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 judgments 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 Commitee recommends the external auditors for appointment by the shareholders. The external auditors have unrestricted access to the Audit Commitee. The consolidated financial statements have been audited by the external auditors, Deloitte & Touche, whose report follows.

«Lino Saputo»
(signed)

Lino Saputo
Chairman of the Board and
Chief Executive Officer

«Louis-Philippe Carrière»
(signed)

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

Auditors' Report
to the Shareholders of Saputo Inc.

We have audited the consolidated balance sheets of Saputo Inc. as at March 31, 2002 and 2001 and the consolidated statements of earnings, retained earnings and cash flows 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 Canadian 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, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

«Deloitte & Touche LLP»
(signed)

Deloitte & Touche LLP

Chartered Accountants
Laval, Québec
May 13, 2002

Consolidated Statements of

Earnings

Years ended March 31	2002	2001
(in thousands of dollars, except per share amounts)		
Revenues	**$ 3,457,412**	$ 2,161,671
Cost of sales, selling and administrative expenses	**3,104,990**	1,890,697
Earnings before interest, depreciation, amortization and income taxes	**352,422**	270,974
Depreciation of fixed assets	**68,087**	51,763
Operating income	**284,335**	219,211
Interest on long-term debt	**53,379**	40,703
Other interest (Note 9)	**(801)**	(1,184)
Earnings before income taxes and amortization of goodwill	**231,757**	179,692
Income taxes (Note 10)	**71,596**	55,607
Earnings before amortization of goodwill	**160,161**	124,085
Amortization of goodwill (Note 2)	**—**	13,844
Net earnings	**$ 160,161**	$ 110,241
Earnings per share (Note 11)		
Earnings before amortization of goodwill		
Basic	**$ 1.56**	$ 1.21
Diluted	**$ 1.54**	$ 1.20
Net earnings		
Basic	**$ 1.56**	$ 1.08
Diluted	**$ 1.54**	$ 1.07

Consolidated Statements of

Retained Earnings

Years ended March 31	2002	2001
(in thousands of dollars)		
Retained earnings, beginning of year	**$ 271,087**	$ 177,746
Net earnings	**160,161**	110,241
Dividends	**(21,600)**	(16,900)
Retained earnings, end of year	**$ 409,648**	$ 271,087

Consolidated

Balance Sheets

As at March 31	2002	2001
(in thousands of dollars)		
Assets		
Current assets		
Cash	**$ 4,852**	$ 6,294
Receivables	**272,895**	279,493
Inventories	**406,621**	376,447
Income taxes	**4,288**	2,866
Future income taxes	**13,781**	22,751
Prepaid expenses and other assets	**11,078**	10,628
	713,515	698,479
Portfolio investment (Note 3)	**55,991**	—
Fixed assets (Note 4)	**658,845**	675,021
Goodwill (Note 5)	**572,375**	592,646
Other assets	**41,859**	33,970
Future income taxes	**4,090**	12,863
	$ 2,046,675	$ 2,012,979
Liabilities		
Current liabilities		
Bank loans (Note 6)	**$ 28,907**	$ 10,643
Accounts payable and accrued liabilities	**305,752**	320,426
Income taxes	**17,393**	29,457
Current portion of long-term debt	**102,555**	95,075
	454,607	455,601
Long-term debt (Note 7)	**572,570**	700,821
Employee future benefits	**12,947**	11,574
Future income taxes	**105,963**	97,082
	1,146,087	1,265,078
Shareholders' Equity		
Share capital (Note 8)	**459,822**	451,047
Retained earnings	**409,648**	271,087
Foreign currency translation adjustment	**31,118**	25,767
	900,588	747,901
	$ 2,046,675	$ 2,012,979

On behalf of the Board

«Lino Saputo»
(signed)

Lino Saputo, Director

«Louis A. Tanguay»
(signed)

