

# **Canada Bread Company, Limited**

**ANNUAL INFORMATION FORM**

**DECEMBER 31, 1999**

## **ITEM 1: INCORPORATION**

Canada Bread Company, Limited (“Canada Bread” or the “Company”), is 68% owned by Maple Leaf Foods Inc. (“Maple Leaf Foods”). It was originally incorporated pursuant to the laws of the Province of Ontario on June 9, 1911, under the name Canada Bread Company, Limited. The name was subsequently changed to Corporate Foods Limited on October 15, 1969, and changed back to Canada Bread Company, Limited on April 30, 1997. Unless the context requires otherwise, the term “Company” or “Canada Bread” herein refers to Canada Bread Company, Limited and its subsidiaries and investments that are listed on page 6.

## **ITEM 2: GENERAL DEVELOPMENT OF THE BUSINESS**

Canada Bread manufactures and markets value-added flour based food products to a wide range of retail, food service and industrial customers.

Over the previous five years, the following significant events and transactions have taken place:

In October 1993, Canada Bread purchased the assets of Brooklyn Bagel Boys, Inc. (“Brooklyn Bagel Boys”) located in Chicago, Illinois. Subsequently, on January 2, 1997, the Company sold all of the issued and outstanding shares of Brooklyn Bagel Boys to Maple Leaf Foods.

In October 1995, Canada Bread acquired the assets of Maple Leaf Foods’ Tenderflake Division, a manufacturer of frozen pie, tart and pastry shells for the retail market under the brand name “Tenderflake”.

In April, 1996, the Company acquired the net assets of Bella Pasta Inc., a specialty pasta company, located in Stoney Creek, Ontario (“Bella Pasta”).

In May, 1996, the Company acquired the net assets of Venice Bakery Ltd., a manufacturer of hearth and french bread and rolls, located in Vancouver, British Columbia (“Venice Bakery”).

In November, 1996, the Company acquired the net assets of West Coast Bakery Limited, located in Cornerbrook, Newfoundland.

In November, 1998 the Company acquired all of the issued and outstanding shares of Hamilton Baking Company (1998) Limited, a regional bakery located in Hamilton, Ontario.

The Company’s 1999 results of operations and financial condition are presented in the Financial Results and Financial Condition sections of the 1999 Annual Report.

## **ITEM 3: BUSINESS**

Canada Bread is a major manufacturer of flour based food products, including fresh baked bread and rolls, frozen and par-baked breads, and specialty pasta and sauces.

The Company is Canada’s only national baker of fresh bread and rolls with facilities coast to coast. Fresh bakery products are manufactured and distributed by Canada Bread and, in Atlantic Canada, its wholly owned subsidiary, Eastern Bakeries Limited. The Company also manufactures and distributes frozen and par-baked bakery products and filled pastas and sauces across Canada and the United States.

Bakery products are distributed and sold across Canada to major grocery chains, retail outlets and the food service industry. The Company’s owned and licensed brand names are important to the selling and marketing of these products. Canada Bread also manufactures and distributes private label bakery products to major grocery store chains and fast food outlets.

Key brands include: Dempster’s, Olivieri and Tenderflake. The Company also sells products under regional brands.

Canada Bread competes with other wholesale bakeries and with supermarket chains that have in-store bakeries.

Most fresh products have a short shelf life and therefore, effective product distribution is an important element of ensuring high customer satisfaction. It is necessary to locate manufacturing facilities and distribution centres as close as practicable to the market area being served. The Company has designed its distribution and routing systems to ensure that fresh products are delivered on a timely and cost efficient basis. Frozen products can be transported for longer distances, and therefore the location and number of manufacturing facilities is not as important.

Fresh products are generally delivered directly to the retail store, either by Company employees or by franchisees who own their own distribution routes and equipment.

Frozen bakery and pasta products are sold principally through distributors to in-store bakeries, restaurants and institutional accounts throughout Canada and the United States. These frozen bakery products sold to grocery chains and retail outlets are generally marketed under private label brands and for sale through in-store bakeries. Pasta and sauces are sold primarily under the Olivieri brand, and also manufactured for private label brands.

