



MESSAGE TO SHAREHOLDERS

Saputo Group Inc. has completed an initial public offering of 9 470 500 common shares priced at \$ 17 each. Gross proceeds from the offering totalled \$ 161 000 000 of which \$ 21 000 000 was used to pay down bank indebtedness subsequent to the exercise of the underwriters' over-allotment or greenshoe option.

As President and Chief Executive Officer, I proudly acknowledge the tremendous support and confidence demonstrated by all new Company shareholders. As a result, this initial public offering has proven a great success and will enable Saputo Group Inc. to achieve its goals and objectives.

On behalf of the Board of Directors, I am pleased to present our first quarterly report and to unveil our financial results for the first six months ended September 30, 1997. Consistent with corporate expectations, these results take into account the initial public offering completed October 15, 1997, and include a pro-forma balance sheet and a statement of changes in financial position for the six months under review. You will note that the bank indebtedness, on a pro-forma basis, has decreased from \$ 14.1 million to \$ 3.1 million.

Revenues for the second quarter, ended September 30, 1997, totalled \$ 123.2 million, an increase of 8.1 % over revenues for the corresponding quarter of 1996. Revenues for the first six months stood at \$ 240.8 million, an advance of 9.0 % over the figure for the previous financial year. Two recent acquisitions, namely Fromages Caron Inc., a cheese distributor and importer acquired August 4, 1996, and Cr merie des Trois-Rivi res Lt e, a fluid milk and ice cream company acquired July 31, 1997, contributed to the increase in revenues.

Net earnings for the second quarter stood at \$ 10.9 million, up 6.5 % over the second quarter of 1996. For the first six months of the year, the Company reported net earnings of \$ 21.6 million, up 6.3 % over the corresponding period of the previous year.

Basic earnings per share for the second quarter rose from \$ 0.34 to \$ 0.37 ; figures for the first six months were \$ 0.68 and \$ 0.72 respectively. Basic pro-forma earnings per share for the second quarter increased from \$ 0.26 (\$ 0.26 fully diluted pro-forma) to \$ 0.28 (\$ 0.27 fully diluted pro-forma), whereas basic pro-forma earnings per share for the first six months increased from \$ 0.52 (\$ 0.51 fully diluted pro-forma) to \$ 0.55 (\$ 0.54 fully diluted pro-forma).

In the coming year, Saputo Group Inc. expects to sustain strong growth and profitability through ongoing internal development and further acquisitions. The Company recently agreed to purchase Stella Foods Inc., a major US cheese producer, for US \$ 405 million under the terms of an acquisition to be finalized during the month of December 1997. The company will continue to explore additional acquisition opportunities.

Lino Saputo
President and Chief Executive Officer
November 17, 1997.

SAPUTO GROUP INC.
CONSOLIDATED STATEMENTS OF EARNINGS
(Unaudited)
(in thousands of dollars except for earnings per share)

	For the three months ended		For the six months ended	
	September 30		September 30	
	1997	1996	1997	1996
	\$	\$	\$	\$
Revenue	123,181	113,903	240,758	220,930
Cost of sales, selling and administrative expenses	103,751	95,373	202,638	184,903
Earnings before the undernoted expenses	19,430	18,530	38,120	36,027
Depreciation and amortization of fixed assets	1,976	1,847	3,897	3,721
Amortization of goodwill	75	74	150	148
Earnings before interest and income taxes	17,379	16,609	34,073	32,158
Interest, net of interest income	68	156	22	108
Earnings before income taxes	17,311	16,453	34,051	32,050
Income taxes	6,353	6,169	12,412	11,690
Net earnings	10,958	10,284	21,639	20,360
Earnings per share				
Basic (1)	\$ 0.37	\$ 0.34	\$ 0.72	\$ 0.68
Basic pro-forma (2)	\$ 0.28	\$ 0.26	\$ 0.55	\$ 0.52
Fully diluted pro-forma (3)	\$ 0.27	\$ 0.26	\$ 0.54	\$ 0.51

(1) Based on 30,000,000 shares.

(2) Based on 39,470,500 shares, which includes 9,470,500 shares issued through the initial public offering on October 15, 1997.

(3) Based on 40,020,500 shares, which includes 550,000 shares that may be issued through the share option purchase plan.