Louis A. Tanguay, Director

Consolidated Statements of

Cash Flows

Years ended March 31	2002	2001
(in thousands of dollars)		
Cash flows related to the following activities:		
Operating		
Net earnings	**$ 160,161**	$ 110,241
Items not affecting cash		
Depreciation and amortization	**68,087**	65,607
Future income taxes	**17,132**	15,232
Other items	**(845)**	(990)
	244,535	190,090
Currency loss on cash held in foreign currency	**19**	7
Changes in non-cash operating working capital items	**(42,317)**	44,310
	202,237	234,407
Investing		
Business acquisitions (Note 12)	**(16,410)**	(1,432)
Net additions to fixed assets	**(59,735)**	(42,934)
Other assets	**(7,889)**	(1,694)
Foreign currency translation adjustment	**(6,115)**	(48,411)
	(90,149)	(94,471)
Financing		
Bank loans	**18,264**	(6,942)
Repayment of long-term debt	**(125,050)**	(151,140)
Issuance of share capital	**8,775**	415
Employee future benefits	**1,373**	—
Dividends	**(21,600)**	(16,900)
Foreign currency translation adjustment	**4,727**	36,622
	(113,511)	(137,945)
(Decrease) increase in cash	**(1,423)**	1,991
Currency loss on cash held in foreign currency	**(19)**	(7)
Cash, beginning of year	**6,294**	4,310
Cash, end of year	**$ 4,852**	$ 6,294
Supplemental information		
Interest paid	**$ 51,630**	$ 39,165
Income taxes paid	**$ 68,795**	$ 31,976

Notes
to the Consolidated Financial Statements

Years ended March 31

(in thousands of dollars)

1. 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:

Use of estimates

In the course of the preparation of financial statements in conformity with generally accepted accounting principles, management must make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the revenues and expenses for the period. Actual results could differ from these estimates.

Consolidated financial statements

The consolidated financial statements include the accounts of Saputo Inc. and all its subsidiaries (the "Company"). The operating results of acquired businesses, from their respective acquisition dates, are included in the consolidated statements of earnings.

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 using the straight-line method over their estimated useful lives or by using the following methods:

Buildings	15 years to 40 years
Furniture, machinery and equipment	3 years to 15 years
Rolling stock	5 years to 10 years or based on kilometers traveled

Goodwill

Goodwill is no longer amortized since April 1, 2001, the date on which the Company adopted prospectively the new Canadian Institute of Chartered Accountants (CICA) recommendations on goodwill. Goodwill is now tested for impairment in accordance with the new recommendations (see Note 2).

Income taxes

The Company follows the liability method of income tax allocation. Under this method, future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates that will be in effect when the differences are expected to reverse.

Stock based compensation

The Company established a share option plan to allow for the purchase of common shares by key employees, officers and directors of the Company. The intrinsic value based method of accounting for stock based compensation is used by the Company and accordingly, no compensation cost is recognized when shares are issued under the share option plan. The consideration paid on exercise of options is credited to share capital.

1. Significant Accounting Policies (cont'd)

Employee future benefits

The cost of pension and other post-retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on services and using estimates of expected return on plan assets, rates of compensation increase, retirement ages of employees and expected health care costs and other post-retirement benefits.

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 the average monthly exchange rates in effect during the fiscal years. Canadian company debt relating to the financing of the acquisitions of the self-sustaining companies was also converted using the exchange rates at the balance sheet dates. The foreign currency translation adjustment account presented in shareholders' equity represents accumulated foreign currency gains or losses on the Company's net investments in self-sustaining companies operating in the United States. The change in the foreign currency translation account during the year ended March 31, 2002 resulted from the weakening of the Canadian dollar as compared to the US dollar.

Foreign currency accounts of Canadian companies were translated into Canadian dollars using the exchange rates 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 the statement of earnings.

2. Changes in Accounting Policies

Goodwill

The Company adopted prospectively the new CICA recommendations on goodwill on April 1, 2001. The new standards do not permit the amortization of goodwill. Goodwill must be tested for impairment annually or more often, when an event occurs or circumstance arises that could indicate a reduction in its fair value.

In past years, goodwill was amortized under the straight-line method over a maximum period of forty years.

As a result of the adoption of the new recommendations, net income is $16,296,000 higher than it would have been had goodwill been amortized.

