



**CANADA BREAD COMPANY, LIMITED**

**ANNUAL INFORMATION FORM**

March 21, 2005



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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, 2004 and all amounts are in Canadian dollars.

### CORPORATE STRUCTURE

#### Name, Address and Incorporation

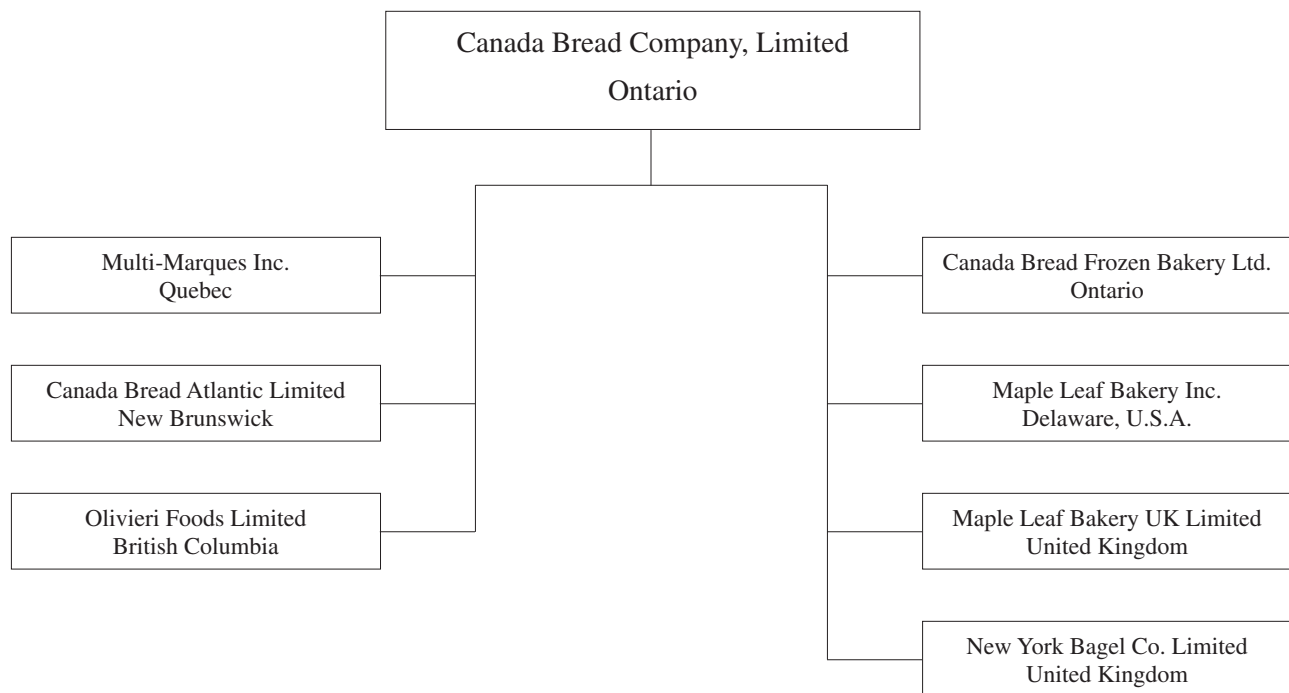
Canada Bread Company, Limited (“Canada Bread” or the “Company”), is incorporated under the *Business Corporations Act (Ontario)* is 86.9% owned by Maple Leaf Foods Inc. (“Maple Leaf Foods”) as at March 21, 2005. While it was originally incorporated on June 9, 1911, under its current name, Canada Bread 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.

Unless the context requires otherwise, the term “Company” or “Canada Bread” herein refers to Canada Bread Company, Limited and its subsidiaries and investments.

#### Intercorporate Relationships

The Company has the following significant operating subsidiaries and affiliates:



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

## GENERAL DEVELOPMENT OF THE BUSINESS

### Three-Year History

During the last three years, the Company has made a number of acquisitions to substantially increase its asset base and sales volume. The combined acquisitions have added 20 bakeries, 3,000 employees and more than 10,000 new customers across the organization expanding both product offerings and geographic scope. Canada Bread now competes in new geographic markets including the United States (“U.S.”) and the United Kingdom (“U.K.”) and delivers a wider range of products.

