

**SAPUTO INC.**

**MANAGEMENT PROXY CIRCULAR**

**This Circular is furnished in connection with the solicitation by the Management of SAPUTO INC. (the “Company”) of proxies which will be used to vote at the Annual Meeting (the “Meeting”) of the holders of common shares of the Company (the “Common Shares”) to be held on August 2, 2005, at the time and place and for the purposes set forth in the foregoing Notice and at any adjournment thereof.**

The solicitation of proxies will be made primarily by mail. However, the Management of the Company may solicit proxies at a nominal cost by telephone, telecopier or by personal interview. The Company will reimburse brokers and other persons holding shares for others for their reasonable expenses for sending proxy material to beneficial owners in order to obtain voting instructions. The Company will bear all expenses in connection with the solicitation of proxies.

**PROXIES**

In order to be voted at the Meeting, a proxy must be received by the Secretary of the Company at least 48 hours prior to the Meeting. A proxy may be revoked at any time by the person giving it, to the extent that it has not already been exercised. A proxy may be revoked by filing a written notice with the Secretary of the Company if this notice is received no later than the business day preceding the Meeting. The powers of the proxy holders may also be revoked if the holder of Common Shares attends the Meeting in person and so requests by depositing such written notice with the Chairman of the Meeting.

The persons whose names are printed on the enclosed form of proxy are directors and executive officers of the Company. **Every holder of Common Shares has the right to appoint a person (who need not be a shareholder) other than those whose names are printed on the form of proxy to act on his behalf at the Meeting. To exercise this right, the holder of Common Shares must insert his nominee’s name in the blank space provided for such purpose in the form of proxy or prepare another proxy in proper form.**

The persons whose names are printed on the enclosed form of proxy will vote all the shares in respect of which they are appointed to act in accordance with the instructions indicated on the form of proxy. **If the form of proxy does not provide for any instructions, these persons will vote in favour of the proposals made by Management of the Company.**

Every proxy given to any of the persons named in the form of proxy confers discretionary authority with respect to amendments or variations to the matters identified in the Notice and with respect to any other matter that may properly come before the Meeting.

## VOTING SHARES AND PRINCIPAL HOLDERS OF VOTING SHARES

The Common Shares are the only securities of the share capital of the Company which carry voting rights. As at June 1, 2005, the Company had 104,625,499 Common Shares outstanding. Each Common Share entitles its holder to one vote.

Only holders of Common Shares of record at 5:00 p.m. on June 22, 2005 will be entitled to receive the Notice. They will also be entitled to vote at the Meeting and at any adjournment thereof unless their Common Shares have been transferred and the transferee has produced properly endorsed certificate(s) representing the transferred Common Shares or has otherwise established ownership of the transferred Common Shares and has requested, at least 10 days before the Meeting, that such transferee's name be duly entered on the list of shareholders of the Company, in which case the transferee shall exercise the voting rights attached to the Common Shares.

In connection with the Company's initial public offering in October 1997 (the "Initial Public Offering"), the initial shareholders of the Company, being Gestion Jolina Inc., a holding company controlled by Mr. Emanuele (Lino) Saputo, and the holding companies owned and controlled by Emanuele (Lino) Saputo's brothers and sisters and their families (collectively, the "Saputo Shareholders") entered into an agreement governing their relationship as shareholders of the Company. Under this agreement, Gestion Jolina Inc. has been granted by all other Saputo Shareholders a power of attorney to vote all of the Common Shares held by them at the time of the Initial Public Offering. On June 1, 2005, the 34,939,962 shares held by Gestion Jolina Inc. combined with the common shares held by the other Saputo Shareholders represented 60,345,126 Common Shares or 57.68 % of all of the outstanding Common Shares. The agreement will terminate on the earlier of December 31, 2007 or the day on which Mr. Saputo ceases to control Gestion Jolina Inc.

To the knowledge of the Company's directors and executive officers, on June 1, 2005, the only persons or companies who or which owned of record or beneficially, directly or indirectly, or exercised control or direction over 10% or more of the issued and outstanding Common Shares were the following:

Name	Type of ownership	Number of Common Shares	Percentage of Class
Gestion Jolina Inc. ....	of record	34,939,962 <sup>(1)</sup>	33.40 %
	proxy	25,405,164	24.28 %
	Total:	60,345,126	57.68 %

(1) Includes 1,511,628 Common Shares held by Jolina Capital Inc., the sole shareholder of Gestion Jolina Inc.

## ELECTION OF DIRECTORS

For fiscal 2006, Management proposes that the Board of Directors be composed of ten members. **Except where the authority to vote in favour of the directors is withheld, the persons whose names are printed on the form of proxy intend to vote FOR the election of the ten nominees whose names are set forth in the following table.** The vote for each director will be conducted on an individual basis. Each director elected will hold office until the next annual meeting or until that director's successor is duly elected, unless the office is vacated earlier in accordance with the relevant provisions of the applicable laws.

The following table sets forth, for each person nominated by Management for election as a director, his or her name and Province/State and Country of residence, the year in which he or she first became a director, the principal occupation of each nominee, the number of Common Shares beneficially owned, directly or indirectly, or over which control or direction was exercised by each nominee and the number of options or deferred share units owned by each nominee, the whole as at June 1, 2005. Reference is made to Schedule A hereto for a brief biography of the nominees as well as a summary of their attendance to board and committee meetings for fiscal 2005.

Name and Province/State and Country of residence	Director since	Principal occupation	Common Shares beneficially owned or over which control or direction was exercised	Options owned <sup>(1)</sup>	Number of Deferred Share Units <sup>(1)</sup>
EMANUELE (LINO) SAPUTO <sup>(3)</sup> Québec, Canada	1992	Chairman of the Board of the Company	60,345,126 <sup>(2)</sup>	--	--
LINO A. SAPUTO, JR. Québec, Canada	2001	President and Chief Executive Officer of the Company	33,595	125,746	--
ANDRÉ BÉRARD <sup>(4)(6)</sup> Québec, Canada	1997	Corporate Director	8,125	12,000	2,295
LUCIEN BOUCHARD <sup>(4)</sup> Québec, Canada	2004	Senior Partner, Davies Ward Phillips & Vineberg LLP	--	--	1,459
PIERRE BOURGIE <sup>(4)(5)</sup> Québec, Canada	1997	President and Chief Executive Officer of Société Financière Bourgie Inc. (a holding company)	465,000	12,000	503
FRANK A. DOTTORI <sup>(5)(7)</sup> Québec, Canada	2003	President and Chief Executive Officer of Tembec Inc. (a forest products company)	200	1,000	1,528
JEAN GAULIN <sup>(4)</sup> Texas, USA	2003	Corporate Director	21,200	1,000	1,125
CATERINA MONTICCIOLO, CA Québec, Canada	1997	President of Julvest Capital Inc. (a holding company)	119,000	12,000	503
PATRICIA SAPUTO, CA, FP Québec, Canada	1999	President of Pasa Holdings Inc. (a holding company)	1,800	8,000	1,424
LOUIS A. TANGUAY <sup>(5)</sup> Québec, Canada	1997	Corporate Director	4,000	12,000	2,373

(1) Effective in fiscal 2005, the options granted to the outside directors of the Company were replaced by deferred share units. The options shown in the table were granted before April 1, 2004. For more detailed information, see "Deferred Share Unit Plan". The options held by Lino A. Saputo, Jr. were granted to him before he became President and Chief Executive Officer of the Company. See "Corporate Governance and Human Resources Committee - Report on Executive Compensation".