3. Portfolio Investment

On July 15, 2001, the Company disposed of the cookies, fine breads and soup operations of its grocery products sector in favor of Dare Foods in exchange of a 21% share capital interest in companies of the Dare Foods group.

The investment was recorded at cost which corresponds to the following fair value of the assets as at the date of disposal:

Working capital	$ 5,542
Fixed assets	25,879
Goodwill	24,570
	$ 55,991

A gain on disposal of $845,000 resulted from this transaction.

4. Fixed Assets

	2002			2001
	Cost	**Accumulated depreciation**	**Net book value**	Net book value
Land	**$ 34,729**	**$ —**	**$ 34,729**	$ 31,844
Buildings	**245,154**	**38,327**	**206,827**	209,204
Furniture, machinery and equipment	**603,987**	**193,138**	**410,849**	428,153
Rolling stock	**9,724**	**3,284**	**6,440**	5,820
	$ 893,594	**$ 234,749**	**$ 658,845**	$ 675,021

5. Goodwill

	2002			2001		
	Dairy products sector	**Grocery products sector**	**Total**	Dairy products sector	Grocery products sector	Total
Balance, beginning of year	**$ 403,563**	**$ 189,083**	**$ 592,646**	$ 276,353	$ 198,876	$ 475,229
Acquired during the year	**—**	**—**	**—**	115,920	—	115,920
Foreign currency translation adjustment	**2,963**	**—**	**2,963**	21,898	—	21,898
Decrease due to the disposal of the Company's cookies, fine breads and soup operations (Note 3)	**—**	**(24,570)**	**(24,570)**	—	—	—
Adjustment	**1,336**	**—**	**1,336**	(1,814)	(4,743)	(6,557)
Amortization (Note 2)	**—**	**—**	**—**	(8,794)	(5,050)	(13,844)
Balance, end of year	**$ 407,862**	**$ 164,513**	**$ 572,375**	$ 403,563	$ 189,083	$ 592,646

6. Bank Loans

The Company has available short-term bank credit facilities providing for bank loans up to a maximum of approximately $232,700,000. These bank loans are available in Canadian or US dollars and bear interest at rates based on lenders' prime rates or LIBOR plus a maximum of 0.6%, depending on the interest-bearing debt to the earnings before interest, depreciation and amortization and income taxes ratio of the Company.

7. Long-Term Debt

	2002	2001
Term bank loan, available in the form of bank advances or bankers' acceptances, repayable by quarterly variable instalments until December 2004, bearing interest at fluctuating rates based on prime rate plus a maximum of 0.6% and bankers' acceptances rates plus 0.55% up to a maximum of 1.6%, depending on the interest-bearing debt to the earnings before interest, depreciation and amortization and income taxes ratio of the Company. As at March 31, 2002, the term bank loan is comprised of advances of $770,000 and bankers' acceptances of $275,600,000	**$ 276,370**	$ 401,370
Senior notes		
7.97%, due in November 2006 (US$30,000,000)	**47,805**	47,289
8.12%, due in November 2009 (US$170,000,000)	**270,895**	267,971
8.41%, due in November 2014 (US$50,000,000)	**79,675**	78,815
Other loans, repayable in annual variable instalments, due in 2008	**380**	451
	675,125	795,896
Current portion	**102,555**	95,075
	$ 572,570	$ 700,821

Estimated principal payments required in the future years are as follows:

2003	**$ 102,555**
2004	**110,105**
2005	**63,969**
2006	**50**
2007	**47,855**
2008 and subsequent years	**350,591**
	$ 675,125

8. Share Capital

Authorized

The authorized share capital of the Company 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 their creation.

	2002	2001
Issued		
103,184,447 common shares (102,450,780 in 2001)	**$ 459,822**	$ 451,047

The Company divided its common shares on a two-for-one basis by means of a stock dividend payable to registered shareholders on November 23, 2001. All references to share purchase options and common share amounts have been restated to reflect the stock split.

733,667 common shares for an amount of $8,775,000 were issued during the year ended March 31, 2002 pursuant to the share option plan.

48,792 common shares for an amount of $414,732 were issued during the year ended March 31, 2001 pursuant to the share option plan.

