



THE COMPANY

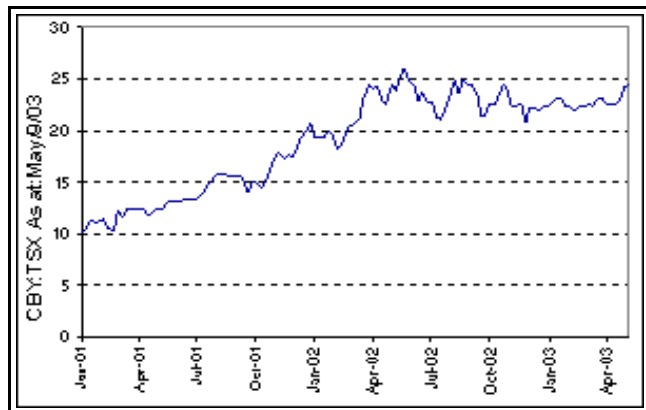
In business since 1911, Canada Bread Company is a leading manufacturer of value-added flour-based products in Canada. The Company's product line includes a variety of bakery goods such as fresh and frozen bread, bagels and dough, par-baked products and specialty pasta and sauces. Canada Bread's products are sold and distributed through private and company brand name labels, primarily under the popular banners of Dempster, Tenderflake and Olivieri.

With over \$500 million in sales, incentives such as new contracts, innovative products and frozen exports will drive Canada Bread's growth. The company also has a 25% interest in Quebec-based Multi-Marques Bakeries. Canada Bread Company is 68%-owned by Canada's largest food processing company, Maple Leaf Foods Inc.

FINANCIAL DATA

Table with 4 columns: Metric, 2000, 2001, 2002e. Rows include Earnings per Share (\$), Price to Earnings (times), Dividend (\$), Dividend Yield (%), Book Value (\$), and Price to Book Value (times).

HISTORICAL SHARE PRICES



WHY ABC FUNDS BOUGHT CANADA BREAD

The buzz phrases of "old economy" and "new economy" have become the subject of a great deal of hype in the stock market over the past year. Recently, it seems that investors have begun to trek back to the "old economy" stocks and Canada Bread is a prime example. The intriguing aspect of this fundamentally strong company is its current price of \$10.00, which is a steep decline from \$30.00 at the beginning of 1998.

Canada Bread has not been the major focus of Maple Leaf since the takeover by the McCains; this may explain its underperformance. To remedy the situation Canada Bread, in 1999, brought in a new management team and revitalized strategies to turnaround the company. Major improvements and concrete results, we believe, are on the horizon with the new management team headed by Roger Dickhout.

On the whole, the bakery industry is very fragmented. While Canada Bread holds about a 30% market share and its major competitor, Weston holds 35%, the rest of the industry is fragmented with many small competitors. This provides ample acquisition opportunities for Canada Bread.

Supporting its strategic initiatives, Canada Bread enjoys a healthy balance sheet with a strong cash position and very little debt. The company has a \$10.79 book value with about \$3.60 of goodwill. We feel that the goodwill is substantiated with its well-known brands such as Dempster and Tenderflake.

Taking into account Canada Bread's aggressive strategies, new management and improving fundamentals, we believe that Canada Bread will gradually emerge from its downturn to provide excellent long-term capital gain potential.

UPDATES

Canada Bread's new management team and restructuring strategies have begun to positively impact the company with its fourth consecutive quarter of improved earnings. The company reported second quarter 2000 earnings of \$0.14 versus \$0.11 in the comparable quarter of 1999, representing a 35% increase. This increase was due to the discontinuation of unprofitable product lines, operating and sales improvements, reduction of waste and better pricing. This result is a reflection of the company's ability to keep with its new, disciplined initiatives. Not only did Canada Bread's results further confirm our confidence in the company's strength but its stock price has also begun to show signs of improvement as investors have begun to take notice.

In addition to Canada Bread's cost cutting initiatives, the company remains in a position to take advantage of the consolidation in its industry. We believe Canada Bread, with some opportunistic takeovers could penetrate new geographic markets. Canada Bread's healthy balance sheet is conducive to this strategy with a strong cash position and very little debt. Total debt to equity is less than 9% and book value is \$10.56. Maple Leaf Food's 68% ownership adds another interesting spin to Canada Bread. Maple Leaf, unlike Canada Bread, reported poor comparable earnings last quarter, with one area of strength being the Maple Leaf Bakery division. We believe that Maple Leaf Bakery, with a considerable U.S. presence, and Canada Bread would be a good strategic fit. This combination would expand Canada Bread's North American business. Canada Bread could also increase its presence in other geographic areas such as Quebec where it already owns 25% of Multi-Marques Bakeries.

