

CANADA BREAD COMPANY, LIMITED

REPORT TO SHAREHOLDERS:

Sales and earnings from operations in the first quarter, although increased over last year, do not reflect the results of new management and initiatives that were started in January. As noted in the prior quarter's release, it will take some time for the effect of these actions to be fully realized in the financial results, but we do anticipate some near term improvements in the latter half of the year.

Sales of \$138.9 million in the quarter reflected an increase from \$118.9 million last year, primarily due to initial sales from the new A&P contract and increased frozen product sales in Canada and the US. Earnings from operations of \$3.3 million compared to \$3.2 million before unusual items last year.

Net earnings for the quarter of \$1.8 million (\$0.09 per share) compared to net earnings before unusual items last year of \$2.5 million (\$0.12 per share). The decrease is due to lower earnings from the Company's equity investment in Multi-Marques, and higher interest expense. The Company declared a dividend of \$0.06 per share payable on July 2, 1999 to shareholders of record on June 14, 1999.

At the shareholders' meeting, Mr. Dickhout provided details of the six near term priorities that the new management team is focused on to restore the health of the fresh bread business: creating greater leadership capacity within the management ranks, focusing on winning in the core pan bread and rolls category, driving results through greater teamwork and accountability, getting core business processes to perform more efficiently, developing more effective strategies to win in the marketplace, and achieving a better balance of product demand and supply.

Late in the quarter, the Company successfully completed the integration of the A&P bread business, and its Hamilton Bakery acquisition. These actions will result in immediate improvements in productivity and market share in the Ontario operations.

While management is currently focused on the turnaround in the Company's short term financial performance, we remain convinced that the longer term potential of the Company is strong.

For the Board of Directors,



Richard A. Lan
Chairman



Roger M. Dickhout
President and Chief Executive Officer

C A N A D A B R E A D C O M P A N Y , L I M I T E D

CONSOLIDATED STATEMENTS OF EARNINGS

In thousands of Canadian dollars, except per share amounts (Unaudited)	QUARTER ENDED March 31,	
	1999	1998
Sales	\$138,903	\$118,993
Earnings from operations, before unusual items	3,320	3,209
Unusual items	—	(14,401)
Earnings (loss) from operations	3,320	(11,192)
Other income	226	884
Earnings (loss) before interest and taxes	3,546	(10,308)
Interest expense	600	466
Earnings (loss) before income taxes	2,946	(10,774)
Income taxes	1,115	(3,854)
Earnings (loss) before minority interest	1,831	(6,920)
Minority interest	—	4
Net (loss) earnings for the period	\$1,831	\$(6,924)
Earnings (loss) per share	\$0.09	\$(0.32)
Dividends per share declared	\$0.06	\$0.06
Weighted average number of shares (millions)	21.4	21.4

CONSOLIDATED STATEMENTS OF CASH FLOWS

In thousands of Canadian dollars, (Unaudited)	QUARTER ENDED March 31,	
	1999	1998
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Net earnings for the period	\$1,831	\$(6,924)
Add (deduct) items not affecting cash:		
Depreciation	4,425	3,914
Amortization	789	668
Minority interest	—	4
Deferred income taxes	(1,473)	—
Undistributed earnings of associated companies	(226)	(850)
Non-cash amounts included in unusual items	—	9,423
Changes in non-cash operating working capital	(7,810)	(12,663)
	(2,464)	(6,428)
FINANCING ACTIVITIES		
Dividends paid	(1,285)	(1,283)
Increase in long-term debt	5,360	10,254
Increase in share capital	—	309
	4,075	9,280
INVESTING ACTIVITIES		
Additions to property and equipment	(3,342)	(3,184)
Proceeds from sale of property and equipment	13	—
	(3,329)	(3,184)
Net decrease in cash for the period	(1,718)	(332)
Bank indebtedness, beginning of period	(2,121)	(5,581)
Bank indebtedness, end of period	\$(3,839)	\$(5,913)

C A N A D A B R E A D C O M P A N Y , L I M I T E D

CONSOLIDATED BALANCE SHEETS

In thousands of Canadian dollars
(Unaudited)

As at March 31,

1999 1998

ASSETS

Current assets:

Accounts receivable	\$35,931	\$37,761
Due from related company	5,501	7,246
Inventories	14,299	13,746
Income and other taxes recoverable	—	6,105
Prepaid expenses	4,410	2,616
	60,141	67,474

Investment in associated company	45,994	45,973
Property and equipment	159,746	159,442
Goodwill	79,776	77,644
	\$345,657	\$350,533

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:

Bank indebtedness	\$3,839	\$5,913
Accounts payable and accrued charges	53,886	57,228
Dividends payable	1,285	1,285
Income and other taxes payable	607	—
Current portion of long-term debt	76	197
	59,693	64,623

Long-term debt	32,234	41,126
Deferred income taxes	22,648	20,179
Minority interest	—	96
Shareholders' equity	231,082	224,509
	\$345,657	\$350,533