



**CANADA BREAD COMPANY, LIMITED**

**ANNUAL INFORMATION FORM**

March 23, 2006



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# **CANADA BREAD COMPANY, LIMITED**

## **ANNUAL INFORMATION FORM**

Unless otherwise indicated, the information in this Annual Information Form is given as of December 31, 2005 and all amounts are in Canadian dollars. Unless the context otherwise requires, references herein to “Canada Bread” or the “Company” are to Canada Bread Company, Limited and its consolidated subsidiaries.

### **SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This Annual Information Form contains and the Company’s oral and written public communications often contain forward-looking statements that are based on current expectations, estimates, forecasts and projections about the industries in which Canada Bread operates and beliefs and assumptions made by the management of the Company. Such statements include, but are not limited to, statements with respect to our objectives and goals, as well as statements with respect to our beliefs, plans, objectives, expectations, anticipations, estimates and intentions. Words such as “expect,” “anticipate,” “intend,” “attempt,” “may,” “plan,” “will,” “believe,” “seek,” “estimate,” and variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve assumptions and risks and uncertainties that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed, implied or forecasted in such forward-looking statements. The Company does not intend, and the Company disclaims any obligation to update any forward-looking statements, whether written or oral, or whether as a result of new information, future events or otherwise, except as required by law.

These forward-looking statements are based on a variety of factors and assumptions including, but not limited to: the condition of the Canadian and United States economies, the rate of appreciation of the Canadian dollar versus the United States dollar, the availability and prices of raw materials, energy and supplies, product pricing, the competitive environment and related market conditions, operating efficiencies, access to capital, the cost of compliance with environmental and health standards, adverse results from ongoing litigation and actions of domestic and foreign governments. These assumptions have been derived from information currently available to the Company including information obtained by the Company from third-party industry analysts. Actual results may differ materially from those predicted by such forward-looking statements. While the Company does not know what impact any of these differences may have, its business, results of operations, financial condition and the market price of its securities may be materially adversely affected. Factors that could cause actual results or outcomes to differ materially from the results expressed or implied by forward-looking statements include, among other things:

- the risks posed by food contamination, consumer liability and product recalls;
- the risks related to the creditworthiness of customers to whom the Company extends credit;
- the Company’s exposure to currency exchange risks;
- the impact of international events on raw material prices and the free flow of goods;
- the risks posed by compliance with extensive government regulation;
- the impact of extensive environmental regulation and potential environmental liabilities;
- the risks associated with a consolidating customer environment;
- leverage risk; and
- the risks posed by a pandemic.

The Company cautions you that the above list of factors is not exhaustive. These factors are discussed in more detail under the heading “Risk Factors” in the Company’s Management’s Discussion and Analysis of Financial Condition and Results of Operations for the fiscal year ended December 31, 2005, which the Company has filed with the Canadian securities regulators and which is available on SEDAR at [www.sedar.com](http://www.sedar.com). You should review such section in detail.

## OVERVIEW OF THE BUSINESS

Canada Bread is a leading manufacturer and marketer of value-added flour-based products in its various markets, including fresh bread in Canada, frozen par-baked bread in the United States and Canada, specialty bakery products including fresh pasta and sauces in Canada and bagels and specialty baked goods in the United Kingdom. As at March 23, 2006, Maple Leaf Foods Inc. owned, directly or indirectly, 87.49% of the outstanding voting and equity securities of the Company. The Company's business is divided into two operating and reportable segments: the Fresh Bakery Group and the Frozen Bakery Group.

### Organizational Structure

The following chart summarizes the Company's current organizational structure by operating segment (sales figures are in millions):



## GENERAL DEVELOPMENT OF THE BUSINESS

### Three-Year History

During the last three years, the Company has concentrated on the integration of a significant number of acquisitions made in the immediately preceding years. Those acquisitions included the acquisition of Multi-Marques Inc. (Quebec-based fresh bakery) in 2001, the acquisition of the remaining minority interest in Ben's Limited in 2002 (Atlantic Canada-based fresh bakery), the acquisition of Olafson's Baking Company Inc. in 2002 (Western Canada-based bakery) and the acquisition of Grace Baking in 2002, a manufacturer of frozen par-baked artisan bread products based in California but that also sells products across the Western United States. In July 2003, the Company acquired Parisco Limited of Richmond Hill, Ontario for \$6.2 million. Parisco is a producer of Belgian style waffles. Following these acquisitions, the Company integrated its management and operations creating a national integrated fresh bakery operation in Canada, and a North American frozen par-baked and artisan bread manufacturer.

The Company has also invested in new plants and facilities and undertaken plant expansions to improve cost structure and service levels. In particular, the Company expanded its frozen par-baked and bagel operations through a line expansion at its plant in Roanoke, Virginia and constructed a bagel plant in Rotherham, in the United Kingdom. The Company also consolidated the production of its Fresh Bakery operations in Canada, closing four plants in 2003 and investing in its other bakeries.

The Company has also continued to develop new products to meet changing consumer preferences.

## DESCRIPTION OF THE BUSINESS

Canada Bread is a leading manufacturer and marketer of value-added flour-based products in its various markets, including fresh bread in Canada, frozen par-baked bread in the United States and Canada, specialty bakery products including fresh pasta and sauces in Canada and bagels and specialty baked goods in the United Kingdom. The Company's business is divided into two operating and reportable segments: the Fresh Bakery Group and the Frozen Bakery Group.

To date, Canada Bread has generally focused on attempting to increase the consumption of flour-based bread, rolls and bagels by creating more varieties and more premium products, while expanding distribution channels to make these products more widely available. The product mix is currently weighted towards premium whole-grain and healthy bakery products.