Overall, we feel that Canada Bread's restructuring strategies, ameliorating performance and possible merger or acquisition opportunities present a number of potential catalysts to improve its share price.

ABC Funds

September 15, 2000

We applaud Canada Bread's latest attempt to create shareholder value. On January 20, Canada Bread announced that it reached an agreement to purchase the 75% of Multi-Marques that it did not already own. Canada Bread has nurtured a long time partnership with Multi-Marques and we feel that the two companies are an ideal strategic fit. We expect that the purchase will be mildly accretive to 2001 earnings and should improve 2002 earnings by more than \$0.05.

The acquisition of Multi-Marques spawns a stronger national platform for Canada Bread and adds \$300 million to revenues. With it, Multi-Marques brings many Quebec-based brand names along with its 12 baking facilities. In addition, a greater eastern presence will be acknowledged through Multi-Marques' 60% interest in Ben's Bakery. Multi-Marques will keep its name and become a wholly-owned subsidiary of Canada Bread. The financial terms of the deal have yet to be disclosed and are still subject to regulatory approval.

In the meantime, we are patiently waiting for Canada Bread's share price to reap the benefits of Roger Dickout's adept management team. We feel that management will continue to be opportunistic and have done an excellent job in turning around the company despite fierce competition.

ABC Funds

January 26, 2001

Canada Bread recently reported better than expected first quarter 2001 earnings per share of \$0.16 versus \$0.11 in the year earlier period. This 45% earnings increase is largely the result of a 4.8% growth in sales and a significant margin expansion of 74 basis points. This year-long trend of quarter over quarter improving results is indicative of Canada Bread's future. We are confident that management will continue to knead out margin improvements through its ongoing aggressive cost cutting strategy that was implemented over a year ago.

For the balance of 2001 and beyond we expect additional operating efficiencies to be realized, as well as, growth and consolidation opportunities. Moreover, in the second half of 2001 Canada Bread should begin to see the benefits of the Multi-Marques acquisition. Final completion of this transaction is expected in the second quarter.

While Canada Bread's improving fundamentals are key to its price appreciation, it remains an attractive and relatively defensive security during a time of extreme economic volatility and consumer uncertainty.

ABC Funds

May 11, 2001

UPDATES (cont'd)

In this period of economic uncertainty, Canada Bread is an ideal investment. It is a defensive play that provides stability in this time of extreme volatility. Despite the economic slowdown that has embraced North America over the past 12 months, Canada Bread has managed to gain earnings momentum through top line growth and improving operating margins.

In the second quarter of 2001, Canada Bread improved its earnings per share by 18.9% over the comparable quarter. A 6.3% increase in revenues and an 8 basis point improvement in its operating margins to 4.6% augmented its earnings growth. We feel this will be sustained as new product lines and cost cutting measures develop. In addition, it is expected that the proposed acquisition of the remaining 75% of Multi-Marques will close by the end of the fourth quarter.

Although Canada Bread's share price has appreciated significantly since our initial write-up we will continue to hold at these levels. It is a fundamentally strong, old economy company with a small amount of debt. We feel that its defensive nature, positive earnings momentum and potential catalytic events that may transpire with its major shareholder Maple Leaf Foods could drive its share price up further.

ABC Funds

October 12, 2001

Canada Bread's recently reported fourth quarter earnings results marked its tenth consecutive quarter of year over year improvement in operating earnings. Canada Bread's earnings per share for the fourth quarter of \$0.34 were fuelled by a 71% increase in revenues over the comparable quarter and continued margin expansion. For the full year Canada Bread's earnings per share were \$0.97, an improvement of 45% over the previous year's \$0.67.

Although Canada Bread's acquisition of the remaining 75% of Multi-Marques in October 2001 contributed to the company's impressive sales growth, Canada Bread still managed to achieve an internal sales growth of 13%. As Multi-Marques is further integrated into Canada Bread, we expect an improvement of operating margins which will further enhance the bottom line.

Overall, we feel that Canada Bread is well positioned for future growth. The company remains fundamentally strong with a book value of \$11.74 and a debt to total capital ratio of only 0.15. While a little pricey on a book value and a P/E ratio basis, Canada Bread remains a core holding due to its defensive nature. Interestingly enough, its 68% shareholder, Maple Leaf Foods could grow the company by merging Maple Leaf's U.S. bakery operations and/or they might even decide to liquidate their Canada Bread interest and concentrate on pork and meat processing. In the event of this latter option, Canada Bread could be an interesting takeover target.