## INVESTMENTS IN OTHER COMPANIES

Canada Bread has a 25% equity interest in Multi-Marques Inc. of Montréal Québec. Multi-Marques is the largest bakery company in Québec. It operates numerous manufacturing facilities and distribution centres in Québec and distributes its products throughout the province and into part of New Brunswick. Multi-Marques owns a majority interest in Ben's Limited, a regional bakery company operating in the Maritimes.

### Principal Facilities

The following table lists the locations of the Company's principal manufacturing facilities:

<u>Location</u>	<u>Owned/Leased</u>
Toronto, Ontario (2) .....	Owned
Toronto, Ontario (3) .....	Leased
Concord, Ontario (2) .....	Leased
Concord, Ontario .....	Owned
Hamilton, Ontario (2) .....	Owned
London, Ontario .....	Owned
Moncton, New Brunswick .....	Owned
Woodstock, New Brunswick .....	Owned
St. John's, Newfoundland .....	Owned
Langley, British Columbia (2) .....	Owned
Annicis Island, British Columbia .....	Owned
Edmonton, Alberta .....	Owned
Edmonton, Alberta .....	Leased
Calgary, Alberta .....	Owned

The Company also operates distribution centres or depots, throughout Canada, most of which are leased.

### Raw Materials

The Company purchases a variety of ingredients and packaging materials, the major ingredients being flour, yeast, vegetable shortening and sugar. The raw materials required for the Company's manufacturing operations have been readily available and the Company does not foresee any shortages.

The cost of flour, which represents a component of the Company's raw material costs, is directly impacted by wheat prices, exchange rates and differences in quality. The Company manages exposure, where appropriate, to fluctuating flour prices through the use of forward purchase contracts.

### Inflation and Seasonality

The Company operates primarily in Canada where inflation has been relatively low and its overall impact on the business is not considered to be material. The business as a whole does not tend to be seasonal except for sales of rolls which increase from May to September each year and Tenderflake frozen products which increase from October to December.

**Environmental Matters**

The Company is conscious of its responsibility to the environment, and operates within an overall environmental policy that has been formally approved by the Board of Directors. The Board of Directors monitors compliance with the policy on a regular basis. The Company's emphasis on the environment extends to the operation of its plants and the impact of these operations on air and water quality, the handling of hazardous and dangerous chemicals and the use of packaging. The Company strives to exceed required environmental compliance, and to provide a safe workplace for its employees. Resources, training and capital expenditures are directed to these areas to ensure that the Company continues to meet its responsibilities. The Company is in material compliance with existing environmental legislation.

Expenditures relating to current environmental standards are not expected to have a material effect on the financial position or earnings of the Company.

**Employees**

At December 31, 1999, the Company employed approximately 3,000 full-time people, 2,000 of whom are covered by collective agreements.

**Related Party Transactions**

In August 1995, the Company entered into a Management and Affiliation Agreement with Maple Leaf Foods whereby the Company benefits from certain services provided by Maple Leaf Foods. The cost of this service in 1999 was \$3.2 million (1998: \$3.4 million).

At the end of 1995, the Company also entered into a Management Services Agreement with Maple Leaf Foods USA, whereby Maple Leaf Foods USA will have direct responsibility for the management of the Company's U.S. sales and operations. Fees for this service, aside from direct expenses incurred in generating business for the Company, are included in the Management and Affiliation Agreement discussed above.

All of the above transactions were reviewed and approved by a committee composed of independent members of the Board of Directors.

## ITEM 4: SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial data of the Company for 1995 to 1999 is derived from the audited consolidated financial statements of the Company.

	53 weeks ended 12/31/99	52 weeks ended 12/31/98	52 weeks ended 12/27/97	53 weeks ended 12/28/96	52 weeks ended 12/30/95
(millions of dollars, except per share amounts)					
<b>Income Statement Data</b>					
Sales .....	567.3	508.4	515.4	540.3	478.2
Net earnings (1) .....	6.3	2.9	31.1	25.0	21.9
<b>Per Share</b>					
Net earnings (1) .....	0.29	0.14	1.46	1.17	1.04
Net earnings before Unusual Items (2) .....	0.55	0.58	1.27	1.17	1.04
Dividends declared .....	0.24	0.24	0.24	0.24	0.24
<b>Balance Sheet Data</b>					
Total assets .....	339.4	338.2	358.0	349.1	303.8
Net borrowings .....	16.3	29.1	36.6	48.9	45.2