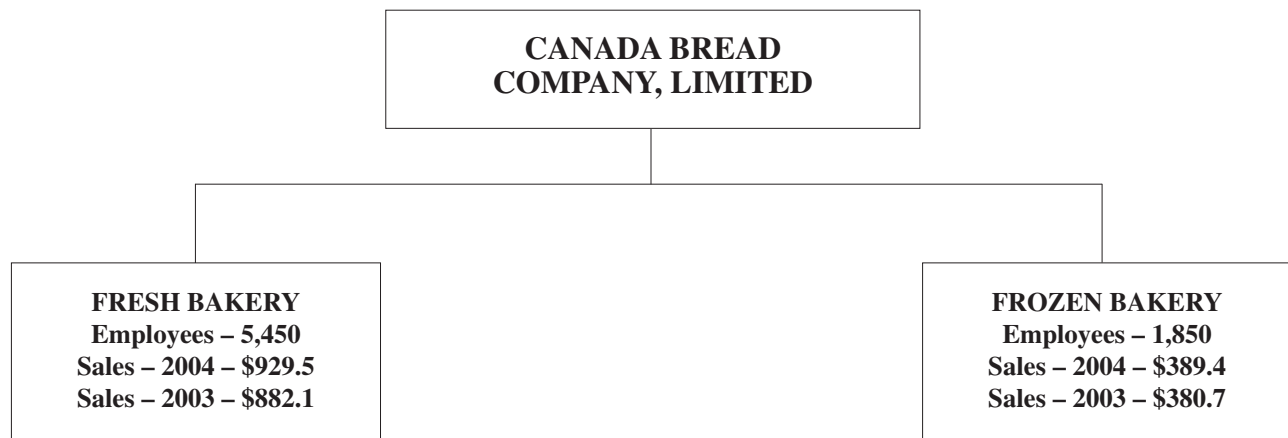
On December 27, 2002, the Company purchased all of Maple Leaf Foods’ U.S. and U.K. bakery operations, including Grace Baking Company, for \$262.3 million, inclusive of debt of \$10.7 million. Completing the integration of these organizations has enhanced growth opportunities and transformed the Company from a Canadian baking company to a global baking company with significant capabilities across fresh, par-baked and artisan bread product lines.

During the last three years, the Company made a number of other acquisitions that were smaller in scope. In 2002, the Company acquired the remaining 40% of the shares of Ben’s Limited in Atlantic Canada, to hold 100%. (Control of Ben’s was acquired in late 2001 with the acquisition of Multi-Marques Inc.) With the purchase, the Company has been allowed to integrate its own operations in Atlantic Canada with Ben’s to create critical mass and provide better service to customers. In 2002, the Company acquired Olafson’s Baking Company Inc. of Delta, British Columbia. Olafson’s specializes in the production of premium value-added bakery products. In July 2003, the Company acquired Parisco Limited of Richmond Hill, Ontario for \$6.2 million. Parisco is a leading producer of Belgian style waffles.

## DESCRIPTION OF THE BUSINESS

### General

The following chart summarizes the Company’s current organizational structure:



Canada Bread Company, Limited 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 in the U.K. Canada Bread’s objective in the bakery industry is 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.

Canada Bread’s bakery operations benefit from leading market shares, a broad production and distribution network, and a product mix that is weighted towards premium whole-grain and organic bakery products. The Company is also increasing profitability by reducing costs and investing in technologies to increase production efficiencies.

The Company's historical sales growth is the result of product innovation, market share improvement and a number of strategic acquisitions. The Company'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. The Company has been successful in adjusting to these changes through innovation and the completion of appropriate acquisitions.

These acquisitions were targeted to enable the Company to manufacture and distribute its products nationally (in Canada, both par-baked and fresh products; par-baked in the U.S.; and bagels in the U.K.) and to expand its product offerings to consumers as well as to develop total category leadership.

