MANAGEMENT'S STATEMENT OF RESPONSIBILITY FOR FINANCIAL REPORTING

Management is responsible for the preparation and presentation of the consolidated financial statements and the financial information presented in this annual report.

This responsibility includes the selection of accounting policies and practices and making judgements and estimates necessary to prepare the consolidated financial statements in accordance with generally accepted accounting principles.

Management has also prepared the financial information presented elsewhere in this annual report and has ensured that it is consistent with the consolidated financial statements.

Management maintains systems of internal control designed to provide reasonable assurance that assets are safeguarded and that relevant and reliable financial information is being produced.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is responsible for reviewing and approving the consolidated financial statements. The Board of Directors carries out this responsibility principally through its Audit Committee which is comprised solely of directors who are not employees of the Company. The Audit Committee meets periodically with management and the external auditors to discuss internal controls, auditing matters and financial reporting issues. It also reviews the annual report, the consolidated financial statements and the external auditors' report. The Audit Committee recommends the external auditors for appointment by the shareholders. The external auditors have unrestricted access to the Audit Committee. The consolidated financial statements have been audited by the external auditors, Deloitte & Touche, whose report follows.

Signature
Camillo Lisio

Camillo Lisio
President and Chief Operating Officer

Signature
Louis-Philippe Carrière

Louis-Philippe Carrière, CA
Executive Vice-President,
Finance and Administration, and Secretary

AUDITORS' REPORT

To the Shareholders of Saputo Group Inc.

We have audited the consolidated balance sheets of Saputo Group Inc. as at March 31, 1998 and 1997 and the consolidated statements of earnings, retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 1998 and 1997 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Signature
Deloitte & Touche

Chartered Accountants
Laval, Quebec
May 8, 1998

CONSOLIDATED STATEMENTS OF EARNINGS

Years ended March 31

(in thousands of dollars, except per share amounts)

	1998	1997
Revenue	$ 817,255	$ 450,512
Cost of sales, selling and administrative expenses	721,828	378,845
Earnings before the undernoted expenses	95,427	71,667
Depreciation and amortization of fixed assets	13,068	7,383
Amortization of goodwill	2,635	413
Earnings before interest and income taxes	79,724	63,871
Interest on long-term debt	8,435	—
Other interest, net of interest income	491	231
Earnings before income taxes	70,798	63,640
Income taxes *(Note 8)*	25,053	22,642
Net earnings	$ 45,745	$ 40,998
Earnings per share *(Note 9)*		
Basic	$ 1.23	$ 1.37
Fully diluted	$ 0.93	

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

Years ended March 31

(in thousands of dollars)

	1998	1997
Retained earnings, beginning of year	$ 98,943	$ 90,945
Net earnings	45,745	40,998
Dividends	(30,460)	(33,000)
Other distributions to shareholders *(Note 10)*	(140,000)	—
Expenses relating to the issuance of share capital and warrants, net of income taxes	(7,920)	—
Reduction of the stated capital of the common shares *(Note 6)*	55,915	—
Retained earnings, end of year	$ 22,223	$ 98,943

CONSOLIDATED BALANCE SHEETS

As at March 31

(in thousands of dollars)

	1998	1997
ASSETS		
Current assets		
Cash	$ 12,320	$ —
Receivables	129,161	34,593
Inventories	162,358	36,221
Prepaid expenses and other assets	4,984	2,972
Advances to companies controlled by shareholders, bearing interest at bank prime rate	—	20,944
	308,823	94,730
Investments, at cost	—	2,345
Fixed assets *(Note 3)*	333,894	76,086
Goodwill, unamortized portion (cost of $254,130)	248,111	1,293
Other assets	5,834	1,313
	$ 896,662	$ 175,767
LIABILITIES		
Current liabilities		
Bank indebtedness *(Note 4)*	$ 22,009	$ 11,643
Accounts payable and accrued liabilities	139,310	32,223
Income taxes	506	3,967
Current portion of long-term debt	31,063	—
Advances from a shareholder corporation, bearing interest at bank prime rate	—	3,775
	192,888	51,608
Long-term debt *(Note 5)*	330,271	—
Deferred income taxes	3,610	9,969
	526,769	61,577
SHAREHOLDERS' EQUITY		
Share capital *(Note 6)*	347,789	15,258
Retained earnings	22,223	98,943
Foreign currency translation adjustment	(119)	(11)
	369,893	114,190
	$ 896,662	$ 175,767