Share option plan

The Company established a share option plan to allow for the purchase of common shares by key employees, officers and directors of the Company. The total number of common shares which may be issued pursuant to this plan cannot exceed 14,000,000 common shares. Options may be exercised at a price equal to the closing quoted value of the shares on the day preceding the date of the grant. In general, the options vest at 20% per year and expire ten years from the date of the grant.

Options issued and outstanding as at the year-ends are as follows:

		2002		2001	
Granting period	Exercise price	**Number of options**	**Weighted average exercise price**	Number of options	Weighted average exercise price
1998	$ 8.50	**212,718**	**$ 8.50**	643,530	$ 8.50
1999	from $16.13 to $18.75	**365,850**	**$ 18.28**	530,716	$ 18.24
2000	$19.70	**529,230**	**$ 19.70**	717,572	$ 19.70
2001	$13.50	**1,005,387**	**$ 13.50**	1,410,138	$ 13.50
2002	from $19.00 to $23.00	**1,145,782**	**$ 19.10**	—	—
		3,258,967	**$ 16.69**	3,301,956	$ 14.64
Options exercisable at year-end		**517,050**	**$ 16.41**	726,994	$ 13.55

8. Share Capital (cont'd)

Changes in the number of options are as follows:

	2002		2001	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Balance at beginning of year	**3,301,956**	**$ 14.64**	2,003,584	$ 15.38
Options granted	**1,289,058**	**$ 19.10**	1,467,482	$ 13.50
Options exercised	**(733,667)**	**$ 11.96**	(48,792)	$ 8.50
Options cancelled	**(598,380)**	**$ 16.34**	(120,318)	$ 15.65
Balance at end of year	**3,258,967**	**$ 16.69**	3,301,956	$ 14.64

934,965 options to purchase common shares at a price of $30.35 were also granted as at April 1, 2002.

Stock based compensation

Had the stock based compensation cost been accounted for based on the fair value of the options at the grant dates, net income for the year would have been $157,961,000 and basic earnings per share and fully diluted earnings per share would have been $1.54 and $1.52 respectively.

The fair value of share purchase options was estimated using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate:	5%
Expected life of options:	10 years
Volatility:	20%
Dividend rate:	0,9%

The weighted average fair value of options granted during the year was $7.21.

9. Other Interest

	2002	2001
Expense	**$ 894**	$ 2,923
Income	**(1,695)**	(4,107)
	$ (801)	$ (1,184)

10. Income Taxes

The provision for income taxes is comprised of the following:

	2002	2001
Current income taxes	$ 54,464	$ 41,365
Future income taxes	17,132	14,242
	$ 71,596	$ 55,607

Reconciliation of income taxes, calculated using statutory Canadian income tax rates, to the income tax provision presented in the statement of earnings:

	2002	2001
Income taxes, calculated using statutory Canadian income tax rates	$ 85,520	$ 66,498
Adjustments resulting from the following:		
Manufacturing and processing credit	(10,084)	(6,856)
Tax rates of American subsidiaries	1,282	1,136
Changes in tax laws and rates	(387)	(21)
Other	(4,735)	(5,150)
Provision for income taxes	$ 71,596	$ 55,607

The tax effects of temporary differences that give rise to significant portions of the future tax asset and liability are as follows:

	2002	2001
Future income taxes asset		
Accounts payable and accrued liabilities	$ 9,560	$ 14,110
Shareholders' equity	—	1,010
Losses for income tax purposes	6,579	9,264
Other	2,775	11,230
	$ 18,914	$ 35,614
Future income taxes liability		
Fixed assets	$ 88,018	$ 86,950
Net assets of pension plans	9,209	4,425
Other assets	1,944	5,707
Portfolio investment	7,835	—
	$ 107,006	$ 97,082
Classified in the financial statements as:		
Current future income taxes asset	$ 13,781	$ 22,751
Long-term future income taxes asset	4,090	12,863
Long-term future income taxes liability	(105,963)	(97,082)
Net future income taxes liability	$ 88,092	$ 61,468

The Company and subsidiaries have accumulated losses for income tax purposes amounting to $18,900,000. These losses expire gradually up to 2018. The future income tax asset corresponding to these tax losses has been recognized in the financial statements.

