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INTERIM REPORT

FOR THE NINE MONTHS ENDED DECEMBER 31, 1997



SAPUTO GROUP INC.

MESSAGE TO SHAREHOLDERS

On behalf of the Board of Directors, I am pleased to present our second interim report and to unveil our financial results for the nine months ended December 31, 1997. These results take into account the acquisition of Stella Foods, Inc. for a total consideration of US \$ 404 million (CAN \$ 575 million) under the terms of a transaction finalized December 5, 1997.

Partial financing for the purchase of Stella Foods, Inc. by Saputo Group Inc. was secured December 10, 1997 through the issue of 9 000 000 special warrants priced at \$ 25 each for total gross proceeds of \$ 225 million, and with respect to which a preliminary prospectus was filed December 19, 1997 with Canadian securities regulators.

Saputo's commanding presence in the Canadian market combined with Stella's fifth place ranking in the US will allow Saputo Group Inc. to position itself as one of the largest natural cheese producers in North America.

The interim report for the period ended December 31, 1997 includes four weeks of joint operating results. The addition of Stella Foods, Inc. has contributed positively to the Company's overall sales figures and cash flow, but did not have an impact on net earnings for the third quarter. Management believes that Saputo's manufacturing expertise and commitment to quality will increase Stella's profitability.

Revenues for the third quarter ended December 31, 1997 totalled \$ 196 million, an increase of 60.7 % over revenues for the corresponding quarter of 1996. Revenues for the first nine months stood at \$ 436.8 million, an increase of 27.4 % over the figure for the same period last year. The acquisition of Stella Foods, Inc., a key contributing factor to the reported rise in corporate revenues, accounted for 90.6 % of the increase in the third quarter, and for 71.5 % of the overall increase for the nine months under review.

Net earnings for the third quarter stood at \$ 11.4 million, up 6.5 % over the third quarter of 1996. For the first nine months of the year, the Company reported net earnings of \$ 33.1 million, an increase of 6.4 % over the corresponding period of the previous year.

Basic earnings per share during the third quarter rose from \$ 0.28 to \$ 0.30; figures for the first nine months progressed from \$ 0.95 to \$ 1.01 respectively. Fully diluted earnings per share stood at \$ 0.23 for the third quarter, and at \$ 0.68 for the first nine months of the financial year.

In the coming year, Saputo Group Inc. expects to sustain growth and profitability through ongoing internal development and acquisitions. Accordingly, on January 30, 1998, the Company finalized the acquisition of all of the outstanding shares of Froma-Dar Inc., a distributor and manufacturer of cheddar and cheese curds. Saputo Group Inc. will continue to explore further investment opportunities both in Canada and in the United States.



Lino Saputo
President and Chief Executive Officer
February 9, 1998

CONSOLIDATED STATEMENTS OF EARNINGS

(unaudited)

(in thousands of dollars
except for earnings per share)

	For the three months ended December 31		For the nine months ended December 31	
	1997	1996	1997	1996
Revenue	\$ 196 042	\$ 121 956	\$ 436 800	\$ 342 886
Cost of sales, selling and administrative expenses	171 521	103 126	374 159	288 029
Earnings before the undernoted expenses	24 521	18 830	62 641	54 857
Depreciation and amortization of fixed assets	3 687	1 940	7 584	5 661
Amortization of goodwill	600	74	750	222
Earnings before interest and income taxes	20 234	16 816	54 307	48 974
Interest on long term debt	1 896	—	1 896	—
Other interest, net of interest income	198	(54)	220	54
Earnings before income taxes	18 140	16 870	52 191	48 920
Income taxes	6 695	6 123	19 107	17 813
Net earnings	\$ 11 445	\$ 10 747	\$ 33 084	\$ 31 107
Earnings per share				
Basic(1)	\$ 0.30	\$ 0.28	\$ 1.01	\$ 0.95
Fully diluted (2)	\$ 0.23		\$ 0.68	

(1) Basic earnings per share were calculated on the basis of the weighted number of common shares outstanding.

(2) Fully diluted earnings per share were calculated using 48 940 309 shares, being 39 470 500 common shares currently outstanding, 9 000 000 common shares to be issued pursuant to the exercise of special warrants and 469 809 common shares that may be issued under the Company's Share Option Plan.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

(unaudited)

<i>(in thousands of dollars)</i>	For the nine months ended December 31	
	1997	1996
Net inflow (outflow) of cash related to the following activities:		
Operating		
Net earnings	\$ 33 084	\$ 31 107
Items not affecting cash		
Depreciation and amortization	8 334	5 883
Deferred income taxes	(1 352)	—
	40 066	36 990
Changes in non-cash operating working capital items	(15 090)	(7 566)
	\$ 24 976	\$ 29 424
Investing		
Acquisition of businesses	\$(578 870)	\$ (2 062)
Additions to fixed assets	(14 028)	(1 213)
Proceeds from the disposal of fixed assets	—	1 361
Investments - net change	1 595	(1 679)
Other assets - net change	(7 845)	(32)
Advances to companies controlled by shareholders	20 944	(19 039)
Foreign currency translation adjustment	3 769	284
	\$ 574 435	\$ (22 380)
Financing		
Increase in long term debt	\$ 359 617	\$ —
Repayment of long term debt	(128)	—
Repayment of promissory note	(14 000)	—
Advances from a shareholder corporation	(3 775)	(682)
Issuance of share capital	161 000	—
Issuance of special warrants	225 000	—
Redemption of preferred shares	(126 000)	—
Share capital issue costs, net of income taxes	(6 228)	—
Special warrants issue costs, net of income taxes	(2 225)	—
Dividends	(28 044)	(16 250)
	\$ 565 217	\$ (16 932)
Net change in cash	\$ 15 758	\$ (9 888)
(Bank indebtedness) cash, beginning of period	(11 643)	5 075
Cash (bank indebtedness) end of period	\$ 4 115	\$ (4 813)

CONSOLIDATED BALANCE SHEETS

(unaudited)

(in thousands of dollars)

As at December 31

	1997	1996
ASSETS		
Current assets		
Cash	\$ 4 115	\$ —
Receivables	132 573	37 832
Inventories	166 048	36 468
Prepaid expenses and other assets	9 528	1 492
Advances to companies controlled by shareholders, bearing interest at bank prime rate	—	30 239
	312 264	106 031
Investments	750	2 352
Fixed assets	288 937	74 011
Goodwill, net of accumulated amortization	263 556	1 484
Other assets	9 158	1 187
	\$ 874 665	\$ 185 065
LIABILITIES		
Current liabilities		
Bank indebtedness	\$ —	\$ 4 813
Accounts payable and accrued liabilities	138 290	30 725
Income taxes	1 614	536
Current portion of long term debt	20 890	—
Advances from a shareholder corporation, bearing interest at bank prime rate	—	18 213
	160 794	54 287
Long term debt	344 877	—
Deferred income taxes	8 421	9 865
	\$ 514 092	\$ 64 152
SHAREHOLDERS' EQUITY		
Share capital	\$ 120 370	\$ 15 111
Special warrants	225 000	—
Retained earnings	11 445	105 802
Foreign currency translation adjustment	3 758	—
	360 573	120 913
	\$ 874 665	\$ 185 065