On behalf of the board

Signature
Lino Saputo

Lino Saputo, Director

Signature
Camillo Lisio

Camillo Lisio, Director

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

Years ended March 31

(in thousands of dollars)

	1998	1997
Net inflow (outflow) of cash related to the following activities:		
Operating		
Net earnings	**$ 45,745**	$ 40,998
Items not affecting cash		
Depreciation and amortization	**15,912**	7,796
Loss on disposal and write-off of fixed assets	**214**	175
Deferred income taxes	**2,101**	88
Share of net earnings of a company subject to significant influence	**—**	57
	63,972	49,114
Changes in non-cash operating working capital items	**(15,325)**	385
	48,647	49,499
Investing		
Business acquisitions *(Note 7)*	**(589,875)**	(2,062)
Bank indebtedness of the acquired businesses	**(3,084)**	(575)
Additions to fixed assets	**(22,346)**	(5,687)
Proceeds from disposal of fixed assets	**239**	1,445
Other assets — net change	**(3,888)**	8
Foreign currency translation adjustment	**509**	62
Additions to investments	**—**	(2,288)
Disposal of investments	**2,345**	560
Advances to companies controlled by shareholders	**20,944**	(9,560)
	(595,156)	(18,097)
Financing		
Issuance of share capital and warrants	**388,446**	—
Expenses relating to the issuance of share capital and warrants	**(13,200)**	—
Increase in long-term debt	**354,950**	—
Repayment of long-term debt	**(7,498)**	—
Advances from a shareholder corporation	**(3,775)**	(15,120)
Dividends	**(30,460)**	(33,000)
Other distributions to shareholders *(Note 10)*	**(140,000)**	—
	548,463	(48,120)
Increase (decrease) in cash	**1,954**	(16,718)
(Bank indebtedness) cash, beginning of year	**(11,643)**	5,075
Bank indebtedness, net of cash, end of year	**$ 9,689**	$ 11,643

Years ended March 31

(in thousands of dollars)

1. CORPORATE REORGANIZATION

On August 26, 1997, the Company acquired from a major shareholder of Saputo Group Inc. control over all of the issued common shares of Saputo Holdings, Inc. (formerly "Jolina Holdings, Inc."). This acquisition was paid by the issuance of 3,000,000 common shares of Saputo Group Inc. and by a cash consideration of $14,000,010. Saputo Holdings, Inc. owns subsidiaries which are cheese producers operating in the United States.

This acquisition was recorded at the carrying amount and the financial statements for the year ended March 31, 1997 have been restated to present the financial statements as they would appear had Saputo Group Inc. always owned this company.

The net assets of this company, included in the balance sheet of Saputo Group Inc. as at March 31, 1997 are the following:

Total assets, at their carrying amount	$	29,469
Total liabilities, at their carrying amount		6,304
Net assets	$	23,165

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with generally accepted accounting principles used in Canada and take into account the following significant accounting policies:

Consolidated financial statements

The consolidated financial statements include the accounts of Saputo Group Inc. and all its subsidiaries.

All intercompany transactions and accounts have been eliminated.

Inventories

Finished goods and goods in process are valued at the lower of average cost and net realizable value. Raw materials are valued at the lower of cost and replacement value, cost being determined under the first-in, first-out method.

Fixed assets

Fixed assets are stated at cost and are depreciated and amortized using the straight-line method over their estimated useful lives or by using the following methods:

Buildings	20 or 40 years
Furniture, machinery and equipment	3 to 15 years
Rolling stock	5 years or based on kilometers travelled
Leasehold improvements	terms of leases

Goodwill

Goodwill is recorded at cost and amortized under the straight-line method over a maximum period of forty years. Management reviews goodwill on a continuous basis to determine whether there has been a permanent impairment of its value by comparing the carrying amount with future undiscounted operating income.

Deferred income taxes

The Company uses the tax allocation method. In accordance with this accounting method, the current tax expense may differ from the accounting tax expense as a result of the timing differences that arise in reporting certain expenses or revenues for financial statement and income tax purposes. The differences are recorded as deferred income taxes and are basically due to depreciation and amortization of fixed assets.

Foreign currency translation

The balance sheet accounts of the self-sustaining companies operating in the United States were translated into Canadian dollars using the exchange rates at the balance sheet dates. Statement of earnings accounts were translated into Canadian dollars using average exchange rates in effect during the fiscal years. Differences resulting from this translation are deferred in a foreign currency translation adjustment account in shareholders' equity.

Foreign currency accounts of Canadian companies were translated into Canadian dollars using the exchange rate at the end of the year for current assets and liabilities and the prevailing exchange rates at the time of transactions for income and expenses. Gains or losses resulting from this translation are included in earnings.