(2) The shares are held by Jolina Capital Inc. and Gestion Jolina Inc., both of which are holding companies controlled by Mr. Emanuele (Lino) Saputo, and by other holding companies owned and controlled by his brothers and sisters and their families, all of which have granted to Gestion Jolina Inc. a power of attorney to vote all of the Common Shares held by them at the time of the Company's Initial Public Offering. See "Voting Shares and Principal Holders of Voting Shares".

(3) Mr. Emanuele (Lino) Saputo is a director of Arbec Forest Products Inc. (formerly Uniforêt Inc.) which filed for protection under the *Companies' Creditors Arrangement Act* on April 17, 2001. In May 2003, Uniforêt Inc. entered into a plan of arrangement with its creditors. In February 2004, it completed the implementation of this plan.

(4) Members of the Corporate Governance and Human Resources Committee.

(5) Members of the Audit Committee.

(6) Lead Director.

(7) Mr. Frank A. Dottori was a director of Gestion Papiers Gaspésia Inc. until October 2003. Its subsidiary, Papiers Gaspésia Inc., filed for protection under the *Companies' Creditors Arrangement Act* in February 2004.

During the last five years, all of the above nominees have been engaged in their present principal occupations or in other executive capacities with the companies indicated opposite their name or with related or affiliated companies, except for: Mr. Lino A. Saputo, Jr., who, from January 1, 2000 to January 15, 2001, was Assistant to the President of Uniforêt Inc. (a forest products company); Mr. André Bérard who, until March 10, 2004, was Chairman of the Board of a Canadian Chartered Bank; Mr. Lucien Bouchard who, from January 1996 to March 2001, was the Prime Minister of the Province of Québec; and Mr. Jean Gaulin who, from January 1, 1999 to December 31, 2001, was President and Chief Executive Officer of Ultramar Diamond Shamrock (a petroleum company), and from January 1, 2000 to December 31, 2001, was also Chairman of the Board for the same company.

Information as to shares and options beneficially owned by each nominee, or over which each exercised control or direction, as at June 1, 2005, has been furnished by the nominees individually.

## EXECUTIVE COMPENSATION

The following table provides a summary of compensation earned during the fiscal years ended March 31, 2005, 2004 and 2003, as salary, bonus or otherwise, by the CEO, CFO and the three most highly compensated senior executives of the Company (collectively, the “Named Executive Officers”). Certain aspects of this compensation are dealt with in further detail in the following tables.

		Annual compensation			Long-term compensation	
					Awards	
Name and principal occupation	Year	Salary <sup>(1)</sup> (\$)	Bonus <sup>(1)</sup> (\$)	Other annual compensation <sup>(2)</sup> (\$)	Number of Common Shares under options granted	All other compensation (\$)
Lino A. Saputo, Jr. President and Chief Executive Officer	2005 C\$	650,000	487,500	-	-	-
	2004 US\$	262,500	157,500	-	26,250	-
	2004 C\$	131,250	78,750	-	8,750	-
	2003 US\$	335,000	184,250	-	33,114	-
Louis-Philippe Carrière Executive Vice-President Finance and Administration and Secretary	2005 C\$	388,000	194,000	-	17,610	-
	2005 US\$	74,000	37,000	-	4,402	-
	2004 C\$	380,000	190,000	-	25,334	-
	2004 US\$	63,000	31,500	-	6,333	-
	2003 C\$	380,000	152,000	-	25,041	-
	2003 US\$	63,000	25,200	-	6,260	-
Pierre Leroux Executive Vice-President Human Resources and Corporate Affairs	2005 C\$	388,000	174,600	-	17,610	-
	2005 US\$	74,000	33,300	-	4,402	-
	2004 C\$	380,000	171,000	-	25,334	-
	2004 US\$	63,000	28,350	-	6,333	-
	2003 C\$	380,000	152,000	-	25,041	-
	2003 US\$	63,000	25,200	-	6,260	-
Dino Dello Sbarba President and Chief Operating Officer Cheese Division (USA)	2005 US\$	400,000	240,000	-	23,828	-
	2004 C\$	356,250	213,750	-	22,284	-
	2004 US\$	100,000	60,000	-	9,383	-
	2003 C\$	475,000	261,250	-	31,301	-
Randy Williamson President and Chief Operating Officer Dairy Products division (Canada)	2005 C\$	500,000	300,000	-	22,693	-
	2004 C\$	425,000	255,000	-	26,667	-
	2003 C\$	370,000	203,500	-	24,382	-

(1) The allocation of salary and bonus of the Named Executive Officers in US and Canadian dollars reflects the involvement of the individuals in the Company’s United States and Canadian operations respectively.

(2) Excluded from Other Annual Compensation are perquisites and other personal benefits which, in the aggregate, do not exceed the lesser of \$50,000 and ten percent of the total annual salary and bonus of the Named Executive Officer for the fiscal year.

## Options granted during the most recently completed fiscal year

The following table presents the options granted under the Equity Compensation Plan (as defined in the section “Securities Authorized for Issuance under Equity Compensation Plans” of this Circular), to the Named Executive Officers during the fiscal year ended March 31, 2005.

Name	Number of Common Shares under options granted	% of total options granted to employees in financial year	Exercise price <sup>(1)</sup> (\$/Share)	Market value of Common Shares underlying options on the date of grant (\$/Share) <sup>(1)</sup>	Expiration date
Lino A. Saputo, Jr.	-	-	-	-	-
Louis-Philippe Carrière	22,012	2.2	33.05	33.05	04/01/2014
Pierre Leroux	22,012	2.2	33.05	33.05	04/01/2014
Dino Dello Sbarba	23,828	2.4	33.05	33.05	04/01/2014
Randy Williamson	22,693	2.3	33.05	33.05	04/ 01/2014

(1) Corresponds to the closing price of the Common Shares on the Toronto Stock Exchange (the “TSX”) on March 31, 2004, which is the business day immediately preceding April 1, 2004 being the grant date.

## Aggregate options exercised during the most recently completed fiscal year and year-end values

The following table presents, for each of the Named Executive Officers, the options exercised during the fiscal year ended March 31, 2005, as well as the unexercised options and the value of the unexercised in-the-money options as at March 31, 2005 under the Equity Compensation Plan. It should be noted that unexercised options might never be exercised and that the value of unexercised in-the-money options might never be realized.