ABC Funds

March 1, 2002

With the capital markets in turmoil, Canada Bread continues to offer a relatively safe haven for nervous investors. First quarter earnings of \$0.30 per share were inline with expectations and significantly above the previous year's earnings of \$0.19 per share. Revenue and earnings per share growth of 69% and 58% respectively could be attributed to the consolidation of Multi-Marques, internal sales growth and operational improvements. We look for another solid performance with the release of second quarter results sometime in late July.

In other news, on April 19, 2002 Roger Dickout was replaced as CEO by Richard Lan, previously the President of Maple Leaf Foods global Bakery Products Group and Chairman of Canada Bread. Mr. Dickout had successfully achieved his mandate of turning around the Company, completing the acquisition of Multi-Marques and positioning the Company for future growth. Mr. Lan, an American, will now shoulder the responsibility of expanding operations throughout North America and internationally. In fact, Mr. Lan has already publicly discussed the possibility of having Canada Bread purchase Maple Leaf Bakery in the United States and Maple Leaf Bakery, UK from Maple Leaf Foods.

ABC Funds

July 19, 2002

In late 2002, Canada Bread finalized the purchase of Maple Leaf Bakery from Maple Leaf Foods. We believe this transaction should prove to be a mutually beneficial. To put the acquisition into perspective, Maple Leaf Bakery reported sales of \$188 million in fiscal 2001 and held approximately 50% of the market share of the national retailer par-baked segment in the United States. Under the terms of the original offer, the purchase price was approximately \$260 million, including the assumption of Maple Leaf Bakery's debt. Essentially, the acquisition was to be financed by \$60 million in cash and a note payable to Maple Leaf Foods for the remaining balance.

UPDATES (cont'd)

However, CBY shareholders raised concerns regarding the optics of the deal and the terms of the transaction. After negotiations, Maple Leaf Foods agreed to accept \$106 million of the \$260 million purchase price in shares of Canada Bread. The stock was issued from treasury at a price of \$26.50, which represented a 24% premium to CBY's ten-day average closing price. By taking stock above market value, Maple Leaf Foods demonstrated its long-term commitment to Canada Bread and its confidence in the transaction. By paying stock for some of the purchase price, Canada Bread was able to protect the health of its balance sheet. As Canada Bread shareholders, we strongly endorsed the terms of the revised offer.

Strategically, the purchase of Maple Leaf Bakery offers diversification to the United States, several complementary product lines and attractive growth potential. Maple Leaf Bakery's U.S. operations manufacture and distribute frozen par-baked bread, rolls and bagels. The recently acquired Grace Baking, based out of San Francisco, produces fresh and frozen artisan breads. Maple Leaf Bakery's U.K. subsidiary is the largest bagel producer in the United Kingdom. Once the operations are integrated, management is expected to concentrate on growing the par-baked segment, goods that are partially baked, flash frozen and then shipped to customers who then complete the baking process. This segment offers tremendous opportunities for growth because it currently represents only a fraction of the U.S. supermarket-retailing and foodservice industries but is rapidly gaining acceptance.

ABC Funds

January 17, 2003

As we described in our previous commentary, Canada Bread has expanded into the United States with an emphasis on par-baked products. In pursuit of this initiative, the Company purchased Maple Leaf Bakery Group from its parent Maple Leaf Foods. The non-arms-length nature of the transaction led to considerable discussion and negotiation with minority shareholders, but eventually the deal was successfully completed. Strategically, the par-baked segment of the market appears to offer a significant opportunity to continue to grow revenue and earnings. However, we believe that such a major undertaking is not without risk and therefore warrants caution.

While carefully analyzing Canada Bread's 2002 annual report, we discovered that acquisitions, including Maple Leaf Bakery, created almost \$220 million of incremental goodwill and intangible assets in 2002. Previously, we had been able to justify Canada Bread's goodwill and intangible assets because they were related to the Company's well-known brands such as Dempster and Tenderflake. However, accounting goodwill arising from acquisitions is eliminated under our fundamental valuation principles. At fiscal 2002 yearend, Canada Bread's reported book value was \$13.29 per share. After adjustments, the Company's tangible book value was negative \$2.87 per share.

As we were mulling over these factors and weighing our options, an opportunity to sell our shares at \$25 presented itself. With thinly traded stocks, one sometimes has to act quickly and decisively. Our investment discipline helped us to make the decision to advantageously liquidate our entire position in Canada Bread in both ABC Funds.

ABC Funds

May 9, 2003