3. FIXED ASSETS

	1998			1997
	Cost	Accumulated depreciation and amortization	Net book value	Net book value
Land	**$ 13,904**	**$ —**	**$ 13,904**	$ 6,734
Buildings	**121,645**	**9,671**	**111,974**	28,287
Furniture, machinery and equipment	**258,683**	**53,997**	**204,686**	39,316
Rolling stock	**5,664**	**2,686**	**2,978**	1,382
Leasehold improvements	**583**	**231**	**352**	367
	$ 400,479	**$ 66,585**	**$ 333,894**	$ 76,086

4. BANK INDEBTEDNESS

Bank indebtedness includes bank loans of US $15,501,000. One of the bank loans in the amount of US $1,600,000 (US $610,000 in 1997) is secured by the receivables of an American subsidiary.

The loan agreement of the other bank loan in the amount of US $13,901,000 provides for certain financial covenants which, if not complied with, could give rise to an obligation for an American subsidiary to pledge its assets as security for the bank loan.

5. LONG-TERM DEBT

	1998	1997
Term bank loans (US $250,000,000) bearing interest at fluctuating rates based on LIBOR rate plus 0.5% to a maximum of 1.75%, depending on the interest-bearing debt to the earnings before interest, depreciation and amortization and income taxes ratio of the Company. One of the term loans in the amount of $239,950,000 (US $169,000,000) is repayable in quarterly principal instalments of Cdn $10,000,000 starting in July 1998 and the other term loan in the amount of $115,000,000 (US $81,000,000) is repayable when the last quarterly instalment of Cdn $10,000,000 becomes due. The loan agreement provides for certain financial covenants which, if not complied with, could give rise to an obligation to grant security on all present and future assets of the Company	**$ 354,950**	$ —
Unsecured bonds, repayable in annual variable instalments, bearing interest at rates from 2.75% to 6.2%, due in 2004 (US $2,965,000)	**4,210**	—

5. LONG-TERM DEBT (continued)

	1998	1997
Bank loans, bearing interest at bank's prime rate plus 1/4 of 1%, secured by fixed assets, repayable in monthly principal instalments of approximately $22,000, due from 1998 to 2009	**$ 1,447**	$ —
Loan, bearing interest at lender's prime rate, secured by fixed assets, due in 2002	**525**	—
Other loans, secured by fixed assets	**202**	—
	361,334	—
Current portion	**31,063**	—
	$ 330,271	$ —

Principal payments required in each of the next five years are as follows:

1999	$ 31,063
2000	40,928
2001	40,958
2002	40,697
2003	40,696
	$ 194,342

6. SHARE CAPITAL

Authorized

The authorized share capital of the Company now consists of an unlimited number of common and preferred shares. The common shares are voting and participating. The preferred shares may be issued in one or more series, the terms and privileges of each series to be determined at the time of creation of each such series.

		1998	1997
Issued			
48,567,260	common shares	**$ 347,789**	$ —
253,000,000	class A shares, voting and participating	—	2
165,000,000	class C shares	—	13
74,000,000	class D shares	—	3,011
14,000,000	class E shares	—	1
Common shares of Saputo Holdings, Inc.		—	12,231
		$ 347,789	$ 15,258

On August 25, 1997, the authorized share capital of Saputo Group Inc. was modified and the class A, C, D and E shares were converted into 27,000,000 common shares. On August 26, 1997, the Company also acquired from a major shareholder of Saputo Group Inc. control over all of the issued shares of Saputo Holdings, Inc. (formerly "Jolina Holdings, Inc.").

The acquisition was paid by the issuance of 3,000,000 common shares of Saputo Group Inc. for an amount of $12,259,000 and by a cash consideration of $14,000,010.

The class C, D and E shares were non-voting and were entitled to a non-cumulative dividend of a maximum of 3/5 of 1%. These shares were redeemable for a total consideration of $253,000,000.

Pursuant to an initial public offering, the Company issued 9,470,500 common shares on October 15, 1997 at a price of $17 per share for gross proceeds of $160,998,500.

On December 10, 1997, the Company received gross proceeds of $225,000,000 from the issuance and sale of 9,000,000 special warrants at a price of $25 per warrant. Each warrant entitled the holder to acquire one common share of the Company without additional payment. As at March 31, 1998, all warrants have been exercised.

The stated capital of the common shares was reduced by $55,915,000 on December 18, 1997. This resulted in a corresponding increase in retained earnings.