## **Industry Trends**

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.

### *Food Safety*

Food safety is an increasing concern to consumers in the wake of high profile food safety incidents and animal diseases. Substantial investments in technology and product innovation continue to support the Company's strength in food safety. The Company makes strategic investments in technology and product innovation with the objective of improving food safety. The Company believes its safety programs and procedures are among the best in the industry. These programs are regularly audited by third parties.

### *Food Trends and Diets*

A trend that has affected all companies in the food industry is a growing consumer focus on food safety and healthy diets. Furthermore, consumers are expanding food choices to include more diversity, such as ethnic diversity and bakery products with specialty toppings. The Company has traditionally focused on healthy products over the years developing strong product offerings in premium products that include whole-grains and multi-grains under the "*Nutritious and Delicious*" catchphrase in the 1980s and 1990s. The Company has continuously kept up with these trends ensuring that its range of products and food preparation standards are responsive to consumer demands. A significant consumer trend in the bakery industry is the growing popularity of low-carbohydrate diets that emphasize protein products at the expense of high-carbohydrate items such as bread. While the Company has not experienced any significant volume decline as a result of low-carbohydrate diets, the Company has launched *Dempster's Carb Wise*™ white and whole wheat breads and *Healthy Way Carb Conscious*™ bread to meet the consumers' needs. In 2003, Canada Bread launched a new extended shelf life product, *Dempster's Stays Fresh to the Last Slice*™, to respond to consumer demands for longer shelf life products.

## **Leadership Edge, Six Sigma and Core 7 Strategic Principles**

The Company's senior management team and Board of Directors believe that the ability to continuously build future success starts with creating a high performance organization. In conjunction with its parent company, management has developed an approach to fostering this culture based on three foundations referred to internally as: The Drive of the *Leadership Edge*; The Discipline of *Six Sigma*; and The Direction of the *Core 7 Strategic Principles*.

The Drive of the *Leadership Edge* is about investing in people and includes setting and articulating a set of leadership values throughout the Company and establishing a formal process for employee development. *Leadership Edge* encompasses careful recruiting, promoting workplace mobility, formal programs at Maple Leaf Foods' Leadership Academy and coaching and rank ordering assessments from the *Leadership Edge* reviews. Over the past three years, retention of Maple Leaf Foods' top performers exceeded 99%, well above industry average. Strict pay-for-performance compensation supports top contributors and long-term incentives are triggered based on Maple Leaf Foods' stock price meeting the performance of the U.S. food industry index. Personnel are shared and transferred between Maple Leaf Foods and the Company on a regular basis providing the Company with access to a large pool of high-quality managers and career advancement opportunities for the Company's managers.

*Six Sigma* is a formal, statistical approach to continuous process improvement. *Six Sigma* provides the discipline, tools and common framework that drives the Company's performance-based culture and fosters breakthrough ideas and bottom-line results. The Company enjoys access to Maple Leaf Foods' *Six Sigma* group. The *Six Sigma* program supported many initiatives for improvement and development of businesses processes.

The *Core 7 Strategic Principles* were adopted in 1995 by Maple Leaf Foods and represent the strategic principles that guide the Company when making strategic, operational and investment decisions. Over time, these strategic guidelines have evolved into the following principles: invest in leading market shares; build brands; drive costs out; innovate; add value for customers; add value to products; and diversify globally. The Company subscribes to these principles.

## **Fresh Bakery Group**

### *General*

The Fresh Bakery Group comprises fresh bakery products and specialty fresh pasta and sauces.

### *Principal Products and Markets*

Canada Bread 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 *Grace*<sup>TM</sup> artisan breads and *Maison Cousin*<sup>®</sup>.

The Company's primary brands include *Dempster's*<sup>®</sup>, the leading brand of fresh bread in Canada, *POM*<sup>®</sup>, a leading brand of fresh breads and rolls in Quebec; *Ben's*<sup>®</sup>, the 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 major grocery chains, retail outlets and the food service industry.