Canada Bread's customer base in the retail and food service sectors has been consolidating for some time, resulting in larger and more sophisticated customers who demand national solutions and cost effectiveness over a national distribution area. Canada Bread has also undertaken strategic acquisitions in the past to build its business including acquiring Multi-Marques Inc. in 2001 (Quebec-based fresh bakery), acquiring Ben's Bakery in 2002 (Atlantic Canada-based fresh bakery) and acquiring Olafson's in 2002 (Western Canada-based bakery). In 2002, the Company purchased Grace Baking, a manufacturer of frozen par-baked artisan bread products based in California but that also sells products across the Western United States. Grace Baking products allowed Canada Bread to service its frozen bakery customers with a full line of artisan par-baked products. These acquisitions were targeted to enable Canada Bread to manufacture and distribute its products nationally (in Canada, both par-baked and fresh products; par-baked and specialty products in the United States; and bagels in the United Kingdom) and to expand its product offerings to consumers.

A trend that has affected all companies in the food industry is a growing consumer focus on food safety and healthy diets. Furthermore, consumers appear to be expanding their food choices to include more diversity, such as ethnic diversity and bakery products with specialty flavours and toppings. In response, Canada Bread has attempted to ensure that its range of products and food preparation standards are responsive to these trends. In the past years, low-carbohydrate diets that emphasized protein products at the expense of high-carbohydrate items such as bread gained a degree of popularity with consumers. While the Company had not experienced any significant volume decline in the sale of its products as a result of low-carbohydrate diets, the Company launched carbohydrate-reduced *Dempster's Carb Wise*<sup>TM</sup> white and whole wheat breads and *Healthy Way Carb Conscious*<sup>TM</sup> bread to meet consumer demands.

### Fresh Bakery Group

#### *General*

The Fresh Bakery Group comprises fresh bakery products and specialty fresh pasta and sauces. The Fresh Bakery group operates bakeries across Canada and two facilities producing fresh pasta and sauces. Management of the Fresh Bakery Group is organized into four regions: Atlantic, Quebec, Ontario and Western Canada.

#### *Principal Products and Markets*

The Company's primary brands include *Dempster's*<sup>®</sup>, a leading brand of fresh bread in Canada; *POM*<sup>®</sup>, a leading brand of fresh breads and rolls in Quebec; *Ben's*<sup>®</sup>, a leading bakery brand in Atlantic Canada; and *Healthy Way*<sup>®</sup> and *Olafson's*<sup>®</sup>, leading brands in Western Canada. Fresh bread and rolls are distributed and sold across Canada and in the Northeastern and Northwestern United States to retail grocery store chains, retail outlets and the food service industry.

Canada Bread has a significant network of bakery plants in Canada with approximately 1,100 distributors. In 2003, Canada Bread launched a new extended shelf life product, *Dempster's Stays Fresh to the Last Slice*<sup>TM</sup>, to respond to consumer demands for longer shelf life products. The Company introduced a series of new products to appeal to consumers tastes for specialty and ethnic products including whole grains and pita bread.

Canada Bread manufactures and distributes private label bakery products to major grocery store chains and fast food outlets. Most fresh products have a short shelf life and, therefore, effective product distribution is an important element of ensuring high customer satisfaction and minimizing costs associated with product

expirations. Manufacturing facilities and distribution centres are located as close as practicable to the market areas being served. Canada Bread's distribution and routing system has been designed to ensure that fresh products are delivered on a timely and cost-efficient basis. Fresh products are generally delivered directly to the retail store, either by Canada Bread employees or by franchisees that own their own distribution routes and equipment.

Canada Bread manufactures fresh pasta and sauces under the *Olivieri*® brand. Canada Bread distributes these products to large retail customers across Canada and in the United States. Pasta and sauces are also manufactured for private label brands.

#### *Raw Materials*

The Fresh Bakery operations in Canada and the United States purchase a range of ingredients and packaging material, the major ingredients being flour, yeast, vegetable oil and sugar. These raw materials are primarily priced on a North American basis (except for sugar which is priced on a worldwide basis) and have historically been readily available.

The cost of flour, the largest component of product cost, is responsive to changes in wheat prices and quality. Exposures to these price movements exist to the extent that cost changes cannot be reflected in final selling prices, although raw material costs are a relatively small component of overall product costs.

### **Frozen Bakery Group**

#### *General*

The Frozen Bakery Group consists of Canada Bread Frozen Bakery Ltd. in Canada, Maple Leaf Bakery Inc. in the United States and Maple Leaf Bakery UK Limited in the United Kingdom. Together, Canada Bread Frozen Bakery and Maple Leaf Bakery Inc. are leading North American manufacturers of frozen partially baked, or par-baked bakery products. Par-baked products are baked to approximately 90% of completion, quick-frozen and shipped to retail customers for final baking. The par-baked market is among the fastest growing in the bakery industry. Production of par-baked products is designed to reduce labour, waste and cycle time and improve product freshness for customers. Products include frozen, par-baked breads, rolls, baguettes, specialty rye and hearth breads, artisan breads and specialty sourdough bread. The Frozen Bakery Group operates nine bakeries in North America and three in the United Kingdom.

#### *Principal Products and Markets*

The Frozen Bakery Group serves major retail grocery, food service and club store operators across Canada and the United States. It produces private label products as well as a select range of branded offerings including *California Goldminer*® Sourdough Bread, *Grace*™ artisan breads and *Maison Cousin*® crusty breads.

The Frozen Bakery Group is expanding its product line through the development of *FroBake*® products. *FroBake*® is a new freezer-to-oven baking method that eliminates the need for proofing or retarding of dough in the store. The end result is a bread or roll which can go directly from the freezer to the oven in the form of raw dough, eliminating hours of proofing time and increasing efficiency for customers. *FroBake*® also provides additional shelf life to par-baked and frozen dough. Par-baked technology continues to be best suited to support hot bread or cycle baking, due to its reduced baking time.

Maple Leaf Bakery UK Limited (including its affiliate New York Bagel Co., Limited) specializes in the production of bagels and value-added specialty bakery products including soft pretzels and other hand-held snacks and is one of the United Kingdom's largest producer of bagels, a growing market in both the United Kingdom and Europe. The business also produces specialty bread products for the United Kingdom and European market.