Name	Number of Common Shares acquired on exercise	Aggregate value realized <sup>(1)</sup> (\$)	Number of unexercised options as at 03/31/05		Value of unexercised in-the-money options as at 03/31/05 <sup>(2)</sup>	
			Exercisable	Unexercisable	Exercisable (\$)	Unexercisable (\$)
Lino A. Saputo, Jr.	-	-	54,823	70,923	765,384	892,816
Louis-Philippe Carrière	50,000	972,036	94,137	104,737	1,462,254	1,270,696
Pierre Leroux	53,336	763,310	113,725	104,737	2,036,687	1,270,696
Dino Dello Sbarba	-	-	181,961	106,553	3,283,317	1,276,325
Randy Williamson	36,596	442,978	9,752	79,500	56,562	803,869

(1) The aggregate value realized on exercise is equal to the difference between the closing price of the Common Shares on the TSX on the exercise date and the exercise price of the option.

(2) The value of an unexercised in-the-money option at fiscal year-end is equal to the difference between the closing price of the Common Shares on the TSX on March 31, 2005, being \$36.15 per share, and the exercise price of the option.

## Defined Benefit Plan

The following table presents the estimated annual benefits payable at normal retirement age (“NRA”) for Messrs. Louis-Philippe Carrière, Dino Dello Sbarba, Pierre Leroux and Randy Williamson, who are currently participating in a non-contributive defined benefit pension plan together with a supplementary retirement plan.

### **Non-Contributive Defined Benefit Pension Plan and Supplementary Retirement Plan**

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Remuneration \$(000's)	Projected Years of Service				
	15	20	25	30	35
150	45,000	60,000	75,000	90,000	105,000
200	60,000	80,000	100,000	120,000	140,000
300	90,000	120,000	150,000	180,000	210,000
400	120,000	160,000	200,000	240,000	280,000
500	150,000	200,000	250,000	300,000	350,000
600	180,000	240,000	300,000	360,000	420,000
700	210,000	280,000	350,000	420,000	490,000

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The participants are entitled to retirement benefits equal to 2% of their respective final average earning multiplied by their respective years of credited service. The final average earning equals to the base salary average during the last consecutive 36 months within the ten (10) year period preceding the retirement during which the average is at its highest. The credited years of service correspond to the service period following January 1, 2004. However, each participant who adhered to the Non-Contributive Defined Benefit Pension Plan on January 1, 2004, is credited an additional ½ year of service for each year of service following January 1, 2004. Messrs Carrière, Dello Sbarba, Leroux and Williamson adhered to this pension plan on January 1, 2004 and therefore were credited 1.875 years of service as of March 31, 2005.

The Non-Contributive Defined Benefit Pension Plan’s and Supplementary Retirement Plan’s normal retirement age is 65. However, a member can retire before that age and start receiving a reduced pension.

If a participant has a spouse at the time of retirement, the benefit payable to his spouse will be on the basis of a joint and surviving spouse annuity reducing to 60% upon his death. Otherwise, the normal form of payment will be a lifetime pension guaranteed.

Moreover, as a result of his role as Chief Operating Officer of a subsidiary of the Company before its acquisition in February 2001, Mr. Williamson has accumulated benefits in another defined benefit pension plan.

#### **Defined Benefit Pension Plan Table**

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<b>Remuneration</b>	<b>Mr. Williamson's Projected Years of Service at NRA</b>
<b>\$(000's)</b>	<b>12.5</b>
125 and above	25,000

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Under this pension plan, Mr. Williamson is entitled to retirement benefits equal to 2% of his final three years average earnings multiplied by his years of credited service as a member of the pension plan. Starting January 1, 2005, no additional years of service will be credited to Mr. Williamson under this plan.

Furthermore, the total annual pension payable from the plan at retirement is limited by the Canada Customs and Revenue Agency. Based on 2005 limits, the maximum annual retirement benefit is equal to \$2,000 multiplied by Mr. Williamson's credited service. This limit is indexed annually after 2005.

The plan's normal retirement age is 65. However, a member can retire as early as age 55 and start receiving a reduced pension. The pension is reduced by 3% per year that retirement age precedes age 65.

If Mr. Williamson has a spouse at the time of retirement, the benefit payable to his spouse will be on the basis of a joint and surviving spouse annuity reducing to 60% upon his death. Otherwise, the normal form of payment will be a lifetime pension guaranteed for ten years.

#### **TERMINATION OF EMPLOYMENT AND CHANGE OF CONTROL**

There is no contract, arrangement or any other understanding with respect to employment, termination of employment, a change of control or a change in responsibilities following a change of control, between the Company and any of the Company's senior executive officers.

#### **CORPORATE GOVERNANCE AND HUMAN RESOURCES COMMITTEE**

##### **Composition of the Committee**

The Corporate Governance and Human Resources Committee (the "Corporate Governance Committee") is composed of four members of the Board of Directors, Messrs. André Bérard, Lucien Bouchard, Pierre Bourgie and Jean Gaulin, all of whom are outside, unrelated and independent directors. Mr. Bouchard was appointed to the Corporate Governance Committee on August 4, 2004. See "Statements of Corporate Governance Practices – Section 3 of Schedule B" attached hereto.



## **Mandate of the Committee**

The Committee has been assigned by the Board of Directors of the Company various functions which may be summarized as follows:

- (i) the responsibility of reviewing the executive compensation policy of the Company;
- (ii) the determination of option grants and financial performance targets for the bonuses of the executives of the Company;
- (iii) the review of the Company's corporate governance practices and making recommendations to the Board of Directors with respect thereto;
- (iv) the responsibility to ensure proper management succession planning for the Company and making recommendations to the Board of Directors with respect thereto;
- (v) the implementation of a process to assess, on an annual basis, the performance of the President and Chief Executive Officer, to establish with the CEO annual and longer term performance targets and expectations;
- (vi) the review of the compensation of the directors in their capacity as directors, including the review of the requirements regarding the minimal number of shares and/or deferred share units each director must hold and making recommendations to the Board of Directors with respect thereto;
- (vii) the implementation of a uniform and transparent process for selecting nominees for election to the Board of Directors and the recruiting of new candidates for Board membership, and making recommendations to the Board of Directors with respect thereto;
- (viii) the orientation and the continuing education of Board members;
- (ix) the implementation of a process to assess, on an annual basis, the effectiveness of the Board of Directors, its various committees and the individual performance of Board members;
- (x) the review of the size of the Board, its composition, and more particularly, to assess the independent and unrelated status of each director in light of the applicable legislation, and making recommendations to the Board with respect thereto;
- (xi) the responsibility to ensure proper management of the share ownership plan, the Equity Compensation Plan and the Deferred Share Unit Plan;
- (xii) the responsibility to execute all other mandates the Board may delegate from time to time to the Committee.