Canada Bread has a significant North American network of bakery plants and approximately 1,500 distributors, meeting the requirements of its regional and national customers.

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. 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 Company employees or by franchisees that own their own distribution routes and equipment.

Canada Bread is a leading manufacturer of fresh pasta and sauces under its *Olivieri*<sup>®</sup> brand and distributes product to large retail customers across Canada and in the United States. Pastas and sauces are also manufactured for private label brands.

### *Raw Materials*

The operations in Canada and the U.S. purchase a range of ingredients and packaging material, the major ingredients being flour, yeast, vegetable shortening and sugar. These raw materials are priced on a North American basis and are readily available.

The cost of flour 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.

### *Facilities*

The Company operates 22 bakeries across Canada, in which products are manufactured and distributed in Western Canada by its Olafson's division; in Quebec by its wholly-owned subsidiary Multi-Marques Inc. and in Atlantic Canada, by its wholly-owned subsidiary, Canada Bread Atlantic Limited (formerly Eastern Bakeries Limited and Ben's Limited). Fresh pasta and sauces are manufactured in an owned facility in British Columbia and a leased facility in Ontario.



## Frozen Bakery Group

### *General*

Canada Bread and through its wholly-owned subsidiaries, Canada Bread Frozen Bakery Ltd. and Maple Leaf Bakery Inc., is a leading North American manufacturer of frozen partially baked, or “par-baked” bakery products. Par-baked products are baked to within 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, significantly reducing waste and cycle time and improving product freshness for our customers. Products include frozen, par-baked breads, rolls, baguettes, specialty rye and hearth breads, artisan breads, crusty breads and rolls, bagels, flatbreads, croissants, turnovers and muffin batter and specialty sourdough bread. In the U.K., the Company’s operations produce and market specialty bakery products such as bagels.

### *Principal Products and Markets*

Canada Bread manufactures and distributes frozen and par-baked bakery products primarily to large retail and food service customers across Canada and the United States. The frozen bakery products sold to grocery chains and retail outlets are generally marketed under private label brands and are for sale through in-store bakeries.

In February 2005, the Company announced the launch of *FroBake*™, a new line of products that complement its par-baked product line and provide a superior alternative to frozen dough. These new *FroBake*™ products are more moist and crusty while eliminating the need to proof the bread. *FroBake*™ products will be produced on a commercial basis at the Company’s bakery in Roanoke, Virginia commencing in the second quarter of 2005.

Maple Leaf Bakery UK (including 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 the country’s largest producer of bagels, a fast growing market in both the U.K. and Europe. The business also produces specialty bread products for the U.K. and European market.

### *Raw Materials*

The operations in Canada and the U.S. purchase a range of ingredients and packaging material, the major ingredients being flour, yeast, vegetable shortening and sugar. These raw materials are priced on a North American basis and are readily available.

The cost of flour 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.

### *Facilities*

The Frozen Bakery group operates nine bakeries in North America located in Alberta, Ontario (4), Quebec, Virginia, California (2) and Maple Leaf Bakery UK operates three (3) bakery plants in the United Kingdom.

## **Markets and Competition – Bakery Products**

Markets for fresh bakery products tend to be regional in nature, due to the cost of transporting fresh bread. Service areas must be within a radius of the plant. Frozen bakery products, due to lower perishability and smaller size, can be transported efficiently over longer distances. The Company’s recently announced innovation of *Frobake*™ self-rising frozen bread products will have lower volumes that other frozen bread products lowering the shipping cost even further.

The Bakery operations compete with other baked goods manufacturers and with supermarket 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. The Company’s customer base in the retail and food service 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. The Company is able to manufacture and distribute its products nationally (in Canada, both par-baked and fresh products; par-baked in the U.S.; and bagels in the U.K.) and to expand its product offerings to consumers as well as to develop a total category leadership.

## **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. For this reason, Canada Bread maintains a diligent program of protecting and enforcing its owned and licensed trademarks in the jurisdictions in which it trades.