#### *Raw Materials*

The Frozen Bakery operations purchase a range of ingredients and packaging material, the major ingredients being flour, yeast, vegetable oil and sugar. These raw materials are primarily priced on a North American basis (except for sugar which is priced on a worldwide basis) and have historically been readily available.



The cost of flour, the largest component of product cost, is responsive to changes in wheat prices and quality. Exposures to these price movements exist to the extent that cost changes cannot be reflected in final selling prices, although raw material costs are a relatively small component of overall product costs.

#### *Reorganizations*

Since the beginning of 2003, Canada Bread has consolidated the management of its North American frozen bakery operations. The units merged into one operating unit include: Dough Delight, the Company's original frozen bakery operations in Canada; Maison Cousin, frozen bakery operations acquired with Multi-Marques Inc., Maple Leaf Bakery, the original frozen bakery operations in the United States and, Grace Bakery, a U.S. acquisition made in late 2002.

#### **Markets and Competition**

Markets for fresh bakery products tend to be regional in nature, due to the cost and timeliness of transporting fresh bread. Canada Bread competes with other national bakers, local and regional bakers, as well as the in-store bakeries of large grocery stores. The Company believes it has a competitive advantage in fresh bakery as a result of being one of two bakers with a national production and distribution network. This national network allows the Company to service its large national customers, as well as smaller customers, on a cost effective and timely basis. In pasta and sauces, the Company competes with local and regional Canadian manufacturers and manufacturers in the United States.

Frozen bakery products, due to lower perishability can be transported more efficiently over longer distances. The Frozen Bakery Group operations compete with other baked goods manufacturers and with retail grocery store chains that have their own in-store frozen dough or "from scratch" bakeries. Sales of certain fresh products such as rolls and *Tenderflake*® baking products are affected by seasonality. Canada Bread's customer base in the retail and food service segments has been consolidating for some time, resulting in larger and more sophisticated customers who demand national solutions and cost effectiveness over a national distribution area. Canada Bread has the capacity to manufacture and distribute its products nationally (in Canada, both par-baked and fresh products; par-baked products in the United States; and bagels in the United Kingdom) and to expand its product offerings to consumers.

## **FOREIGN OPERATIONS**

Canada Bread operates three bakery facilities and is one of the largest producers of bagels in the United Kingdom and is expanding its market into Europe. The Company has recently invested approximately \$24 million in a new bagel plant in Rotherham, England. The Company also operates three frozen par-baked bakery plants in the United States, one in Virginia, and two in California, and also services the United States market from two plants in Canada. The Company is one of the largest par-baked manufacturers in North America. The Company's Frozen Bakery operations in the United States and its operations in the United Kingdom generated 18% of the Company's total revenue for the fiscal year ended December 31, 2005.

## **INTANGIBLE PROPERTY – TRADEMARKS AND PATENTS**

Canada Bread relies on brand recognition and loyalty, and places a great deal of emphasis on its established range of trademarks and considers them to be well-positioned as brands recognized by consumers for quality and reliability.

The Company's key trademarks in each of its operating segments are *Dempster's®*, *POM®*, *Ben's®*, *Bon Matin®*, *Healthy Way®*, *Olafson's®*, *McGavin®* and *Olivieri®*.

Patents and other forms of intellectual property such as industrial designs and copyright are of less importance to the business activities of the Company.

## **ENVIRONMENTAL MATTERS**

The Company is conscious of its environmental responsibilities. Each of its businesses operates within the framework of an environmental policy entitled "Our Environmental Commitments" that is approved by the Board of Directors' Governance Committee. The Company's environmental program is monitored on a regular basis by this Committee, including compliance with regulatory requirements, the use of internal environmental specialists and independent external environmental analyses. 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 minimize 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. There can be no assurance, however, 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 regulations or the occurrence of an adverse event at one of the Company's locations.

## **EMPLOYEES AND EMPLOYEE RELATIONS**

As of December 31, 2005, the Company employed approximately 7,400 people, some 4,750 of whom are covered by over 75 collective agreements. These agreements are normally negotiated for varying terms, and in any given year, a number of these agreements expire and are re-negotiated; most renew without significant issue. However, if a collective agreement covering a significant number of employees or involving certain key employees were to expire leading to a work stoppage, there can be no assurance that such work stoppage would not have a material adverse effect on the Company's financial condition and results of operations.

Twenty-five collective agreements are currently expired or will expire in 2006. Negotiations are currently ongoing in respect of over 13 of these agreements. Key collective agreements to be negotiated in 2006 include Edmonton and Etobicoke Fresh Bakeries, Laval Bread distribution and the Canada Bread Frozen – Grace Baking plant.

## **RISK FACTORS**

The Company operates in the food processing and bakery sectors, and is therefore subject to risks and uncertainties related to these businesses that may have adverse effects on the Company's results of operations and financial condition.

These risks and uncertainties are described under the heading "Risk Factors" in the Company's Management's Discussion and Analysis of Financial Condition and Results of Operations for the fiscal year ended December 31, 2005, which the Company has filed with the Canadian securities regulators and that are available at [www.sedar.com](http://www.sedar.com) and which are incorporated herein by reference.