11. Earnings Per Share

Earnings per share were retroactively restated to reflect the two-for-one stock split (see Note 8).

Basic earnings per share have been calculated using the weighted average number of common shares outstanding during each fiscal year: 102,793,390 shares in 2002 and 102,419,526 in 2001.

Diluted earnings per share for the year ended March 31, 2002 have been calculated using 103,712,252 common shares, being the sum of the weighted average number of outstanding shares as at March 31, 2002 (102,793,390 shares) and the potentially dilutive shares that could be issued following the exercise of options granted under the Company's share option plan (918,862 shares).

Diluted earnings per share for the year ended March 31, 2001 have been calculated using 103,017,338 common shares, being the sum of the weighted average number of outstanding shares as at March 31, 2001 (102,419,526 shares) and the potentially dilutive shares that could be issued following the exercise of options granted under the Company's share option plan (597,812 shares).

Earnings per share were calculated net of income taxes.

12. Business Acquisitions

Year ended March 31, 2002

The Company acquired during the year a cheese manufacturing plant situated in the United States for a cash consideration of $16,410,000. The allocation of the purchase price was $14,059,000 for fixed assets and $2,351,000 for working capital.

Year ended March 31, 2001

On February 5, 2001, the Company completed the acquisition of the fluid milk and cheese manufacturing operations of Agrifoods International Cooperative Limited, commonly known as Dairyworld Foods. This acquisition of a total cost of $407,293,000 was financed by a term bank loan.

12. Business Acquisitions (cont'd)

Net assets acquired were the following as at the date of acquisition:

Tangible assets		
Receivables	$	121,639
Inventories		134,289
Income taxes		1,832
Prepaid expenses		2,387
Fixed assets		165,952
Other assets		20,316
Future income taxes		633
		447,048
Goodwill		115,920
Total assets		592,968
Liabilities assumed		
Bank indebtedness		(5,509)
Accounts payable and accrued liabilities		(143,353)
Future income taxes		(6,813)
Net assets acquired	$	407,293

Purchase price	$	407,293
Term bank loan		(411,370)
Bank indebtedness of the acquired business		5,509
Cash used for the acquisition	$	1,432

These acquisitions were recorded using the purchase method of accounting.

13. Employee Pension and Benefit Plans

The Company provides defined benefit and defined contribution pension plans as well as other benefits such as health insurance, life insurance and dental plans to eligible employees and retired employees.

Under the terms of the defined benefit pension plans, pensions are based on years of service and the average salary of the last employment years or the career salary. Contributions are paid by employees and contributions by the Company are based on recommendations from independent actuaries.

The defined contribution pension plans entitle participating employees to an annual contribution giving right to a pension.

Plan assets are principally comprised of shares of Canadian and foreign companies, mutual funds and fixed income investments.

13. Employee Pension and Benefit Plans (cont'd)

Financial position of the plans

	2002		2001	
	Defined benefit pension plans	**Other benefit plans**	Defined benefit pension plans	Other benefit plans
Changes in fair value of plan assets				
Fair value of plan assets at beginning of year	**$ 192,470**	**$ —**	$ 123,593	$ —
Acquisitions during the year	**854**	**—**	73,795	—
Actual return on plan assets	**(5,323)**	**—**	2,611	—
Employer contributions	**514**	**809**	267	452
Employee contributions	**1,509**	**—**	1,824	—
Benefits paid	**(14,464)**	**(809)**	(9,620)	(452)
Divestitures	**(12,557)**	**—**	—	—
Fair value of plan assets at end of year	**163,003**	**—**	192,470	—
Changes in accrued benefits obligation				
Benefit obligation at beginning of year	**166,430**	**18,695**	92,737	13,694
Acquisitions during the year	**727**	**—**	55,135	2,890
Current service cost	**4,937**	**784**	3,363	504
Interest and loss on foreign exchange	**10,451**	**1,332**	7,054	1,584
Benefits paid	**(14,464)**	**(809)**	(9,620)	(452)
Actuarial (gain) loss	**(1,121)**	**77**	8,917	475
Amendments and divestitures	**(12,225)**	**(904)**	8,844	—
Benefit obligation at end of year	**154,735**	**19,175**	166,430	18,695
Surplus (deficit)	**8,268**	**(19,175)**	26,040	(18,695)
Unamortized actuarial loss	**33,138**	**1,749**	15,533	1,099
Unamortized past service cost	**895**	**(572)**	1,321	—
Loss on foreign exchange	**(1,277)**	**—**	(271)	—
Unamortized transitional obligation	**(14,526)**	**5,051**	(17,571)	6,022
Asset (liability) as at the measurement date	**26,498**	**(12,947)**	25,052	(11,574)
Employer contributions made from the measurement date to the end of the year	**63**	**—**	69	—
Net asset (liability) recognized in the balance sheet	**$ 26,561**	**$ (12,947)**	$ 25,121	$ (11,574)