Patents and other forms of intellectual property such as industrial designs and copyright are of less importance to the business activities of the Company but an active program of protecting inventions, innovations and other proprietary subject matter, is in place.

## **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’ Human Resources and Corporate 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.

## **EMPLOYEES AND EMPLOYEE RELATIONS**

At March 11, 2005, the Company employed approximately 7,300 people, some 4,426 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. Management is committed to maintaining productive and constructive relationships with its employees and labour unions.

## **RISK FACTORS**

Prospective investors should carefully review and evaluate the following risk factors:

### **Food Safety and Consumer Health Risk**

The Company is subject to risks that affect the food industry in general, including risks posed by food spoilage or contamination, consumer product liability, and the potential costs and disruptions of a product recall. The Company actively manages these risks by maintaining strict and rigorous controls and processes in its manufacturing facilities and distribution systems. The Company’s facilities are subject to audit by federal health agencies in Canada and similar institutions outside of Canada, and performs its own audits to ensure compliance with its internal standards, which are generally at or higher than regulatory agency standards. However, the Company cannot guarantee that compliance with procedures and regulations will necessarily mitigate the risks related to food safety.

### **Foreign Currencies**

A significant amount of the Company’s revenues and costs are either denominated in or directly linked to currencies (primarily U.S. dollars and Pounds Sterling) other than the Canadian dollar. Due to the diversity of the Company’s operations, normal fluctuations in these other currencies have relatively small impact on the Company’s profitability due to (a) “natural hedges” or offsetting currency exposures (for example, when revenues and costs are both linked to other currencies) or (b) an ability to change prices of its products to offset adverse currency movements. As a result, currency fluctuations would not normally be considered a material risk to the Company. However, in periods when the Canadian dollar appreciates both rapidly and materially against the U.S. dollar, revenues linked to U.S. dollars are immediately reduced while the Company’s ability to change prices or realize on natural hedges may lag the immediate currency changes. The effect of such sudden change in exchange rates can have a significant impact on the Company’s earnings. Over time, the Company reduces this risk by realizing natural hedges, increasing prices, or where possible or necessary, reducing costs.

## Customer Concentration

The food retail industry in Canada is dominated by a small number of chains. The Company could be adversely affected if one or more of these were to completely discontinue purchases of the Company's products.

## 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 the fiscal periods 2002, 2003 and 2004, the Company declared \$0.06 per common share each quarter for a yearly dividend of \$0.24 per common share in each fiscal year.

## 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 21, 2005 the issued capital of the Company consisted of 25,416,812 common shares. 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.

## 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.

Year	Month	High (\$)	Low (\$)	Volume
2004	December	47.00	37.71	149,116
2004	November	39.99	32.10	638,404
2004	October	32.00	28.91	90,556
2004	September	31.50	28.46	80,990
2004	August	29.99	27.80	134,204
2004	July	29.14	26.60	61,458
2004	June	27.40	26.00	46,897
2004	May	27.48	25.30	68,693
2004	April	26.95	25.50	86,912
2004	March	26.52	24.86	185,385
2004	February	26.65	24.90	94,033
2004	January	27.25	24.50	120,629

## 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 in the case of a vacancy or resignation, until a successor is elected or appointed.

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

Name and Municipality of Residence	Director Since	Principal Occupation
John L. Bragg (1)(2) Collingwood, Nova Scotia	1995	President, Oxford Frozen Foods Limited
Sarah A. Everett (1)(2) Toronto, Ontario	1995	Chairman, Tereve Holdings Ltd. (Bowring)
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.
Charles J. Mayer (1) St. Francois Xavier, Manitoba	1997	President, Forest Hills Ranch Ltd.
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	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 or were in other executive capacities with the Company or an affiliate.