## **Report on Executive Compensation**

### *General Principles of Executive Compensation*

During the year ended March 31, 2005, the Company revised its compensation policy following a review conducted by a compensation consulting firm. During such review, the compensation policies of several Canadian and American manufacturing companies and distributors were analysed in light of the size of the Company, the geographic markets in which it operates and the responsibilities given to its

senior executives (the “Comparative Group”). The Comparative Group consisted of a representative number of companies which provided a reliable source of comparative information.

For fiscal 2005, the compensation for the senior executives of the Company, including the Named Executive Officers, consisted of three components: base salary, bonus and options. The compensation policy for fiscal 2005 was determined based on the review of market practices as well as an analysis of the performance of the organizations forming part of the Comparative Group. The Corporate Governance Committee believes that the compensation policy is competitive with that offered by Canadian corporations of similar size having operations in the United States.

The following constitutes a summary of the principles based upon which the compensation of the senior executives was determined for fiscal 2005. The compensation policy is designed to attract and retain competent individuals who can ensure the current and long-term success of the Company.

#### *Base Salary*

For fiscal 2005, base salary was re-evaluated based on the principles established following the review of the Comparative Group, as well as on more subjective criteria such as internal equity and performance of each senior executive. Base salary is competitive with the third quartile of the base salaries offered by the Canadian corporations included in the Comparative Group and is between the third quartile and the median of the base salaries offered by American corporations. A portion of the base salary for certain of the Named Executive Officers for fiscal 2005 was paid in U.S. dollars in order to take into account compensation packages paid in the United States for similar positions, considering the importance of the Company’s American operations and the role of such Named Executive Officers.

The Corporate Governance Committee believes that the base salary component of the compensation for the Company’s senior executives reflects salaries offered for positions involving similar responsibilities and complexity, internal equity comparisons as well as the ability and experience of the Company’s senior executives.

#### *Annual Incentive (Bonus)*

For fiscal year 2005, the Corporate Governance Committee determined at the beginning of the fiscal year the financial performance targets which had to be achieved by the Company as well as the maximum amount of bonus which could be paid to each senior executive in the event the targets were met. A bonus is paid only on the basis of financial performance targets.

Under the plan, a bonus could only be paid if at least 85% of the financial performance targets were met by the Company and, in this event, payments were made in proportion to the level actually reached. Therefore, the maximum amount of bonus payable to a senior executive is only paid if the Company reached or exceeded the target levels set at the beginning of the fiscal year. This plan is competitive with the median of bonus plans offered by the corporations included in the Comparative Group.

For fiscal 2005, the amount of bonus paid to each senior executive, other than the Chief Executive Officer, represented between 45% and 60% of his base salary. The bonus paid to each senior executive was fully paid based on the achievement of the financial performance targets originally determined. As with the base salary, considering the importance of the Company’s American operations, a portion of the bonuses for certain of the Named Executive Officers was paid in U.S. dollars in order to take into account compensation packages paid in the United States for similar positions.

The Corporate Governance Committee reviewed the bonus plan and believes that its underlying principles are sufficiently defined and adequately encourage the senior executives to excel.

### *Long-Term Incentive Plan (Options)*

Options to purchase Common Shares may be granted from time to time to senior executives and other key employees pursuant to the Equity Compensation Plan in order to sustain a commitment to long-term profitability and maximize shareholder value.

On April 1, 2004, the Corporate Governance Committee granted options to senior executives for the fiscal year ended March 31, 2005. The number of options granted represented a percentage of base salary, without taking into account the number of options already held by such senior executive. Refer to the section entitled “Securities Authorized for Issuance under Equity Compensation Plan” for a discussion of the terms and conditions relating to the options, including vesting periods.

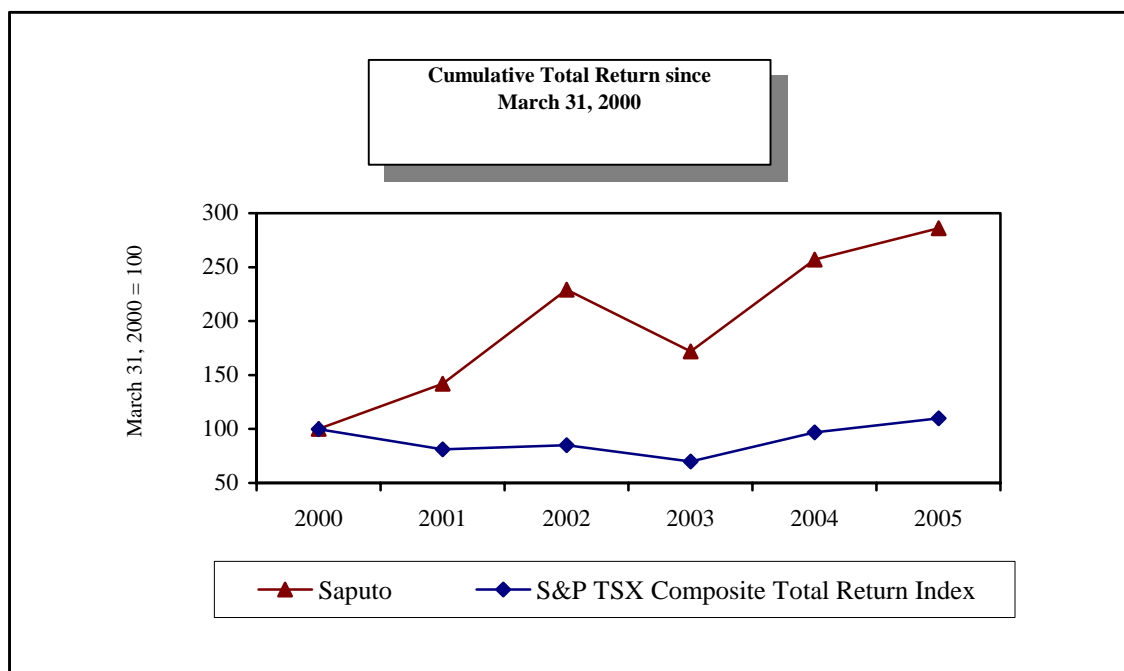
### *Chief Executive Officer*

For fiscal 2005, the Chief Executive Officer’s base salary and bonus and the evaluation of his performance were based upon the same principles as those used for the other senior executives of the Company. Base salary and bonus of the Chief Executive Officer are competitive with the median of the base salaries offered by the Canadian corporations included in the Comparative Group and between the first quartile and the median range offered by American corporations. The base salary and bonus paid take into consideration the fact that the President and Chief Executive Officer was named in March 2004. It is the Company’s objective to have, within the next three years, the base salary and bonus paid to the President and Chief Executive Officer competitive with the third quartile of the base salaries offered by the Comparative Group. During fiscal 2005, no options were granted to the Chief Executive Officer, as his interest in the principal shareholder constitutes a sufficient long-term incentive.