The net accrued benefit asset is included in other assets presented in the balance sheet.

13. Employee Pension and Benefit Plans (cont'd)

	2002		2001	
	Pension plans	**Other benefit plans**	Pension plans	Other benefit plans
Employee benefit plans expense				
Defined benefit plans				
Current service cost	**$ 3,428**	**$ 784**	$ 1,539	$ 504
Interest cost	**10,201**	**1,205**	6,831	1,006
Expected return on plan assets	**(14,842)**	**—**	(9,589)	—
Amortization of transitional obligation	**(1,230)**	**467**	(1,294)	487
Amortization of past service cost	**28**	**(19)**	42	—
Amortization of actuarial gain	**45**	**(538)**	(23)	—
	(2,370)	**1,899**	(2,494)	1,997
Defined contribution plans	**7,191**	**—**	4,434	—
	$ 4,821	**$ 1,899**	$ 1,940	$ 1,997
Weighted average assumptions				
Discount rate of obligation	**6.75%**	**7.00%**	6.75%	7.00%
Expected long-term rate of return on plan assets	**8.00%**	**N/A**	7.75%	N/A
Rate of compensation increase	**3.50%**	**3.50%**	3.50%	3.50%

For measurement purposes, a 5.5% to 8% annual rate of increase was used for health, life insurance and dental plan costs for the year 2003 and this rate is asssumed to decrease gradually to 5% in 2005 and remain at that level thereafter.

14. Commitments and Contingencies

The Company carries some of its operations in leased premises and has also entered into lease agreements for equipment and rolling stock. The minimum annual lease payments required for the next five years are as follows:

2003	**$ 11,721**
2004	**9,663**
2005	**7,886**
2006	**6,115**
2007	**4,508**
	$ 39,893

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

15. Financial Instruments and Risk Management

a) Fair value of financial instruments

The fair value of cash and bank loans, receivables, 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, is $697,138,000.

b) Credit risk

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.

c) Interest rate risk

The short-term bank credit facilities and long-term bank loans bear interest at fluctuating rates.

The Company occasionally enters into interest swap contracts to hedge against exposures to increases in interest rates. During the year ended March 31, 2002, the Company entered into interest swap contracts at rates from 2% to 5.08% covering $202,000,000 of long-term debt. These contracts expire from January 2003 to December 2004. As at March 31, 2002, an amount of $942,000 would be necessary to settle these contracts.

d) Currency risk

In the normal course of Canadian operations, the Company enters into certain foreign currency transactions. The Company manages its currency risks by occasionally entering into foreign currency contracts. Outstanding foreign currency contracts as at the balance sheet date are not material.

The Company realizes approximately 37% of its sales in the United States and is therefore exposed to currency exchange fluctuations.

The cash flows from US operations constitute a natural hedge against the exchange risk related to debt expressed in US dollars.

16. Segmented Information

The dairy products segment principally includes the production and distribution of cheeses and fluid milk. The activities of this segment are carried out in Canada and the United States.

