



MAPLE LEAF FOODS INC.

INTERIM REPORT TO SHAREHOLDERS

For the First Quarter Ended March 31, 2000

TO OUR SHAREHOLDERS

It was a challenging quarter of implementation against our primary business strategies, but we are pleased with the progress made and confident in the long-term positioning of the Company.

Financial Results

Sales for the quarter of \$818.3 million compared to \$869.4 million last year. The Meat Products Group and the Bakery Products Group reported lower sales, due to the impact of an extra week in the first quarter of 1999. In addition, sales from the Brandon pork facility are not included in sales for the quarter. The Agribusiness Group reported increased sales, largely due to the inclusion of sales for The Landmark Group. Earnings from operations of \$18.2 million compared to \$29.3 million last year. The Bakery Products Group and the Agribusiness Group both reported increased earnings while the Meat Products Group earnings declined from 1999. Net earnings of \$5.5 million (\$0.05 per share), compared to \$10.8 million (\$0.10 per share) in the prior year.

Meat Products Group

Meat Products Group sales of \$470.8 million compared to \$527.5 million last year. Sales of \$70.7 million and start-up losses of \$18.5 million for the Brandon pork facility are not included in the statement of earnings for the quarter. On a comparable basis, sales increased quarter-over-quarter. The Group recorded a loss from operations of \$1.9 million compared to earnings from operations of \$17.8 million last year.

Maple Leaf Pork was adversely impacted by high live hog prices, up 50% over those in the first quarter last year, by the absence of contribution from the Winnipeg pork facility which was closed last November, and by the organizational stress related to the start-up of the Brandon plant which came on line in late 1999. Maple Leaf Pork achieved several strategic operational milestones during the quarter. In spite of the start-up losses, we are extremely pleased with the start-up of the Brandon facility. The Brandon, Manitoba and Burlington, Ontario facilities became the only two pork plants in the world to be approved for export of pork to China. The first shipments to China were made in late April. Maple Leaf Pork also began importing live hogs from the United States for processing in the Burlington facility in April. These are the first hogs from the U.S. processed in Canada in over 60 years. The importation was made possible as a result of recent changes to the protocol for importing live hogs from the United States. Opportunities to import hogs from the U.S. for processing in the Brandon facility will also be pursued, in response to the large number of Canadian hogs that have historically been shipped south for processing in the U.S.

Maple Leaf Consumer Foods' results were lower than anticipated due to margin pressure from higher meat costs and some inefficiencies experienced during the recently completed manufacturing restructuring which began in late 1999. Maple Leaf Poultry continued to improve market distribution and market share of *Maple Leaf Prime* chicken and turkey

products. Maple Leaf Foods International recorded satisfactory results.

Bakery Products Group

Bakery Products Group sales of \$153.5 million compared to \$175.4 million last year. The decline is largely a result of the sale of Franchise Operations at the end of the second quarter last year and the effect of an extra week in the first quarter of 1999. Earnings from operations of \$3.1 million increased from \$0.3 million last year. Canada Bread Company, Limited continued to make operational and financial progress as a result of aggressive implementation of its five-point turnaround strategy. In the United States, sales of core par-baked bread products continued to grow strongly, with quarter-over-quarter sales up 15%. By the end of the first quarter, Maple Leaf Bakery was operating close to break even as a result of improved manufacturing performance, cost reduction initiatives and increased retail sales.

Agribusiness Group

Agribusiness Group sales of \$194.0 million increased by 16% from \$166.6 million last year. Operating earnings of \$17.0 million increased by 50% from \$11.3 million last year. The sales and operating earnings increases include the results of Landmark Feeds and Elite Swine which were acquired in the fourth quarter of 1999. The Agribusiness Group's results also benefited from our vertical coordination business model, balancing the cyclical low of margins being experienced in pork markets due to high hog costs.

Other Information

Other income for the quarter of \$4.2 million compared to \$0.4 million reported last year. The increase is largely due to increased earnings from associated companies, including Elite Swine's hog production related investments, and profits from sales of real estate development lots.