Reference is made to section 11.b) of Schedule B to this Circular for a description of the annual review process of the President and Chief Executive Officer’s performance which was implemented in April 2005.

## PERFORMANCE GRAPH

The following graph compares, on a yearly basis, the total cumulative shareholder return of \$100 invested in the Common Shares with the S&P/TSX Composite Total Return Index of the TSX during the five fiscal years ending March 31, 2005.



	03/31/00	03/31/01	03/31/02	03/31/03	03/31/04	03/31/05
SAPUTO	100	142	229	172	257	286
S&P TSX COMPOSITE TOTAL RETURN INDEX	100	81	85	70	97	110

## COMPENSATION OF DIRECTORS

During fiscal 2005, each director who was not a salaried officer or employee of the Company was paid an annual fee of \$25,000 and a further attendance fee of \$1,250 for each meeting of the Board of Directors or any committee thereof. The Chairman of a committee was also paid an additional annual fee of \$5,000. For fiscal 2005, each director who was not a salaried officer or employee of the Company was allocated a total of 500 deferred share units granted on a quarterly basis pursuant to the Company's deferred share unit plan (the "Deferred Share Unit Plan") in consideration for his or her services as director of the Company. The Chairman of a committee was also granted 500 additional deferred share units. See "Deferred Share Unit Plan for Directors". Mr. Emanuele (Lino) Saputo received \$600,000 from the Company for his services as Chairman of the Board of Directors in fiscal 2005.

The following table shows the compensation paid to each director for his or her services in fiscal 2005.

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**Fees paid and deferred share units (DSU) granted to Directors in fiscal 2005**

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Director	Retainer fee (\$)	Committee chair retainer fee (\$)	Board attendance fee (\$)	Committee attendance fee (\$)	Total fees paid (\$)	% of Fees paid in cash	% of Fees paid in DSUs	DSUs annual grant	Options granted
Emanuele (Lino) Saputo	--	--	--	--	--	--	--	--	--
Lino A. Saputo, Jr.	--	--	--	--	--	--	--	--	--
André Bérard	25,000	5,000	6,250	7,500	43,750	--	100	1,000	--
Claude Blanchet <sup>(1)</sup>	8,335	n/a	2,500	5,000	15,835	--	100	172	--
Lucien Bouchard	25,000	n/a	5,000	2,500	32,500	--	100	500	--
Pierre Bourgie	25,000	n/a	6,250	17,500	48,750	100	--	500	--
Frank A. Dottori	25,000	n/a	6,250	3,750	35,000	--	100	500	--
Jean Gaulin	25,000	n/a	6,250	7,500	38,750	52	48	500	--
Caterina Monticciolo	25,000	n/a	6,250	n/a	31,250	100	--	500	--
Patricia Saputo	25,000	n/a	6,250	n/a	31,250	--	100	500	--
Louis A. Tanguay	25,000	5,000	6,250	10,000	46,250	--	100	1,000	--

(1) Mr. Claude Blanchet ceased to be a member of the Board of Directors of the Company on August 4, 2004.

*Deferred Share Unit Plan for Directors*

On April 22, 2004, further to the recommendations of the Corporate Governance Committee, the Board of Directors adopted a new compensation policy pursuant to which all directors of the Company shall, at all times while a director, own a number of shares and/or deferred share units having a total market value of at least \$150,000, calculated on April 1<sup>st</sup> of each year. Each director must comply with this new policy by March 31, 2007 or within three (3) years following his appointment as a director of the Company. Pursuant to the Deferred Share Unit Plan adopted by the Board of Directors on the same date, each director who does not meet the minimum value of \$150,000 must receive his entire compensation in deferred share units. Directors are entitled to receive a cash payment for the value of their deferred share units on the last business day of the calendar year following the calendar year in which they ceased to be a member of the Board, unless they choose an earlier date upon ceasing to be a member of the Board.

## SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The following table sets out the only equity compensation plan (the “Equity Compensation Plan”) previously approved by security holders as of March 31, 2005 under which equity securities of the Company are authorized for issuance.

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### Equity Compensation Plan Information

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<b>Plan Category</b>	<b>Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)</b>	<b>Weighted-average exercise price of outstanding options, warrants and rights (b)</b>	<b>Number of securities remaining available for future issuance under the Equity Compensation Plan (excluding securities reflected in column (a)) (c)</b>
Equity Compensation Plan approved by security holders	4,797,915	23.62	6,868,823

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The following text presents a summary of the main characteristics of the Equity Compensation Plan.

On October 15, 1997, prior to the closing of its Initial Public Offering, the Company established the Equity Compensation Plan for full-time employees, officers and directors of the Company. The purpose of the Equity Compensation Plan is to attract and retain experienced and competent employees, officers and directors and to encourage share ownership by such persons. Effective in fiscal 2005, with the adoption of a new compensation policy, the options granted to directors of the Company were replaced by deferred share units (see “Deferred Share Unit Plan for Directors”). All options currently held by the directors were granted before April 1, 2004.

The total number of Common Shares which may be issued pursuant to the Equity Compensation Plan was initially set at 6,000,000<sup>1</sup> Common Shares. At the Annual and Special Meeting of Shareholders held on August 1, 2001, this number was increased by 8,000,000<sup>1</sup> Common Shares, bringing the total number of Common Shares that may be issued under the Equity Compensation Plan to 14,000,000<sup>1</sup>.

The terms, exercise price and number of Common Shares covered by each option as well as the vesting periods of such options are determined by the Corporate Governance and Human Resources Committee at the time the options are granted. However, the Equity Compensation Plan provides that the exercise price may not be less than the closing price of the Common Shares on the TSX on the business day immediately preceding the date of grant. Options granted under the Equity Compensation Plan may not be assigned, and expire ten years from the date of grant. The maximum number of Common Shares which may be optioned in favour of any single individual shall not exceed 5% of the total number of outstanding Common Shares.

As at March 31, 2005, 4,797,915 options were outstanding. As of April 1, 2005, the Corporate Governance and Human Resources Committee granted an aggregate of 914,952 options to participants

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<sup>1</sup> This information has been restated to reflect the 100% stock dividend declared on November 23, 2001, on the Common Shares of Saputo, which had the same effect as a two-for-one split.

under the Equity Compensation Plan at an exercise price of \$36.15 per share. Of the 5,551,832 options outstanding as at June 1, 2005, 2,677,649 options were exercisable and 2,874,183 will vest at a rate of 20% per year, on each of the first five anniversaries of their date of grant.

As at June 1, 2005, 6,016,689 Common Shares remained available out of the basket of 14,000,000 Common Shares.