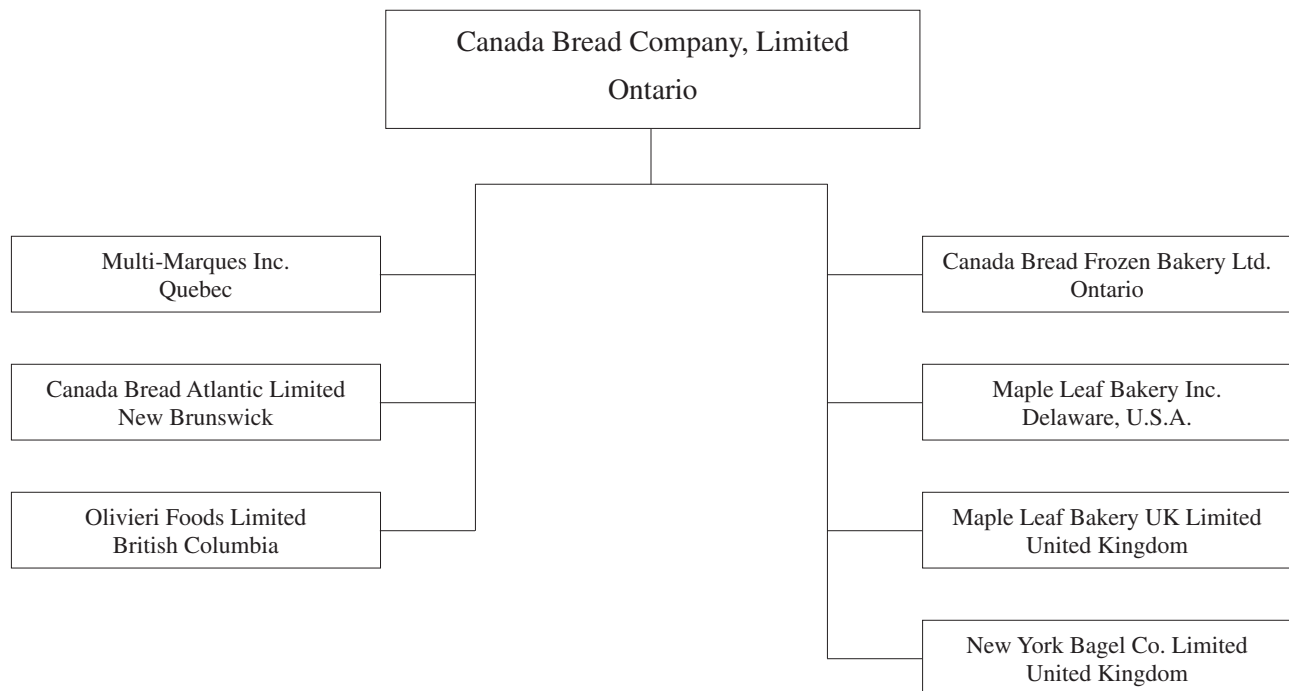
## CORPORATE STRUCTURE

### Name, Address and Incorporation

Canada Bread Company, Limited / Pain Canada Compagnie, Limitee is incorporated under the *Business Corporations Act (Ontario)*. As at March 23, 2006, Maple Leaf Foods Inc. owned, directly or indirectly, 87.49% of the outstanding voting and equity securities of Canada Bread. While it was originally incorporated on June 9, 1911, under its current name, Canada Bread Company, Limited, from 1969 to 1997 the Company was called Corporate Foods Limited. The Company's registered and head office is located at 10 Four Seasons Place, Toronto, Ontario M9B 6H7.

### Intercorporate Relationships

The Company has the following significant operating subsidiaries and affiliates:



Note: All companies are 100% owned unless otherwise indicated.

## DESCRIPTION OF CAPITAL STRUCTURE

The authorized share capital of the Company consists of an unlimited number of common shares and 25,000 preference shares. As of March 23, 2006, there were 25,416,812 common shares and no preference shares issued and outstanding. Holders of common shares are entitled to one vote at all meetings of shareholders. In addition, holders of common shares are entitled to dividends if, as and when declared by the Board of Directors of the Company and, in the event of the liquidation, dissolution or winding up of its affairs, to a pro rata share of the assets of the Company after payment of all liabilities and obligations of the Company. There are no pre-emptive, conversion or redemption rights attaching to the common shares.

The Company may issue preference shares in one or more series. Each series will have dividend rates and payment schedules, redemption and retraction rights and prices, conversion or other rights, conditions, restrictions, limitations, or prohibitions attaching thereto as shall be determined by resolution of the directors passed prior to the issue of the series of preference shares. The preference shares shall be entitled to preference over common shares with respect to payments of dividends and distribution of assets. Each series of preference shares shall rank on parity with each other series of preference shares.

Upon issuance, the holders of preference shares shall not be entitled to vote at meetings of shareholders, unless the Company fails to pay in the aggregate six (6) quarterly dividends on the preference shares of any one (1) series on the dates on which such dividends should be paid, whether or not such dividends have been declared. So long as any dividends on any preference shares remain in arrears, the holders of the preference shares of all series shall be entitled to one (1) vote in respect of each preference share held and to vote separately and exclusively as a class to elect two (2) of the total number of directors of the Company until all arrears of dividends on all preference shares have been paid, whereupon such rights shall cease. If the Company again defaults in payment of dividends on the preference shares of any one (1) series for an aggregate of six (6) quarterly dividends on the dates on which same should be paid, the holders of preference shares shall again be entitled to vote separately and exclusively as a class until all arrears of dividends on all preference shares have been paid.

## 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. During each of the fiscal years ended December 31, 2003, 2004 and 2005, the Company declared an aggregate yearly dividend of \$0.24 per common share payable quarterly. Management does not anticipate that there will be any restrictions on the payment of dividends in the foreseeable future.

## MARKET FOR SECURITIES

The Company's common shares are listed on the Toronto Stock Exchange under the stock market symbol "CBY". The following table outlines the price range and trading volume of the common shares for each of the months of the last fiscal year.

Month	High (\$)	Low (\$)	Volume
December	59.90	55.00	31,449
November	59.30	50.05	59,983
October	53.68	50.00	53,622
September	53.01	48.30	62,069
August	52.74	47.80	39,236
July	56.00	47.00	62,011
June	57.20	48.00	100,423
May	52.00	44.10	122,316
April	60.00	46.00	193,135
March	60.25	52.35	210,350
February	53.50	44.05	142,773
January	47.00	38.20	272,103

## DIRECTORS AND OFFICERS

### DIRECTORS

The following table sets forth each director's name and municipality of residence, the year in which he or she became a director and his or her principal occupation. Directors are elected to hold office until the next annual meeting of the shareholders or until a successor is elected or appointed.

The Company has no Executive Committee of the Board. The Board maintains an Audit Committee and a Governance Committee (formerly the Human Resources and Corporate Governance Committee).