Subsequent to the end of the quarter, the Company completed a private placement of \$225 million, 10-year notes to a group of Canadian and United States investors, and the acquisition of Hub Meat Packers in Atlantic Canada closed on May 1, 2000.

The Company declared a dividend of \$0.04 per share payable on June 30, 2000 to shareholders of record on June 16, 2000.

On behalf of the Board:



G.W.F. McCain
Chairman of the Board



M.H. McCain
President and Chief Executive Officer

May 3, 2000

CONSOLIDATED BALANCE SHEETS

<i>In thousands of Canadian dollars (Unaudited)</i>	As at March 31,	
	2000	1999
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 33,739	\$ 39,180
Accounts receivable	209,656	207,774
Inventories	193,819	183,190
Prepaid expenses	18,055	14,371
	455,269	444,515
Investments	120,607	66,968
Property and equipment	655,373	585,601
Other assets	156,065	134,352
Future tax asset	11,229	—
Goodwill	301,299	237,310
	\$ 1,699,842	\$ 1,468,746
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Bank indebtedness	\$ 11,581	\$ 10,758
Accounts payable and accrued charges	344,325	379,769
Income and other taxes payable	18,593	1,652
Current portion of long-term debt	2,353	439
	376,852	392,618
Long-term debt	744,176	554,575
Other long-term liabilities	5,874	6,459
Future tax liability	63,977	—
Deferred income taxes	—	38,750
Minority interest	76,019	76,141
Shareholders' equity	432,944	400,203
	\$ 1,699,842	\$ 1,468,746

Notes to Interim Financial Reporting

New accounting guidelines issued in Canada require the liability approach to be adopted to account for income taxes. The Company has adopted the new income tax accounting standard retroactively, effective, January 1, 2000, without restating the financial statements of any prior periods as permitted under the standard. Application of the recommendation would not have materially affected net earnings or net earnings per share as previously reported for 1999. In total, adoption of the standard results in a cumulative reduction to retained earnings at January 1, 2000 of \$29,334,000.

The Company has adopted the new accounting guidelines for pension benefits prospectively from January 1, 2000. This application of the recommendation does not materially affect net earnings or net earnings per share as at and for the three months ended March 31, 2000.

In 1999, the Company elected to retroactively change the method used to account for post-retirements benefits other than pensions, and accordingly restated opening shareholders' equity. The impact of these changes is described in Note 16 to the Company's 1999 Annual Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>In thousands of Canadian dollars (Unaudited)</i>	Quarter ended March 31,	
	2000	1999
CASH PROVIDED BY (USED IN):		
Operating activities		
Net earnings (loss) for the period	\$ 5,471	\$ 10,759
Add (deduct) items not affecting cash:		
Depreciation	16,633	16,113
Amortization	2,488	2,065
Minority interest	336	1,207
Future income taxes	(1,626)	—
Deferred income taxes	—	(1,964)
Undistributed earnings of associated companies	(1,173)	826
Gain on sale of property and equipment	(156)	—
Other	(5,898)	(4,856)
Changes in non-cash operating working capital	(109,135)	(46,242)
	(93,060)	(22,092)
Financing activities		
Dividends paid	(3,800)	(3,767)
Dividends paid to minority interest	(698)	(559)
Increase in long-term debt, net	166,061	61,062
Convertible debenture interest paid	(1,370)	(1,696)
Increase in share capital	518	436
Other	291	501
	161,002	55,977
Investing activities		
Additions to property and equipment	(35,757)	(14,751)
Investments	(28,324)	—
Proceeds from sale of property and equipment	2,504	193
Acquisition of net assets of businesses	—	(5,113)
	(61,577)	(19,671)
Net increase in cash for the period	6,365	14,214
Cash and cash equivalents, beginning of period	15,793	14,208
Cash and cash equivalents, end of period	\$ 22,158	\$ 28,422



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30 St. Clair Avenue West

Toronto, Ontario, Canada

M4V 3A2

(416) 926-2000