#### **DIRECTORS AND OFFICERS INSURANCE COVERAGE**

The Company carries liability insurance in an amount limited to \$35 million with respect to its directors and officers as a group subject to a \$500,000 deductible. For fiscal 2005, the total annual premium in respect of such insurance was \$257,700, all of which was paid by the Company and charged to earnings.

#### **INDEBTEDNESS OF EXECUTIVE OFFICERS**

None of the directors and other executive officers of the Company, nor any of their associates, are indebted towards the Company in respect of loans, advances or guarantees of indebtedness.

#### **AUDIT COMMITTEE INFORMATION**

Reference is hereby made to section 13 of Schedule B attached hereto and to pages 27 to 32 of the Annual Information Form of the Company for the year ended March 31, 2005 for a disclosure of information relating to the Audit Committee required under Form 52-110F1. Copy of this document can be found in SEDAR at [www.sedar.com](http://www.sedar.com) or by contacting the Secretary of the Company at its head office, 6869 Métropolitain Boulevard East, Saint-Léonard, Québec H1P 1X8, telephone: (514) 328-6662.

#### **APPOINTMENT OF AUDITORS**

Deloitte & Touche, chartered accountants, have been the auditors of the Company since 1992.

**Except where the authority to vote in favour of the appointment of Deloitte & Touche is withheld, the persons whose names are printed on the form of proxy intend to vote FOR the appointment of Deloitte & Touche, chartered accountants, as auditors of the Company and to vote FOR authorizing the Board of Directors to determine their remuneration.** The auditors will hold office until the next Annual Meeting or until their successors are appointed.

#### **STATEMENT OF CORPORATE GOVERNANCE PRACTICES**

The Board of Directors believes that good corporate governance practices are important and has delegated to the Corporate Governance Committee the responsibility of reviewing the Company's corporate governance practices and making recommendations to the Board of Directors with respect thereto.

In 1995, the TSX adopted a requirement that each listed company incorporated in Canada disclose its corporate governance practices with reference to a series of guidelines. In 2002, the TSX proposed certain changes to the guidelines (the "Guidelines"), which became effective as of January 1, 2005. In October 2004, the Canadian securities regulators published in draft form for public comment corporate governance disclosure guidelines (the "Proposals"). The Proposals have been adopted but are not applicable to the Company as of the date of this Circular.

The Company's significant shareholder is its founder who holds in the aggregate, directly or indirectly, or exercises control or direction over shares representing 57.68 % of all of the outstanding Common Shares, as disclosed previously in this Circular. The Guidelines recognize that a number of corporations have significant shareholders. The Board of Directors believes that the value of the significant shareholder's equity stake in the Company ensures that his interests are aligned with those of the other shareholders of the Company. The Board of Directors believes that the Company's existing corporate governance practices and the implementation of certain measures as disclosed hereinafter, are appropriate to its circumstances and effective and that there are in place appropriate structures, procedures and practices to ensure board efficiency, board independence from management and fair representation of the investment of minority shareholders of the Company.

Schedule B to this Circular discloses the Company's corporate governance practices by addressing each of the Guidelines. Although the Proposals are not applicable to the Company as of the date of this Circular, the Company implemented, during fiscal 2005, certain measures to improve its corporate governance practices. More particularly, the Company has taken the following actions:

- (i) the Corporate Governance Committee conducted a formal evaluation process of the performance of the Board, its committees and its directors individually pursuant to the evaluation process implemented by the Board of directors in 2004;
- (ii) the Board of Directors implemented a formal evaluation process of the performance of the President and Chief Executive Officer of the Company.

The Company follows the evolution of corporate governance practices and guidelines in Canada. The Committee and the Board will pursue their review of Saputo's corporate governance practices and, if appropriate, will implement changes to improve them.

#### **INTEREST OF MANAGEMENT AND OTHERS IN TRANSACTIONS**

In the normal course of business, the Company receives and provides goods and services from and to companies subject to significant influence by its principal shareholder. These goods and services of an immaterial amount are compensated by a counterpart equal to the fair market value.



## **ADDITIONAL INFORMATION**

The Company's financial information is included in the Consolidated Financial Statements of the Company and notes thereto and in the accompanying Management Report for the fiscal year ended March 31, 2005. Copies of these documents and additional information concerning the Company can be found in SEDAR at [www.sedar.com](http://www.sedar.com) and may also be obtained upon request to the Secretary of the Company at its head office, 6869 Métropolitain Boulevard East, Saint-Léonard, Québec H1P 1X8, Telephone: (514) 328-6662.

## **GENERAL**

Except as otherwise specifically indicated, the information contained herein is given as at June 1, 2005. The Management of the Company presently knows of no matters to come before the Meeting other than matters identified in the Notice of Meeting. If any matters which are not known should properly come before the Meeting, the persons named in the form of proxy will vote on such matters according to their best judgment.

## **APPROVAL OF THE DIRECTORS**

The directors of the Company have approved the content and the sending of this Circular.

Saint-Léonard, Québec, June 6, 2005.

(signed) Emanuele (Lino) Saputo,  
Chairman of the Board

## SCHEDULE “ A “

### DISCLOSURE OF DIRECTOR EXPERIENCE

The following are brief biographies of the Company’s nominees and indicate the directorships held by the nominees in other public companies:

**Emanuele (Lino) Saputo, Chairman of the Board of the Company, Director.** Emanuele (Lino) Saputo founded the Company with his parents in 1954. He became Chairman of the Board and President of the Company in 1969. In 1997, following the initial public offering of the Company, he was named Chairman of the Board and Chief Executive Officer of the Company and remained in this position until March 2004, following which he remained Chairman of the Board. Mr. Saputo is also a director of the following public company: Arbec Forest Products Inc.

**Lino A. Saputo, Jr., President and Chief Executive Officer of the Company, Director.** Lino A. Saputo, Jr., joined the Company in 1988 as Administrative Assistant. In 1993, he became Vice-President, Operations and, in 1998, Executive Vice-President, Operations. From July 2001 to January 1, 2004, he was President and Chief Operating Officer of the Company’s Cheese Division (USA). In March 2004, he was appointed to the position of President and Chief Executive Officer of the Company, in replacement of Mr. Emanuele (Lino) Saputo.

**André Bérard, Director.** André Bérard was Chairman of the Board of a Canadian Chartered Bank from March 2002 to 2004. Over the past 40 years, he held various positions within this Canadian Chartered Bank, including that of Chairman of the Board and Chief Executive Officer from 1990 to March 2002. Mr. Bérard serves on the board of directors of the following public companies: Arbec Forest Products Inc., BCE Inc., BMTC Group Inc., Bombardier Inc., Canam Group Inc., LMS Medical Systems Inc., Noranda Inc., Transforce Income Fund, and Vasogen Inc.