Name and Municipality of Residence	Director Since	Principal Occupation
William E. Aziz (1) Oakville, Ontario	2005	Managing Partner, BlueTree Advisors <i>(private management advisory firm)</i>
John L. Bragg, O.C. (1)(2) Collingwood, Nova Scotia	1995	President, Oxford Frozen Foods Limited <i>(food manufacturing)</i>
Sarah A. Everett (1)(2) Toronto, Ontario	1995	Executive Director, Royal Canadian Securities Limited <i>(privately held holding company)</i>
Richard A. Lan Chatham, New Jersey, U.S.A.	1995	President and Chief Executive Officer, Canada Bread Company, Limited, and President and Chief Operating Officer, Bakery Products Group, Maple Leaf Foods Inc.
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, O.C. Toronto, Ontario	1995	Chairman of the Board, Maple Leaf Foods Inc.
Thomas P. Muir Toronto, Ontario	1995	Executive Vice-President and Chief Development Officer, Maple Leaf Foods Inc.
John F. Petch, Q.C. (2) Toronto, Ontario	1995	Counsel, Osler Hoskin & Harcourt LLP

Notes:

(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, except for: **Ms. S.A. Everett** was Chairman, Tereve Holdings Ltd. (2001-2005); and **Mr. T.P. Muir** was Executive Vice-President and Chief Financial Officer, Maple Leaf Foods Inc. (2001-2003) and Executive Vice-President and Chief Development Officer, Maple Leaf Foods Inc. (2004-2006).

## OFFICERS

The name, municipality of residence and principal occupations of the Company's executive officers as at March 23, 2006 are as follows:

Name and Municipality of Residence	Position Held
Robert I. Busch Toronto, Ontario	Senior Vice-President, Human Resources and Corporate Affairs
Rocco Cappuccitti Richmond Hill, Ontario	Corporate Secretary
Brock J. Furlong Hinsdale, Illinois	President, Canada Bread Frozen Bakery
Lynda J. Kuhn Hamilton, Ontario	Vice-President, Public & Investor Relations
Richard A. Lan Chatham, New Jersey, U.S.A.	President and Chief Executive Officer
Michael H. McCain Toronto, Ontario	Chairman of the Board
C. Barry McLean Toronto, Ontario	President, Canada Bread Fresh Bakery
Réal Ménard Laval, Quebec	Executive Vice-President, Canada Bread Fresh Bakery
René R. McLean Toronto, Ontario	Vice-President, Finance, Canada Bread Fresh Bakery
Michael H. Vels Toronto, Ontario	Chief Financial Officer
Donald J. Wilcox Cobourg, Ontario	Vice-President, Technical Services

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:

**Mr. R. Cappuccitti** is Corporate Secretary, Canada Bread Company, Limited (since 2002). His principal occupation is Senior Vice-President, Transactions and Administration, and Corporate Secretary, Maple Leaf Foods Inc.; **Mr. B.J. Furlong** was previously President, Maple Leaf Poultry, Maple Leaf Foods Inc. (to April 4, 2005); **Ms. L.J. Kuhn** is Vice-President, Public & Investor Relations, Canada Bread Company, Limited (since 2003). Her principal occupation is Vice-President, Public and Investor Relations, Maple Leaf Foods Inc. (2002-2006) and Consultant, Kuhn & Co. Inc. (2001-2002), prior to October 2001, **Mr. R. Ménard** was Vice-President, Operations for Multi-Marques Inc.; **Mr. R.R. McLean** was Finance Director, Procter & Gamble Co. (1999-2003) and Vice-President, Finance, Canada Bread Fresh Bakery (2003-2006); **Mr. D.J. Wilcox** was Vice-President, Research and Development, Nabisco Limited (2001-2002) and Vice-President of Research and Development and Quality Assurance at Campbell Soup Company Limited

(2002-2003) prior to joining Canada Bread Company, Limited in 2003; **Mr. M.H. Vels** is Chief Financial Officer of the Company. His principal occupation is Executive Vice-President and Chief Financial Officer (since 2004) and Executive Vice-President, Finance before then.

### **Cease Trade Orders, Bankruptcies, Penalties or Sanctions**

Within ten years preceding the date of this Annual Information Form:

Mr. William Aziz acted as an officer and director of Agnew Group Inc., a private company which filed an assignment in bankruptcy, and an officer and director of Omega Digital Data Inc., a private company which consented to the appointment of a receiver by its bank creditor.

Ms. Everett was Chairman and a director of Tereve Holdings Ltd., a private company that was subject to a proceeding under the *Companies Creditors' Arrangement Act* (Canada) in 2005.

Mr. Thomas P. Muir was a director of Country Style Food Services Inc., a private company, as a nominee of Maple Leaf Foods Inc. in 2001 and 2002 at a time when such company was subject to proceeding under the *Companies Creditors' Arrangement Act* (Canada). Maple Leaf Foods Inc. held an investment in Country Style Food Services Inc. at the time.

### **Ownership of Voting Securities by Directors and Officers**

All directors and senior officers of the Company, as a whole, beneficially own, directly or indirectly, or exercise control or direction over 27,630 common shares representing approximately 0.1% of the outstanding common shares of the Company. This figure does not include any amount in respect of Maple Leaf Foods Inc., the direct or indirect owner of an aggregate of 87.49% of the outstanding common shares of the Company. G.W.F. McCain, M.H. McCain, J.S. McCain, T.P. Muir, L.J. Kuhn, R. Cappuccitti, and M.H. Vels are executive officers and/or directors of Maple Leaf Foods Inc. Furthermore, 39.4% of all voting shares of Maple Leaf Foods Inc. are held by McCain Capital Corporation of which the G.W.F. McCain Family, including G.W.F. McCain, J.S. McCain and M.H. McCain has a controlling interest.

## **AUDIT COMMITTEE**

### **Composition of Audit Committee**

The Audit Committee of Canada Bread Company, Limited consists of the following directors, each of whom has been a member of the committee since the year set out below.