On January 30, 1998, the Company issued 96,760 common shares for an amount of $2,419,000, in partial consideration for the acquisition of the shares of Froma-Dar Inc. *(Note 7)*.

Share option plan

In connection with the initial public offering, the Company established a share option plan to allow for the purchase of common shares by full-time employees, officers and directors of the Company. The total number of common shares which may be issued pursuant to this plan will not exceed 3,000,000 common shares.

Options to purchase 469,809 common shares at a price of $17 per share were granted on October 15, 1997 and options to purchase 299,850 common shares at a price of $36.85 were granted on April 1st, 1998. The options expire ten years from the date of the grant. None of these options has yet been exercised.

7. BUSINESS ACQUISITIONS

Year ended March 31, 1997

On August 4, 1996, the Company acquired, for a cash consideration of $2,062,000, all of the issued shares of Fromages Caron Inc., a Canadian cheese importer and wholesaler. The acquisition was recorded using the purchase method of accounting. The operating results of Fromages Caron Inc. from the acquisition date are included in the consolidated statements of earnings of the Company. Goodwill resulting from this acquisition is amortized under the straight-line method over a period of ten years.

Net assets acquired are the following:

Tangible assets	$	2,926
Goodwill		600
Total assets		3,526
Liabilities assumed		1,464
Net assets acquired	$	2,062

Year ended March 31, 1998

On July 31, 1997, the Company acquired from 167876 Canada Inc., a company controlled by shareholders of Saputo Group Inc., all of the issued shares of Crémerie des Trois-Rivières, Limitée for a cash consideration of $4,290,000, which is the amount invested by 167876 Canada Inc. for this acquisition on March 3, 1997. This acquisition was accounted for by the Company at the carrying amount of the assets and liabilities of this company recorded in the books of 167876 Canada Inc. Crémerie des Trois-Rivières, Limitée produces and distributes fluid milk and ice cream products in Canada. The operating results of Crémerie des Trois-Rivières, Limitée from the acquisition date are included in the consolidated statements of earnings of the Company.

On December 5, 1997, the Company acquired all of the issued shares of Stella Holdings, Inc., a cheese producer operating in the United States, for a cash consideration of US $403,923,000 (Cdn $574,580,000 as at December 5, 1997). Acquisition costs amounted to $5,855,000. This acquisition was recorded by the Company using the purchase method of accounting. The operating results of Stella Holdings, Inc. from the acquisition date are included in the consolidated statements of earnings of the Company. Goodwill resulting from this acquisition is amortized under the straight-line method over a period of forty years.

On July 31, 1997, the Company acquired from 167876 Canada Inc., a company controlled by shareholders of Saputo Group Inc., 33 1/3% of the issued shares of Froma-Dar Inc. for a cash consideration of $750,000, which was the carrying amount of this investment recorded in the books of 167876 Canada Inc.

On January 30, 1998, the Company acquired from unrelated parties, all the shares of Froma-Dar Inc. that it did not already own for a total consideration of $4,400,000, payable by the issuance of 96,760 shares of Saputo Group Inc. and by a cash consideration of $1,981,000. Froma-Dar Inc. is a Canadian cheese producer. This acquisition was recorded using the purchase method of accounting. The operating results of Froma-Dar Inc. from the acquisition date are included in the consolidated statements of earnings of Saputo Group Inc. Goodwill resulting from this acquisition is amortized under the straight-line method over a period of forty years.

Net assets acquired are the following:

	Crémerie des Trois-Rivières, Limitée	Stella Holdings, Inc.	Froma-Dar Inc.	Total
Tangible assets	$ 9,103	$ 437,215	$ 7,403	**$ 453,721**
Goodwill	—	246,493	3,287	**249,780**
Total assets	9,103	683,708	10,690	**703,501**
Liabilities assumed	4,813	103,273	5,540	**113,626**
Net assets acquired	$ 4,290	$ 580,435	$ 5,150	**$ 589,875**

8. INCOME TAXES

The provision for income taxes is comprised of the following:

	1998	1997
Provision using basic income tax rates	**$ 28,261**	$ 25,239
Increase (decrease) resulting from:		
Manufacturing and processing tax credits	**(3,738)**	(3,245)
Goodwill, non-deductible expenses and other adjustments	**530**	648
	$ 25,053	$ 22,642

9. EARNINGS PER SHARE

Basic earnings per share for the year ended March 31, 1997, have been calculated using 30,000,000 common shares outstanding, being the number of common shares outstanding after the conversion of the share capital and the acquisition of Saputo Holdings, Inc. *(Note 6)*.

