–** |
| Other long-term liabilties | **(1,764)** | **–** |
| | **$ 49,100** | **$ 2,983** |

On February 1, 2012, the Company acquired the assets including chicken production quota units held by Bon Accord Poultry Ranch Ltd., Brooks Poultry Ranch Ltd., Fraser Ridge Poultry Farm Ltd., and other private individuals (collectively the "Poultry Farm"). The purchase price was $31.1 million, and the Company settled the transaction in cash. The transaction was accounted for as a business combination, and resulted in goodwill of $0.5 million.

The assets purchased comprise the following:

| | Fair value February 1, 2012 |
|---|---|
| Property and equipment | $ 2,560 |
| Indefinite life intangible assets | 28,100 |
| | $ 30,660 |

## 31. SUBSEQUENT EVENTS

On February 12, 2014, the Company announced that Grupo Bimbo, S.A.B. de C.V. of Mexico ("Grupo Bimbo") had agreed to acquire all of the issued and outstanding common shares of Canada Bread by way of a statutory arrangement under the *Business Corporations Act* (Ontario) (the "Arrangement"). Under the terms of the Arrangement, Grupo Bimbo has agreed to acquire each common share of Canada Bread for $72.00 per share in cash. Maple Leaf expects to receive net proceeds of approximately $1.65 billion for its 90% interest in Canada Bread. The Arrangement will require the approval of at least 66⅔% of the votes cast by the shareholders of Canada Bread at a special meeting of shareholders expected to take place in early April 2014. Maple Leaf has entered into a voting support agreement with Grupo Bimbo pursuant to which the Company has agreed to vote all of its common shares of Canada Bread in favour of the Arrangement at such meeting. The Company is not able to estimate the ultimate gain on disposition given the uncertainty surrounding the timing of the close of this proposed transaction. Subsequent to the sale, the Company will no longer be consolidating the results and related balance sheet of Canada Bread Company, Limited. The Arrangement is subject to receipt of court approval, regulatory approvals, and other customary closing conditions, and is expected to close in the second quarter of 2014.

On February 19, 2014, the Company sold an investment property located in the Toronto area, which was classified as an asset held for sale in the year end consolidated financial statements, for gross proceeds of $6.4 million.

## 32. IMPACT OF ADOPTION OF NEW ACCOUNTING STANDARDS DURING THE PERIOD

Beginning January 1, 2013, the Company adopted the revised IAS 19 Employee Benefits, on a retrospective basis with restatement. Under revised IAS 19, the Company is required to calculate the expected return on assets of the pension plan and its related interest costs based on the current discount rate multiplied by the net position of the plan. The revised standard also requires that administrative fees of the plan be expensed by the Company as incurred rather than included in the expected return.

The impact of adoption is as follows:

### Impact on Consolidated Statements of Earnings (Loss)

| Year ended December 31, | 2013 | 2012 |
|---|---|---|
| Selling, general, and administrative expenses [(i)] | **$ 37,673** | $ 35,152 |
| Income taxes | **(9,738)** | (9,000) |
| Net earnings | **(27,935)** | (26,152) |
| Attributable to: | | |
| Common shareholders | **$ (27,647)** | $ (25,880) |
| Non-controlling interest | **(288)** | (272) |
| Increase (decrease) in earnings per share attributable to common shareholders | | |
| Basic earnings per share | **$ (0.20)** | $ (0.19) |
| Diluted earnings per share [(ii)] | **$ (0.20)** | $ (0.18) |
| Weighted average number of shares (millions) | **139.9** | 139.4 |

(i) *Increase of selling, general, and administrative expenses includes a total of $33.1 million increase (2012: $ 29.6 million) in pension expenses and $4.6 million increase (2012: $5.6 million) in pension administrative fees due to adoption of revised IAS 19 during the year.*

(ii) *Restated diluted earnings per share is calculated based on 139.9 million (2012: 142.7 million) of weighted average number of shares.*

### Impact on Consolidated Statements of Comprehensive Income (Loss)

| Year ended December 31, | 2013 | 2012 |
|---|---|---|
| Net earnings | **$ (27,935)** | $ (26,152) |
| Change in actuarial loss | **27,935** | 26,152 |
| Comprehensive income (loss) | **$ –** | $ – |

The adoption of revised IAS 19 did not have an impact on the Company's consolidated balance sheets, consolidated statement of changes in total equity, and consolidated statements of cash flows for 2013 and 2012.