The grocery products segment consists exclusively since July 15, 2001 of the production and marketing of snack cakes. Prior to that date, the products of this segment were classified in four categories, snack cakes, cookies fine breads and soups. The production and marketing operations of cookies, fine breads and soups were sold on July 15, 2001 (see Note 3). Total assets of this segment include the portfolio investment.

These operating segments are managed separately because each segment represents a strategic business unit that offers different products and serves different markets. The Company measures performance based on geographic operating income and segment operating income on a stand-alone basis.

The accounting policies of the segments are the same as those described in Note 1 relating to significant accounting policies. The Company does not make any intersegment sales.

16. Segmented Information (cont'd)

Information on operating segments

	2002			2001		
	Canada	**United States**	**Total**	Canada	United States	Total
Revenues						
Dairy products	**$ 1,987,486**	**$ 1,282,555**	**$ 3,270,041**	$ 803,970	$ 1,106,039	$ 1,910,009
Grocery products	**187,371**	**—**	**187,371**	251,662	—	251,662
	$ 2,174,857	**$ 1,282,555**	**$ 3,457,412**	$ 1,055,632	$ 1,106,039	$ 2,161,671
Earnings before interest, depreciation, amortization and income taxes						
Dairy products	**$ 183,054**	**$ 133,996**	**$ 317,050**	$ 96,912	$ 131,555	$ 228,467
Grocery products	**35,372**	**—**	**35,372**	42,507	—	42,507
	$ 218,426	**$ 133,996**	**$ 352,422**	$ 139,419	$ 131,555	$ 270,974
Depreciation of fixed assets						
Dairy products	**$ 27,970**	**$ 33,607**	**$ 61,577**	$ 14,165	$ 28,078	$ 42,243
Grocery products	**6,510**	**—**	**6,510**	9,520	—	9,520
	$ 34,480	**$ 33,607**	**$ 68,087**	$ 23,685	$ 28,078	$ 51,763
Operating income						
Dairy products	**$ 155,084**	**$ 100,389**	**$ 255,473**	$ 82,747	$ 103,477	$ 186,224
Grocery products	**28,862**	**—**	**28,862**	32,987	—	32,987
	$ 183,946	**$ 100,389**	**$ 284,335**	$ 115,734	$ 103,477	$ 219,211
Interest			**52,578**			39,519
Earnings before income taxes and amortization of goodwill			**231,757**			179,692
Income taxes			**71,596**			55,607
Earnings before amortization of goodwill			**160,161**			124,085
Amortization of goodwill			**—**			13,844
Net earnings			**$ 160,161**			$ 110,241

16. Segmented Information (cont'd)

	2002			2001		
	Canada	**United States**	**Total**	Canada	United States	Total
Total assets						
Dairy products	**$ 821,888**	**$ 936,334**	**$ 1,758,222**	$ 825,458	$ 887,181	$ 1,712,639
Grocery products	**288,453**	**—**	**288,453**	300,340	—	300,340
	$ 1,110,341	**$ 936,334**	**$ 2,046,675**	$ 1,125,798	$ 887,181	$ 2,012,979
Net book value of fixed assets						
Dairy products	**$ 264,482**	**$ 353,572**	**$ 618,054**	$ 259,199	$ 345,954	$ 605,153
Grocery products	**40,791**	**—**	**40,791**	69,868	—	69,868
	$ 305,273	**$ 353,572**	**$ 658,845**	$ 329,067	$ 345,954	$ 675,021
Net additions to fixed assets						
Dairy products	**$ 33,062**	**$ 24,205**	**$ 57,267**	$ 9,776	$ 30,933	$ 40,709
Grocery products	**2,468**	**—**	**2,468**	2,225	—	2,225
	$ 35,530	**$ 24,205**	**$ 59,735**	$ 12,001	$ 30,933	$ 42,934
Goodwill, unamortized portion						
Dairy products	**$ 134,552**	**$ 273,310**	**$ 407,862**	$ 133,216	$ 270,347	$ 403,563
Grocery products	**164,513**	**—**	**164,513**	189,083	—	189,083
	$ 299,065	**$ 273,310**	**$ 572,375**	$ 322,299	$ 270,347	$ 592,646