W.E. Aziz as Chairman	2005
J.L. Bragg	1995
S.A. Everett	1995

Each member of the Audit Committee is independent within the meaning of applicable securities legislation and none receives, directly or indirectly, any compensation from the Company other than for service as a member of the board of directors and its committees. Each member of the Audit Committee is financially literate as defined under Multilateral Instrument 52-110 – Audit Committees. In considering the criteria for determining financial literacy, the board of directors looks at the ability of a director to read and understand a balance sheet, an income statement and a cash flow statement of a company of a complexity comparable to that of the Company.

A copy of the Charter of the Audit Committee is attached as Appendix A hereto.

### **Relevant Education and Experience of Audit Committee Members**

#### **W.E. Aziz, H.B.A.,C.A.**

Mr. Aziz has a Honours Business Administration degree from the University of Western Ontario and is a Chartered Accountant. He is the Managing Partner of BlueTree Advisors, a private management advisory firm. He was President of the ByWay division of Dylex Limited, a chain of about 300 discount stores. As Chairman and CEO, he led a restructuring of White Rose Crafts and Nursery, a publicly traded chain of retail home décor and nursery products. He was CEO of Agnew Group Inc., a chain of retail footwear stores. He practiced public accounting with Ernst & Young for nine years. Mr. Aziz has also been a director of a number of other public companies and served on the audit committee of Doman Industries Limited.



**J.L. Bragg, B.Comm., B.Ed., O.C.**

Mr. Bragg has a Bachelor's degree in commerce from Mount Allison University. He is Chairman and CEO of Oxford Frozen Foods Limited, a privately held food products company based in Nova Scotia. He is the president or chairman of a number of other affiliated companies in the food, building supply, lumber and telecommunications industries. He is a director or past director of a number of publicly traded companies including, Sobeys Inc., Imasco Ltd., Shaw Communications Inc., Maritime Life Assurance Co. and Maritime Telephone and Telegraph Co., Ltd.

**S.A. Everett, B.A., M.A.**

Ms. Everett has held marketing positions in the consumer packaged goods industry and was the owner/operator (President) of Domo Gasoline Corporation, a privately held chain of gasoline retailers. She was the Chairman of Tevere Holdings Ltd., a privately held chain of retail giftware and home accessory stores.

**Fees paid to Auditors – KPMG LLP**

For the years ended December 31, 2005 and 2004, the fees paid by the Corporation for the services performed by KPMG LLP are set out in the table below. Annually, the Audit Committee reviews a summary of the services provided by the auditors to the Corporation and its subsidiaries. In 2004, the Audit Committee established a policy requiring approval of all services to be rendered by the external auditors and prohibits KPMG LLP from providing the services listed in the following paragraph. The policy also requires the Committee approve in advance the engagement of KPMG LLP for all services other than for audit and audit related services.

In the last two years, KPMG LLP has not provided any of following services to the Corporation: (i) bookkeeping services and other services related to accounting records or financial statements; (ii) financial information systems design and implementation; (iii) appraisal or valuation services, fairness opinions or contribution-in-kind reports; (iv) actuarial services; (v) internal audit outsourcing services; (vi) management functions; (vii) human resources; (viii) broker-dealer, investment advisor or investment banking services; and (ix) legal services and expert services unrelated to the audit.

Description	2005	2004
Audit fees (1)	\$ 572,860	\$ 600,213
Audit-related fees (2)	1,637	30,000
Tax fees (3)	116,848	150,092
All other fees (4)	—	—
Total fees	\$ 691,345	\$ 780,305

Notes:

- (1) For the audit of the Canada Bread Company, Limited annual financial statements (including the audits of subsidiaries).
- (2) Audit-related services consisted primarily of audit procedures related to business acquisition transactions and audits of financial statements of employee benefit plans that are not reported in (1), including accounting consultations, comfort letters and various agreed upon procedures.
- (3) For tax compliance, advice, planning and return preparation services.
- (4) For products and services other than the fees reported in (1) to (3).

**LEGAL PROCEEDINGS**

The Company is a defendant to certain claims arising in the normal conduct of its business. Management believes that the final resolution of these claims will not have a material adverse effect on the Company's earnings or financial position.

**TRANSFER AGENT AND REGISTRARS**

The Company's transfer agent is Computershare Investor Services Inc. with its head office in Toronto and transfer point for its common shares in Ontario.



## **INTERESTS OF EXPERTS**

The Company's independent auditors, KPMG LLP, have delivered an audit report to the Company concerning the consolidated balance sheets of the Company as at December 31, 2005 and 2004 and the consolidated statements of earnings, retained earnings and cash flows for the years then ended. KPMG LLP is an independent auditor within the meaning of its rules of professional conduct.

## **ADDITIONAL INFORMATION**

Additional information including directors' and officers' remuneration and indebtedness, principal holders of the Company's common shares and interest of insiders in material transactions, if applicable, is contained in the Notice of Annual Meeting of Shareholders and Management Information Circular dated March 27, 2006 issued in connection with the Annual Meeting of Shareholders to be held on May 3, 2006. Additional financial information is also provided in the Company's MD&A and consolidated financial statements for the two years ended December 31, 2005 contained in the Company's 2005 Annual Report.

Copies of the foregoing documents may be obtained free of charge, upon request, from the Corporate Secretary of the Company at 10 Four Seasons Place, Toronto, Ontario M9B 6H7.

The above information and additional information relating to Canada Bread Company, Limited is available on SEDAR at [www.sedar.com](http://www.sedar.com).

## APPENDIX “A”

### CHARTER OF THE AUDIT COMMITTEE

#### (THE “COMMITTEE”) OF THE BOARD OF DIRECTORS OF CANADA BREAD COMPANY, LIMITED (THE “CORPORATION”)

##### **Nature and Scope of the Committee**

The Committee is a standing committee appointed by the Board of Directors, established to fulfill applicable public company obligations respecting audit committees and to assist the Board of Directors (the “Board”) in fulfilling its oversight responsibilities in the following areas: (i) accounting policies and practices, (ii) the integrity of the Company’s financial statements, (iii) compliance with legal and regulatory requirements, (iv) the qualifications, independence, and performance of the external auditors, and (v) the performance of the internal audit function.