The following is a reconciliation of the 2012 restatement:

### Consolidated Statements of Earnings

| Year ended December 31, 2012 | As previously reported | Discontinued Operations [(i)] (Note 22) | Impact of IAS 19R | **As restated** |
|---|---|---|---|---|
| Selling, general and administrative expenses | $ 494,714 | $ (21,510) | $ 35,152 | **$ 508,356** |
| Income taxes | 47,889 | (18,884) | (9,000) | **20,005** |
| Net earnings | 122,714 | – | (26,152) | **96,562** |
| Attributable to: | | | | |
| Common shareholders | $ 115,296 | $ – | $ (25,880) | **$ 89,416** |
| Non-controlling interest | 7,418 | – | (272) | **7,146** |
| Earnings per share attributable to common shareholders | | | | |
| Basic earnings per share | $ 0.83 | $ – | $ (0.19) | **$ 0.64** |
| Diluted earnings per share | 0.81 | – | (0.18) | **0.63** |
| Weighted average number of shares (millions) | 139.4 | – | – | **139.4** |

(i) *The adoption of revised IAS 19 did not have any impact on the net earnings from discontinued operations for the years ended December 31, 2013 and 2012.*

### Consolidated Statements of Comprehensive Income (Loss)

| Year ended December 31, 2012 | As previously reported | Impact of IAS 19R | **As restated** |
|---|---|---|---|
| Net earnings | $ 122,714 | $ (26,152) | **$ 96,562** |
| Change in actuarial loss | (87,743) | 26,152 | **(61,591)** |
| Comprehensive income (loss) | 38,492 | – | **38,492** |

# CORPORATE INFORMATION

## Capital Stock

The Company's authorized capital consists of an unlimited number of voting common shares, an unlimited number of non-voting common shares and an unlimited number of preferred shares issuable in series. At December 31, 2013, 140,256,389 voting common shares were issued and outstanding, for a total of 140,256,389 outstanding shares. There were 782 shareholders of record of which 745 were registered in Canada, holding 98.87% of the issued voting shares.

## Ownership

As at December 31, 2013, the Company's largest shareholder is McCain Capital Inc., holding 45,998,783 voting shares representing 32.8% of the total issued and outstanding shares. Michael H. McCain beneficially owns and controls 100% of McCain Capital Inc. and has beneficial ownership or control of 45,998,783 common shares or 32.8% of the common shares. West Face Capital Inc. holds 15,894,413 voting shares representing 11.33% of the total issued and outstanding shares. The remainder of the issued and outstanding shares are publicly held.

## Corporate Office

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

## Annual Meeting

The annual meeting of shareholders of Maple Leaf Foods Inc. will be held on Thursday, May 1, 2014 at 11:00 a.m. at the MaRS Discovery District, 101 College Street, Toronto, Ontario, Canada.

## Dividends

The declaration and payment of quarterly dividends are made at the discretion of the Board of Directors. Anticipated payment dates in 2014: 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
North Tower, Toronto, Ontario,
Canada M5J 2Y1
Tel: (514) 982-7555
or 1-800-564-6253
(toll-free North America)
or service@computershare.com

## Company Information

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

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

## Transfer Agent and Registrar

Computershare Investor Services Inc.
100 University Avenue, 9th Floor
North Tower, 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, Canada

## Stock Exchange Listings and Stock Symbol

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

## Rapport Annuel

Si vous désirez recevoir un exemplaire de la version française de ce rapport, veuillez écrire à l'adresse suivante : Secrétaire de la société, Les Aliments Maple Leaf Inc., 30 St. Clair Avenue West, Bureau 1500, Toronto, Ontario, Canada M4V 3A2.

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## Maple Leaf Foods’ values underpin everything we do.

We are guided by strong corporate values and the determination to build a sustainable, leading consumer packaged meats company.

To learn more about Maple Leaf Foods’ commitment to sustainability, please visit our website.

**www.mapleleaffoods.com/sustainability**

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