## OFFICERS

The name, municipality of residence and position held by each of the executive officers of Canada Bread 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	Secretary
Alison Farrell Oakville, Ontario	Senior Vice-President, Canada Bread and General Manager, Olivieri Foods Limited
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
Connie Morrison Etobicoke, Ontario	Vice-President, Marketing
René R. McLean Toronto, Ontario	Vice-President, Finance, Canada Bread Fresh Bakery
Walter C. Miller Oakville, Ontario	Vice-President, Manufacturing and Six Sigma
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 Senior Vice-President, Transactions and Administration and Corporate Secretary, Maple Leaf Foods Inc. Prior to December 2001, he was Vice-President and Corporate Secretary;  
**Ms. L.J. Kuhn** was Vice-President, Corporate Communications, Philip Services Corporation (1997-2000), Senior Vice-President, Public Affairs, Philip Services Corporation (2000-2001), Consultant,

Kuhn & Co. Inc. (2001-2002), Vice-President, Public and Investor Relations, Maple Leaf Foods Inc. (2002-2005) and Vice-President, Public & Investor Relations, Canada Bread Company, Limited (2003-2005); prior to October 2001, **Mr. R. Ménard** was Vice-President, Operations for Multi-Marques Inc. and prior to October 1999 was Vice-President and General Manager for Vachon, a division of Culinar Inc.; **Mr. R.R. McLean** was Finance Director, Procter & Gamble Co. (1999-2003) and Vice-President, Finance, Canada Bread Fresh Bakery (2003-2005); **Mr. D.J. Wilcox** was Vice-President, Research and Development, Nabisco Limited (2000-2002) 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.

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.

## AUDIT COMMITTEE

The Audit Committee of Maple Leaf Foods consists of the following directors, each of whom have been members of the committee since the date set out.

J.L. Bragg, as Chairman	1995
S.A. Everett, and	1995
C.J. Mayer	1997

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

In summary, the mandate of the committee is:

- a) To assist the Board of Directors of the Corporation by reviewing the adequacy and effectiveness of financial and reporting processes including:
  - (i) the systems of internal and financial controls;
  - (ii) the selection of accounting policies and principles;
  - (iii) the preparation and audit of financial reports;
  - (iv) the review of treasury risk management functions;
  - (v) oversee the stewardship of the Corporation’s pension plan funds and report to the Board; and
  - (vi) the monitoring of certain other financial matters.
- b) To oversee and monitor the appointment, independence and performance of the internal and external auditors.
- c) To establish and monitor procedures for handling of concerns and complaints related to financial matters.
- d) To approve, on behalf of the Board of Directors, certain financial and other matters as delegated by the Board.
- e) To review and make recommendations for approval of annual financial statements, management’s discussion and analysis of the financial condition of the Corporation and the results of its operations for release to shareholders.
- f) To review and approve for release to shareholders the interim reports and results of operations.
- g) To conduct independent investigations into matters which may come under its scope of responsibilities.



## **Fees paid to Auditors – KPMG LLP**

For the years ended December 31, 2004 and 2003, 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 2005, 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; (ix) legal services and expert services unrelated to the audit.

Description	2004	2003
Audit fees (1)	\$ 600,213	\$ 390,554
Audit-related fees (2)	30,000	196,451
Tax fees (3)	150,092	852,921
All other fees (4)	—	—
Total fees	\$ 780,305	\$ 1,439,926

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. The amount for 2003 includes fees paid for tax planning in connection with the December 27, 2002 acquisition of the U.S. and U.K. bakery operations of Maple Leaf Foods.
- (4) For products and services other than the fees reported in (1) to (3).

## **LEGAL PROCEEDINGS**

The Company is defendant to certain claims arising from the normal conduct of its business. Management believes that the final resolution of these claims will not have a material adverse effect on its 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.

## **ADDITIONAL INFORMATION**

Canada Bread Company, Limited will provide to any person or company, upon request to the Secretary of the Company at 10 Four Seasons Place, Toronto, Ontario M9B 6H7:

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 17, 2005 issued in connection with the Annual Meeting of Shareholders to be held on April 29, 2005. Additional financial information is also provided in the Company's MD&A and consolidated financial statements for the two years ended December 31, 2004 contained on pages 4 to 23 of the Company's 2004 Annual Report. 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.









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