### Footnotes

- (1) Net earnings and net earnings per share in 1997 include a \$4.0 million (\$0.19 per share) one-time gain net of tax relating to the disposition of Brooklyn Bagel Boys, Inc. Net earnings and net earnings per share in 1998, include a special charge to earnings of \$9.4 million (\$0.44 per share) relating to the costs of consolidation and rationalization of the business. Net earnings and net earnings per share in 1999, include a special charge to earnings of \$5.4 million (\$0.25 per share) relating to restructuring of administration and operations.
- (2) Net earnings per share before the one-time gain on the disposition of Brooklyn Bagel Boys in 1997 and special charges in 1998 and 1999.

The following is a summary of quarterly financial information for the two years ended December, 1999:

	1st Qtr 1999	2nd Qtr 1999	3rd Qtr 1999	4th Qtr 1999	Total 1999
Sales .....	138.9	144.7	148.3	135.4	567.3
Net Earnings(1) .....	1.8	2.3	4.1	(1.9)	6.3
Net earnings per share(1) .....	0.09	0.11	0.19	(0.10)	0.29
Net earnings before Unusual Items (2) .....	0.09	0.11	0.19	0.16	0.55
	1st Qtr 1998	2nd Qtr 1998	3rd Qtr 1998	4th Qtr 1998	Total 1998
Sales .....	119.0	129.1	132.8	127.6	508.4
Net Earnings(1) .....	(6.9)	4.5	3.0	2.4	3.0
Net earnings per share(1) .....	(0.32)	0.21	0.14	0.11	0.14
Net earnings before Unusual Items (2) .....	0.12	0.21	0.14	0.11	0.58

- (1) Net earnings and net earnings per share in 1999 and 1998 include a special charge to earnings of \$5.4 million (\$0.25 per share) and \$9.4 million (\$0.44 per share) respectively relating to the costs of consolidation and rationalization of the business.
- (2) Net earnings per share before the special charges in 1999 and 1998.

### Dividends

The declaration and payment of dividends is at the discretion of the Board of Directors. The Board of Directors intends to maintain a stable dividend policy and, where appropriate, change the dividend on the basis of the Company's estimated earnings and projected cash requirements.

## ITEM 5: MANAGEMENT'S FINANCIAL REVIEW AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Reference is made to the Management's Discussion and Analysis beginning on page 4 of the 1999 Annual Report to shareholders, which section is incorporated herein by reference.

## ITEM 6: MARKET FOR SECURITIES

The Company's shares are listed and posted for trading on The Toronto Stock Exchange under the symbol "CBY".

## ITEM 7: DIRECTORS AND OFFICERS

### Directors

Each director is elected to hold office until the next annual meeting of the shareholders or until his/her successor is elected or appointed. The next annual meeting of the shareholders will be held on May 4, 2000.

The Company has no Executive Committee of the Board. The Board maintains an Audit Committee and a Human Resources and Corporate Governance Committee. The name, municipality of residence, period of service and principal occupation of each of the directors of Canada Bread are as follows:

<u>Name and Municipality of Residence</u>	<u>Director Since</u>	<u>Principal Occupation</u>
JOHN L. BRAGG(1)(2) . . . . . Collingwood, Nova Scotia	1995	President, Oxford Frozen Foods Limited
ROGER M. DICKHOUT . . . . . Toronto, Ontario	1999	President and Chief Executive Officer, Canada Bread Company, Limited
SARAH A. EVERETT(1)(2) . . . . . Toronto, Ontario	1995	Chairman, Tereve Holdings Ltd. (Bowring)
RICHARD A. LAN . . . . . Chatham, New Jersey	1995	Chairman, Canada Bread Company Limited, and President and Chief Operating Officer, Bakery Products Group, Maple Leaf Foods Inc.
CHARLES J. MAYER(1) . . . . . St. Francois Xavier, Manitoba	1997	Chairman, Manitoba Crop Insurance Board
J. SCOTT MCCAIN . . . . . Toronto, Ontario	1995	President and Chief Operating Officer, Agribusiness Group, Maple Leaf Foods Inc.
MICHAEL H. MCCAIN . . . . . Toronto, Ontario	1995	President and Chief Executive Officer, Maple Leaf Foods Inc.
G. WALLACE F. MCCAIN . . . . . Toronto, Ontario	1995	Chairman of the Board, Maple Leaf Foods Inc.
THOMAS P. MUIR . . . . . Toronto, Ontario	1995	Chief Financial Officer, Maple Leaf Foods Inc.
JOHN F. PETCH, Q.C.(2) . . . . . Toronto, Ontario	1995	Vice-Chairman and a Senior Partner, Osler, Hoskin & Harcourt LLP (Barristers and Solicitors)

(1) Member of the Audit Committee.