Basic earnings per share for the year ended March 31, 1998, have been calculated using the weighted average number of common shares outstanding during the year.

Fully diluted earnings per share have been calculated using 49,336,919 common shares, being the sum of the number of common shares outstanding as at March 31, 1998 (48,567,260 shares) and the shares that may be issued following the exercise of options granted under the Company's share option plan (769,659 shares).

10. OTHER DISTRIBUTIONS TO SHAREHOLDERS

	1998	1997
Amount paid to a major shareholder in connection with the acquisition of Saputo Holdings, Inc. *(Note 1)*	**$ 14,000**	$ —
Redemption of class A preferred shares, issued following the declaration of a special stock dividend on August 25, 1997	**126,000**	—
	$ 140,000	$ —

11. RELATED PARTY TRANSACTIONS

	1998	1997
Management fees paid to a shareholder corporation	**$ 1,318**	$ 2,272
Interest on advances from a shareholder corporation	**$ 91**	$ 1,108
Interest on advances to companies controlled by shareholders	**$ 353**	$ 871

On August 22, 1997, the advances to companies controlled by shareholders were repaid and the advances from a shareholder corporation were also repaid.

Prior to August 31, 1997, a company controlled by the Chairman of the Board and Chief Executive Officer of Saputo Group Inc., Mr. Lino Saputo, provided management services in consideration for a management fee. On such date, such agreement was terminated, except for Mr. Lino Saputo and Mr. Joey Saputo, president of a wholly-owned subsidiary, as all other senior management personnel became employees of Saputo Group Inc.

12. COMMITMENTS RELATED TO LEASES

The Company carries some of its operations in premises leased until the year 2003 and has also entered into lease agreements for equipment. The minimum lease payments required are as follows:

1999	$ 2,583
2000	2,041
2001	1,764
2002	906
2003	31
	$ 7,325

13. FINANCIAL INSTRUMENTS

The fair value of cash, receivables, bank indebtedness, accounts payable and accrued liabilities corresponds to their carrying value due to their short-term maturity.

The fair value of long-term debt, estimated by discounting expected cash flows at rates currently offered to the Company for debts of the same remaining maturities and conditions, approximates the carrying value.

The Company grants credit to its customers in the normal course of business. Credit valuations are performed on a regular basis and the financial statements take into account an allowance for bad debts. The Company does not have any credit risk concentration.

Saputo Group Inc. manages its currency risks by occasionally entering into foreign currency contracts. Outstanding foreign currency contracts as at the balance sheet date are not material.

14. SEGMENTED INFORMATION

Saputo Group Inc. operates through facilities located in Canada and the United States. Information on the geographic segmentation is as follows:

	1998			1997		
	Canada	United States	Total	Canada	United States	Total
Revenue	**$ 454,907**	**$ 362,348**	**$ 817,255**	$ 387,298	$ 63,214	$ 450,512
Earnings before depreciation and amortization, interest and income taxes	**$ 71,079**	**$ 24,348**	**$ 95,427**	$ 64,963	$ 6,704	$ 71,667
Depreciation and amortization	**7,311**	**8,392**	**15,703**	7,006	790	7,796
Operating income Earnings before interest and income taxes	**$ 63,768**	**$ 15,956**	**79,724**	$ 57,957	$ 5,914	63,871
Interest			**8,926**			231
Income taxes			**25,053**			22,642
Net earnings			**$ 45,745**			$ 40,998
Additions to fixed assets	**$ 12,723**	**$ 9,623**	**$ 22,346**	$ 3,594	$ 2,093	$ 5,687
Total assets	**$ 156,497**	**$ 740,165**	**$ 896,662**	$ 146,298	$ 29,469	$ 175,767
Fixed assets at net book value	**$ 79,628**	**$ 254,266**	**$ 333,894**	$ 65,352	$ 10,734	$ 76,086

15. SUBSEQUENT EVENT

On May 1, 1998, the Company acquired all of the issued shares of Avonmore Cheese Inc. and Waterford Food Products, Inc. for respective cash considerations of US $7,000,000 and US $29,000,000. These companies are cheese and by-product producers operating in the United States.

These acquisitions will be accounted for by Saputo Group Inc. using the purchase method of accounting. The purchase prices will be allocated between the assets and the liabilities based on their respective fair values, once these fair values have been determined.

The purchase prices are subject to adjustments in accordance with the provisions of the purchase agreements.

These acquisitions will be financed by additional credit facilities.