**Lucien Bouchard, Director.** Lucien Bouchard was Premier of the Province of Québec from January 1996 to March 2001. Prior to that, Mr. Bouchard was Canada’s Ambassador to France, sat on several Cabinet Committees for the Federal Government, was Leader of the Official Opposition in the House of Commons, practiced law for 22 years. Since April 6, 2001, he is a senior partner with Davies Ward Phillips & Vineberg LLP. Mr. Bouchard serves on the board of directors of the following public companies: BMTC Group Inc. and Transcontinental Inc.

**Pierre Bourgie, Director.** Pierre Bourgie is, since 1996, President and Chief Executive Officer of Société Financière Bourgie Inc., a diversified investment company, President of Partenaires de Montréal, a merchant bank specialized in business financing and President of Ipso Facto, a real estate investment fund. Mr. Bourgie also serves on the board of directors of the following public companies: Canam Group Inc. and National Bank of Canada.

**Frank A. Dottori, Director.** Frank A. Dottori is, since 1979, President and Chief Executive Officer of Tembec Inc., a forest products company which he co-founded. He is Chair of the Pulp and Paper Research Institute of Canada and Chair of the Free Trade Lumber Council. He has also served as Governor of the Montreal Stock Exchange. Mr. Dottori serves on the board of directors of the following public companies: Bell Nordiq Group Inc. and Tembec Inc.

**Jean Gaulin, Director.** Jean Gaulin was Chairman of the Board of Ultramar Diamond Shamrock Corporation from January 1, 2000 to January 1, 2002. He was also President and Chief Executive Officer of this corporation from January 1, 1999 to January 1, 2002. In 1996, following the merger of Ultramar Corporation and Diamond Shamrock Inc., he was named Vice-Chairman of the Board, President and Chief Operating Officer of Ultramar Diamond Shamrock. Mr. Gaulin serves on the board of directors of the following public companies: Crane Co., National Bank of Canada and Rona Inc.

**Caterina Monticciolo, Director.** Caterina Monticciolo is a chartered accountant and President of Julvest Capital Inc., a holding company. She is also director and controller for Les Placements Vigica Inc., a diversified investment company. From January 1995 to October 1996, she served as Manager for Administrative Services for Saputo Inc. From 1990 to 1994, she served as an auditor and tax consultant for Samson Bélair Deloitte & Touche.

**Patricia Saputo, Director.** Patricia Saputo is a chartered accountant who worked in accounting and tax planning from 1991 to 1998 with Samson Bélair Deloitte & Touche. Since 1998, she has been the controller of Placements Italcan Inc., a diversified investment company and, as of 2002, she became the Chief Financial Officer. Mrs. Saputo is also the President of Pasa Holdings Inc., an investment holding company.

**Louis A. Tanguay, Director.** Louis A. Tanguay held a number of executive positions during a long career within the BCE organization, including President of Bell Québec from 1992 to 1998 and President of Bell Canada International from 1998 to 2001. He serves on the board of directors of the following public companies: Bell Nordiq Group Inc., Canbras Communications Corp., Medisys Health Group Inc. and Rona Inc.

## BOARD OF DIRECTORS MEETINGS HELD AND ATTENDANCE OF DIRECTORS

The information presented below reflects Board and Committee meetings held and attendance of Directors for the year ended March 31, 2005.

### Summary of Board and Committee meetings held

Board of Directors:	5
Corporate Governance and Human Resources Committee:	6
Audit Committee:	8

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### Summary of Attendance of Directors

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Director	Board Meetings Attended	Audit Committee Meetings Attended	Corporate Governance Committee Meetings Attended
EMANUELE (LINO) SAPUTO (Chairman of the Board)	5 of 5	n/a	n/a
LINO A. SAPUTO, JR.	5 of 5	n/a	n/a
ANDRÉ BÉRARD	5 of 5	n/a	6 of 6
CLAUDE BLANCHET	2 of 3 <sup>(1)</sup>	4 of 5 <sup>(1)</sup>	n/a
LUCIEN BOUCHARD	4 of 5	n/a	2 of 3 <sup>(2)</sup>
PIERRE BOURGIE	5 of 5	8 of 8	6 of 6
FRANK A. DOTTORI	5 of 5	3 of 3 <sup>(3)</sup>	n/a
JEAN GAULIN	5 of 5	n/a	6 of 6
CATERINA MONTICCIOLO	5 of 5	n/a	n/a
PATRICIA SAPUTO	5 of 5	n/a	n/a
LOUIS A. TANGUAY	5 of 5	8 of 8	n/a

(1) Mr. Claude Blanchet ceased to be a member of the Board of Directors of the Company on August 4, 2004. He attended all of the meetings of the Board and of the Audit Committee, except the ones held on August 4, 2004, the date on which he ceased to be a director of the Company.

(2) Mr. Lucien Bouchard became a member of the Corporate Governance Committee on August 4, 2004, effective following the meetings held on such date.

(3) Mr. Frank A. Dottori became a member of the Audit Committee on August 4, 2004, effective following the meetings held on such date.

## SCHEDULE "B"

### SAPUTO INC. STATEMENT OF CORPORATE GOVERNANCE PRACTICES AS AT JUNE 6, 2005

<b>Corporate Governance Guidelines</b>	<b>Comments</b>
1. The Board should explicitly assume the responsibility for stewardship of the Corporation, and specifically for the following:	<p>The Board of Directors is legally responsible for overseeing the stewardship of the Company's affairs to ensure that its resources are managed so as to increase share value and create economic wealth.</p> <p>The mandate of the Board of Directors is to supervise the management of the business and affairs of the Company. In order to better fulfil its mandate, the Board of Directors has formally acknowledged its responsibility for, among other matters, (i) reviewing, at least once a year, the Company's strategic orientation and the plans established with respect thereto; (ii) identifying, with Management, the principal risks of the Company's business and the systems put in place to manage these risks; (iii) to the extent feasible, satisfying itself as to the integrity of the Chief Executive Officer of the Company and other senior officers and to create a culture of integrity throughout the Company; (iv) ensuring proper management succession planning, including appointing, training and monitoring senior management; (v) maintaining a proper communication policy with shareholders, institutional investors and participants in the financial market; (vi) monitoring the efficiency of internal control and management information systems; and (vii) developing the Company's approach to corporate governance, including developing a set of corporate governance principles and guidelines specifically applicable to the Company. The Board of Directors has taken, when necessary, specific measures in this respect. Some of these duties were delegated to the Corporate Governance and Human Resources Committee (the "Corporate Governance Committee") and to the Audit Committee.</p>
a) Adoption of a strategic planning process	<p>The Board of Directors meets with Management at least at the beginning of every fiscal year in order to discuss the strategic plan prepared by the Management. The Board also reviews the fiscal year then ended, the budgets, including capital expenditures required for the upcoming fiscal year in order to achieve the growth and objectives set by Management, and reviews the competitive and regulatory environment in which the Company evolves in order to identify the risks and opportunities. The Board of Directors then reviews, on a quarterly basis, the Company's results and accomplishments against the objectives set in the strategic plan.</p>