(2) Member of Human Resources and Corporate Governance Committee.

All of the directors have had the principal occupation indicated for the previous five years or were in other executive capacities with the Company or an affiliate except as follows:

Prior to 1999, Mr. Dickhout was Principal at McKinsey & Co., a strategic management consulting firm; prior to 1995, Mr. Lan was President, McCain Citrus Inc.; prior to 1995, Mr. Scott McCain was Vice-President of Production for McCain Foods Limited; prior to 1995, Mr. Michael McCain was President and Chief Executive Officer of McCain USA, Inc.; Mr. Wallace McCain is Vice-Chairman, McCain Foods Limited; prior to 1995, Mr. Muir was Vice-President and Director of RBC Dominion Securities Inc. where he was Co-Head, Investment Banking and, before that, was Co-Head, Mergers and Acquisitions; and prior to February 1996, Mr. Petch was a Senior Partner, Osler, Hoskin & Harcourt.

## Officers

The name, municipality of residence and position held by each of the officers of Canada Bread are as follows:

<u>Name and Municipality of Residence</u>	<u>Position Held</u>
DONALD A. BRADD ..... Bolton, Ontario	Executive Vice-President, Operations
ROBERT I. BUSCH ..... Toronto, Ontario	Senior Vice-President, Human Resources
ROGER M. DICKHOUT ..... Toronto, Ontario	President and Chief Executive Officer
DAVID E. GROVER ..... Toronto, Ontario	Vice-President, Food Service Sales
DOUGLAS J. MACFARLANE ..... Toronto, Ontario	Senior Vice-President, Marketing
LARRY J. PALKO ..... Burlington, Ontario	Vice-President, Finance and Secretary-Treasurer
ALLAN G. SELLERY ..... Toronto, Ontario	Senior Vice-President and General Manager Fresh Bakeries West
CARL T. SPARKES ..... Oakville, Ontario	Senior Vice-President and General Manager Fresh Bakeries Central
MICHAEL H. VELS ..... Toronto, Ontario	Chief Financial Officer
STEVE WEINBERGER ..... Toronto, Ontario	Senior Vice-President, Finance

All of the officers have been engaged in their present occupation for the previous five years or were in other executive capacities with the Company or an affiliate except as follows:

Prior to 1999 Mr. Dickhout was Principal at McKinsey & Co., a strategic management consulting firm; In 1998 Mr. Sellery was a partner of Hurlow Partners Inc., and prior to 1998 he was General Manager of VanGuard Investment Company; Mr. Vels is Chief Financial Officer of the Company and Executive Vice-President Finance, Maple Leaf Foods Inc.; prior to October 1999, Mr. Weinberger was Vice-President Finance of Christie Brown and Company, a division of Nabisco Canada Limited.

All directors and senior officers of the Company, as a whole, beneficially own, directly or indirectly, or exercise control over less than 1% of the common shares of the Company.

## ITEM 8: ADDITIONAL INFORMATION

<u>Subsidiary</u>	<u>Jurisdiction of Incorporation</u>	<u>Ownership Percentage (Voting)</u>
<b>Wholly-owned Subsidiaries and Affiliates</b>		
Dough Delight Ltd. ....	Ontario	100%
Eastern Bakeries Limited .....	New Brunswick	100%
Olivieri Foods Limited .....	British Columbia	100%
<b>Partly-owned Subsidiaries and Affiliates</b>		
Multi-Marques Inc. ....	Quebec	25%

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities, options to purchase securities and interests of insiders, is contained in the Company's Management Information Circular for the Annual Meeting of Shareholders to be held May 4, 2000. Additional financial information is provided in the Company's comparative consolidated financial statements for the period ended December 31, 1999. A copy of the Management Information Circular and the Company's Annual Report may be obtained upon request from the Corporate Secretary of the Company.