SAPUTO GROUP INC.
CONSOLIDATED BALANCE SHEETS
(Unaudited)
(in thousands of dollars)

	Pro-forma as at September 30 1997 <small>(1)</small>	As at September 30 1997	As at September 30 1996
	\$	\$	\$
ASSETS			
Current assets			
Receivables	36,599	36,599	36,322
Inventories	37,363	37,363	37,641
Prepaid expenses and other assets	1,996	1,996	1,722
Advances to companies controlled by shareholders, bearing interest at bank prime rate	-	-	23,259
	<u>75,958</u>	<u>75,958</u>	<u>98,944</u>
Investments	750	750	2,401
Fixed assets	86,352	86,352	76,143
Goodwill, net of accumulated amortization	1,143	1,143	1,558
Other assets	<u>1,105</u>	<u>1,105</u>	<u>1,458</u>
	<u><u>165,308</u></u>	<u><u>165,308</u></u>	<u><u>180,504</u></u>
LIABILITIES			
Current liabilities			
Bank indebtedness	3,129	14,129	4,559
Accounts payable and accrued liabilities	30,077	30,077	32,172
Income taxes	467	1,199	2,553
Current portion of long-term debt	181	181	-
Advances from a shareholder corporation, bearing interest at bank prime rate	-	-	17,500
	<u>33,854</u>	<u>45,586</u>	<u>56,784</u>
Long-term debt	1,400	1,400	-
Deferred income taxes	<u>7,457</u>	<u>10,497</u>	<u>9,858</u>
	<u><u>42,711</u></u>	<u><u>57,483</u></u>	<u><u>66,642</u></u>
SHAREHOLDERS' EQUITY			
Share capital	122,597	15,287	15,057
Retained earnings	-	92,538	98,805
	<u>122,597</u>	<u>107,825</u>	<u>113,862</u>
	<u><u>165,308</u></u>	<u><u>165,308</u></u>	<u><u>180,504</u></u>

(1) The pro-forma consolidated balance sheet takes into consideration the initial public offering of shares on October 15, 1997.

SAPUTO GROUP INC.
CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION
(Unaudited)
(in thousands of dollars)

	Pro-forma for the six months ended September 30 1997 (1)	For the six months ended September 30	
	1997	1997	1996
	\$	\$	\$
Net inflow (outflow) of cash related to the following activities:			
Operating			
Net earnings	21,639	21,639	20,360
Items not affecting cash			
Depreciation and amortization	4,047	4,047	3,869
Deferred income taxes	(2,943)	97	-
	<u>22,743</u>	<u>25,783</u>	<u>24,229</u>
Changes in non-cash operating working capital items	<u>(6,956)</u>	<u>(6,224)</u>	<u>(3,999)</u>
	<u>15,787</u>	<u>19,559</u>	<u>20,230</u>
Investing			
Acquisition of businesses	(4,290)	(4,290)	(2,062)
Additions to fixed assets	(8,659)	(8,659)	(1,405)
Proceeds from the disposal of fixed assets	-	-	1,361
Investments - net change	1,595	1,595	(1,728)
Other assets - net change	208	208	(303)
Advances to companies controlled by shareholders	20,944	20,944	(12,059)
Foreign currency translation adjustment	40	40	227
	<u>9,838</u>	<u>9,838</u>	<u>(15,969)</u>
Financing			
Repayment of long-term debt	(64)	(64)	-
Repayment of promissory note	(14,000)	-	-
Advances from a shareholder corporation	(3,775)	(3,775)	(1,395)
Issuance of common shares	161,000	-	-
Redemption of preferred shares	(126,000)	-	-
Share capital issue costs, net of income taxes	(6,228)	-	-
Dividends	(28,044)	(28,044)	(12,500)
	<u>(17,111)</u>	<u>(31,883)</u>	<u>(13,895)</u>
Increase (decrease) in cash	8,514	(2,486)	(9,634)
(Bank indebtedness) cash, beginning of period	(11,643)	(11,643)	5,075
Bank indebtedness, end of period	(3,129)	(14,129)	(4,559)

(1) The pro-forma consolidated statement of changes in financial position takes into consideration the initial public offering of shares on October 15, 1997.