The Committee, its Chair and members are members of the Board, appointed to the Committee to provide broad oversight of the financial, financial reporting, risk and control related activities of the Corporation, and are specifically not accountable or responsible for the day to day operation or performance of such activities.

Management is responsible for the preparation, presentation and integrity of the financial statements and for maintaining appropriate accounting and financial reporting principles and policies, systems of risk assessment and internal controls and procedures designed to provide reasonable assurance that assets are safeguarded and transactions are properly authorized, recorded and reported and to assure the effectiveness and efficiency of operations, the reliability of financial reporting and compliance with accounting standards and applicable laws and regulations.

The internal auditor is responsible for monitoring and reporting on the adequacy and effectiveness of the system of internal controls.

The external auditors are responsible for planning and carrying out an audit of the annual consolidated financial statements in accordance with generally accepted auditing standards to provide reasonable assurance that, among other things, such financial statements are in accordance with generally accepted accounting principles. The external auditors are accountable to the Committee and the Board as the representatives of the shareholders of the Corporation and the Committee shall so instruct the external auditors and the external auditors shall report directly to the Committee.

*Except as set out below, the Committee does not have decision-making authority but rather conveys its findings and recommendations to the Board of Directors for consideration and decision by the Board of Directors.*

##### **Procedures, Powers and Duties**

In addition to the procedures and powers set out in the policy entitled “Composition, Appointment & Practices of Each Committee of the Board of Directors of Canada Bread Company, Limited”, as amended, or in any resolution of the Board relating to the Committee, the Committee shall have the following procedures, powers and duties:

1. *Composition* – The Committee shall be comprised of a minimum of three members. Each member of the Committee shall be both an “unrelated” director and “independent” director as such terms are defined from time to time under the requirements or guidelines for audit committee service under applicable securities laws and the rules of any stock exchange on which the Corporation’s securities are listed for trading.

All members of the Committee must be “financially literate” subject to any available exemption in applicable securities laws as that term is defined from time to time under the requirements or guidelines for Audit Committee service under securities laws and the rules of any stock exchange on which the Corporation’s securities are listed for trading or if it is not so defined as that term is interpreted by the Board in its business judgement.

2. *In Camera Meetings* – At least annually, the Committee shall hold *in camera* meetings with each of the heads of the internal audit function and the external auditors to discuss any matters that the Committee or each of these groups believes should be discussed privately and such persons shall have unrestricted access to the Committee to bring forward matters requiring its attention.
3. *Professional Assistance* – The Committee may require the external auditors and internal auditors to perform such supplemental reviews or audits as the Committee may deem desirable. In addition, the Committee may retain such special legal, accounting, financial or other consultants and determine their compensation as the Committee may determine to be necessary to carry out the Committee’s duties at the Corporation’s expense and will inform the Chair of the Human Resources and Corporate Governance Committee of any such retainer.
4. *Reliance* – Absent actual knowledge or belief to the contrary which shall be promptly reported to the Board, each member of the Committee shall be entitled to rely on (i) the integrity of those persons or organizations within and outside the Corporation from which it receives information, (ii) the accuracy of the financial and other information provided to the Committee by such persons or organizations and (iii) representations made by management and the external auditors as to any non-audit services provided by the external auditors to the Corporation and its subsidiaries.
5. *Reporting to the Board* – The Committee will report through the Committee Chair to the Board following meetings of the Committee on matters considered by the Committee, its activities and compliance with this Charter.

The Committee will:

1. *Internal controls* – Review and discuss with management, the external auditors and the internal auditors as it deems necessary and exercise oversight with respect to:
  - (a) The adequacy and effectiveness of the system of internal accounting and financial controls and the recommendations of management, the external auditors and the internal auditors for the improvement of accounting practices and internal controls;
  - (b) Any material weaknesses in the internal control environment, including with respect to computerized information system controls and security; and
  - (c) Management’s compliance with the Corporation’s processes, procedures and internal controls.
2. *Regulatory agency reviews* – Review the findings of any examination by regulatory agencies concerning financial matters of the Corporation and make recommendations to the Board related thereto.
3. *Appointment of external auditors* – With respect to the appointment and oversight of the external auditors:
  - (a) Make recommendations to the Board on the external auditors for the purpose of preparing or issuing an audit report or performing other audit, review or attest services of the Corporation to be nominated in the Corporation’s proxy circular for appointment or reappointment by shareholders;
  - (b) Make a recommendation to the Board for the approval of compensation for the external auditors; and
  - (c) Review, evaluate and approve the terms of engagement, performance, audit scope and approach to the conduct of the external auditors with respect to the annual audit.
4. *Independence of external auditors* – Review the independence of the external auditors and make recommendations to the Board on actions the Committee deems necessary to protect and enhance the independence of the external auditors. In connection with such review, the Committee:
  - (a) Shall actively engage in a dialogue with the external auditors about all relationships or services that may impact the objectivity and independence of the external auditors;
  - (b) Shall require that the external auditors submit to it on a periodic basis and, at least annually, a formal written statement delineating all relationships between the Corporation including its subsidiaries, and the external auditors including their affiliates;

- (c) Shall review and approve clear policies for hiring by the Corporation of employees or former employees of the current or former external auditors;
  - (d) May approve policies and procedures for the pre-approval by a Committee member of any non-audit services to be rendered by the external auditors which the external auditors are not otherwise prohibited from providing and which policies and procedures shall include reasonable detail with respect to the services covered, provided that the pre-approval of non-audit services by a Committee member with delegated authority must be presented to the full Committee at its next scheduled meeting. For greater certainty, all non-audit services to be provided to the Corporation or any of its affiliates by the external auditors or any of their affiliates which are not covered by pre-approval policies and procedures approved by the Committee shall be subject to pre-approval by the Committee; and
  - (e) Shall review and approve the disclosure in the annual information form and management proxy circular of the fees paid in the financial year to the external auditors by category.
5. *Internal auditors* – Review the organizational structure, independence and qualifications of the internal audit department and its resources, the internal audit plans and their implementation.
  6. *Internal audit function* – Oversee and monitor the internal audit function including:
    - (a) Meeting periodically with the internal auditors to discuss the progress of their activities and any significant findings stemming from internal audits and any difficulties or disputes that arise with management and the adequacy of management’s responses in correcting audit-related deficiencies;
    - (b) Reviewing summaries of reports to management prepared by the internal auditors and have available the full reports, communicate with the internal auditors with respect to their reports and recommendations as necessary with respect to the extent to which prior recommendations have been implemented, management’s responses to such reports and any other matters that the internal auditor brings to the attention of the Committee;
  7. *External audits* – Oversee and monitor external audits, including:
    - (a) Reviewing with the external auditors, the internal auditors and management the audit function generally, the objectives, staffing, locations, co-ordination, reliance upon management and internal audit and general audit approach and scope of proposed audits of the financial statements, the overall audit plans, the responsibilities of management, the internal auditors and the external auditors, the audit procedures to be used and the timing and estimated budgets of the audits;
    - (b) Discussing with the external auditors any difficulties or disputes that arose with management or the internal auditors during the course of the audit and the adequacy of management’s responses in correcting audit-related deficiencies and resolve any outstanding disputes;
    - (c) Taking such other reasonable steps as the Committee may deem necessary to satisfy itself that the audit was conducted in a manner consistent with all applicable legal requirements and auditing standards of applicable professional or regulatory bodies; and
    - (d) Reviewing and resolve any disagreements between management and the external auditors regarding financial reporting or the application of any accounting principles or practice.
  8. *Accounting principles and policies* – Oversee, review and discuss, as the Committee deems necessary, with management, the external auditors and the internal auditors, the Corporation’s accounting principles and policies, including:
    - (a) *Selection* – the appropriateness and acceptability of the Corporation’s accounting principles and practices used in its financial reporting, changes in the Corporation’s accounting principles or practices and the application of particular accounting principles and disclosure practices by management to new transactions or events;
    - (b) *Significant financial reporting issues* – all significant financial reporting issues and judgements made in connection with the preparation of the financial statements and any “second opinions” sought by management from an independent auditor with respect to the accounting treatment of a particular item;

- (c) *Disagreements* – disagreements between management and the external auditors or the internal auditors regarding the application of any accounting principles or practices;
  - (d) *Material change or proposed change* – any material change or proposed change to the Corporation’s accounting principles and practices;
  - (e) *Changes in regulatory and accounting requirements* – the effect of changes in regulatory and accounting requirements;
  - (f) *Legal matters, claims and contingencies* – any legal matter, claim or contingency that could have a significant impact on the financial statements, the Corporation’s compliance policies and any material reports, inquiries or other correspondence received from regulators or governmental agencies and the manner in which any such legal matter, claim or contingency has been disclosed in the financial statements;
  - (g) *“Pro forma” or “adjusted” information* – the use of any “pro forma” or “adjusted” information not in accordance with generally accepted accounting principles; and
  - (h) *Goodwill impairment* – management’s determination of goodwill impairment, if any, as required by applicable accounting standards.
9. *Interim financial results* – Prior to the release of any summary of interim financial results, including any associated press release, or the filing of such reports with the applicable regulators, review with the external auditors and management the interim consolidated financial statements and related MD&A and associated press release and make recommendations to the Board of Directors.
  10. *Annual audited consolidated financial statements* – Review with the external auditors and management the annual audited consolidated financial statements and related MD&A and associated press release, and report on the results of such review to the full Board prior to the approval and release to shareholders of such results by the Board.
  11. *Prospectuses and information circulars* – Review with the external auditors and management, financial information contained in any prospectus or information circular of the Corporation, and make recommendations regarding approval to the Board. The Committee shall also periodically assess the adequacy of the procedures in place for the review of the Corporation’s public disclosure of financial information extracted or derived from financial statements and MD&A.
  12. *Communications between management, the internal and external auditors* – Provide an open avenue of communication between management, the internal auditors, the external auditors and the Board.
  13. *Independent investigations* – Conduct independent investigations into any matters which come under its scope of responsibilities.
  14. *Other reports of the external auditors* – Review and discuss all reports which the external auditors are required to provide to the Committee or the Board under rules, policies or practices of professional or regulatory bodies applicable to the external auditors and any other reports which the Committee may require with the external auditors.
  15. *Complaints regarding accounting, controls or audit matters* – Establish and monitor procedures for the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or audit matters and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters and review periodically with management and the internal auditors these procedures and any significant complaints received.
  16. *Financial risk exposures* – Meet periodically with management to review and discuss the Corporation’s major financial risk exposures and the policy steps management has taken to monitor and control such exposures, including the use of financial derivatives and hedging activities.
  17. *Audit committees of material subsidiaries* – Receive and review the minutes of meetings of the audit committee of material subsidiaries of the Corporation.

18. *Other delegated matters* – Review and/or approve any other matter specifically delegated to the Committee by the Board and undertake on behalf of the Board such other activities as may be necessary or desirable to assist the Board in fulfilling its oversight responsibilities with respect to financial matters.

#### **The Charter**

19. *Charter review* – The Committee shall review and reassess the adequacy of this Charter at least annually and otherwise as it deems appropriate and recommend changes to the Human Resources and Corporate Governance Committee.
20. *Committee performance* – Annually, the Committee shall evaluate its performance with reference to this Charter and the results of its evaluation shall be submitted to the Human Resources and Corporate Governance Committee.
21. *Disclosure of Charter* – The Committee shall ensure that this Charter is disclosed on the Corporation's website and that this Charter is disclosed in the annual information form of the Corporation in accordance with all applicable securities laws or regulatory requirements.





**CANADA BREAD COMPANY, LIMITED**

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