The Chief Executive Officer has the responsibility to keep the Board of Directors informed of all important developments that may impact the Company or its industry.

b) Identification of principal risks and implementation of risk management systems

Through its Audit Committee, the Board of Directors identifies the principal risks relating to the Company's business, ensures the implementation of appropriate systems to manage these risks and receives regular reports from management on these matters. Please refer to page 20 of the Annual Information Form under the heading "Risks and Uncertainties" and to page 35 of the Annual Report under the heading "Risk and Uncertainties" for a list of the principal risks relating to the Company's business.

c) Succession planning, including appointing, forming and monitoring senior management

The Corporate Governance Committee is responsible, among other things, for ensuring proper management succession planning for the Company and making recommendations to the Board of Directors with respect thereto. It is the intention of the Board of Directors to review in fiscal 2006 the succession plan in order to reflect the appointment of Mr. Lino A. Saputo, Jr. as the new President and Chief Executive Officer of the Company in March 2004.

d) Communications policy

The Audit Committee is responsible for the review of the annual and quarterly financial statements of the Company and all other continuous disclosure documents required by regulatory authorities, and such documents are approved by the Board of Directors before mailing. The Board of Directors has the responsibility of maintaining a proper communication policy with shareholders, institutional investors and participants in the financial market. In order to maintain high standards regarding disclosure issues, the Board of Directors adopted a disclosure policy which confirmed the Company's practices. The purpose of the disclosure policy is to ensure that communications to the investing public are timely, factual and accurate, and that the information is disseminated in accordance with all applicable legal and regulatory requirements of the TSX and various securities commissions.

e) Integrity of internal control and management information systems

The Audit Committee, which reports to the Board of Directors, is responsible for ensuring the adequacy of the internal control and management information systems of the Company. The Audit Committee regularly meets with the Executive Vice-President, Finance and Administration and the external auditors in order to examine issues pertaining to the presentation of financial information, accounting practices, upcoming accounting norms, internal accounting systems as well as financial controls and procedures, auditing procedures and programs. In light of the rules adopted by the Canadian Securities Authorities regarding the Audit Committee and the certification of financial information, which rules are subject to amendments published in November 2004 and April 2005 and currently under review, the Audit Committee mandated an independent accounting firm to

assist the internal auditors of the Company in the review of the internal controls and management information systems of the Company, their adequacy and effectiveness. It is anticipated that this process will be completed by December 31, 2005. In the exercise of its mandate, the Audit Committee has access to the internal audit department of the Company. See also 1 b) and d) above for the role of the Audit Committee.

2. a) The majority of directors should be unrelated (independent of management and without any conflicts of interest) to the Company and its significant shareholder;

Ten (10) individuals are currently nominated as directors of the Company, eight (8) of whom are outside directors and six (6) of whom are unrelated and independent directors. The Board of Directors is composed of a majority of unrelated and independent directors.

In determining unrelated and independent directors, the Corporate Governance Committee has referred to the following definitions. The Committee has identified as unrelated the directors who are not officers of the Company or any of its subsidiaries and who have no relationship that could reasonably be perceived to materially conflict with their ability to act in the best interest of the Company. As for the independent directors, it has identified those who have no direct or indirect relationship with the Company or any of its subsidiaries that could, in the view of the Committee, reasonably conflict with the exercise of a director's independent judgment, the whole as defined in Multilateral Instrument 52-110 Audit Committees. These qualifications of the directors are reviewed and approved by the Board of Directors.

if the Company has a significant shareholder, in addition to a majority of unrelated shareholders, the board should include a number of directors which reflects the investment in the Company by shareholders other than the significant shareholder;

It is the intention of the Company to add one (1) unrelated director to the Board over the course of the next two (2) years. The Company is of the opinion that the presence of the six (6) unrelated and independent directors more than adequately reflects the investment of minority shareholders in the Company.

- b) Although the Company has a significant shareholder, the Board of Directors must include a certain number of directors who are unrelated to the significant shareholder and who are not engaged in a business relationship with him.

The Board of Directors is made up of six (6) directors out of ten (10) having no participation, relationship or business ties with the significant shareholder. Moreover, the independent and unrelated directors meet without Management and without the chairman of the Board following each Board meetings.

3. Disclose whether each director is "related" and how that conclusion was reached

- As Chairman of the Board of the Company, Mr. Emanuele (Lino) Saputo is a related director.
- As President and Chief Executive Officer of the Company, Mr. Lino A. Saputo, Jr. is a related director.
- Mr. André Bérard is an unrelated and independent director.
- Mr. Lucien Bouchard is an unrelated and independent director.
- Mr. Pierre Bourgie is an unrelated and independent director.

- Mr. Frank A. Dottori is an unrelated and independent director.
- Mr. Jean Gaulin is an unrelated and independent director.
- As a member of the Saputo control block shareholder, Mrs. Caterina Monticciolo is a related director.
- As a member of the Saputo control block shareholder, Mrs. Patricia Saputo is a related director.
- Mr. Louis A. Tanguay is an unrelated and independent director.

Reference is made to schedule “A” for additional information on each director.

4. a) The Board should appoint a committee of directors responsible for proposing new nominees to the Board and for evaluating directors on a regular basis

The Corporate Governance Committee is responsible for (i) the implementation of a uniform and transparent process for selecting nominees for election to the Board of Directors and the recruiting of new candidates for Board membership and making recommendations to the Board of Directors with respect thereto, and (ii) the implementation and conducting of a process to assess, on an annual basis, the effectiveness of the Board of Directors, its various committees and the individual performance of each Board members. During fiscal 2005, the Corporate Governance Committee met six (6) times.

For the selection of nominees for election to the Board of Directors of the Company, the Corporate Governance Committee takes into consideration (i) what competencies and skills the Board of Directors, as a whole, should possess; (ii) what competencies and skills each existing directors possesses; (iii) what competencies and skills the Board of Directors, as a whole, possesses; and (iv) the individual performance of each directors. Based on this analysis, the Corporate Governance recommends to the Board changes to the Board composition.

A formal annual evaluation process of directors was adopted in April 2004 and implemented. In December 2004, the Corporate Governance Committee started to conduct the evaluation process. Pursuant to this evaluation process, Board members completed an effectiveness survey as to the performance of the Board of Directors, its committees and the individual performance of each Board member. These surveys were submitted on a confidential basis and were reviewed by the Chairman of the Corporate Governance Committee. The Chairman of the Corporate Governance Committee met each Board member individually in order to discuss the surveys. A global evaluation of the performance of the Board of Directors, its committees and Board members was presented to the Board of Directors by the President of the Corporate Governance Committee. This process will be conducted annually. During the year, Board members are free to discuss among themselves the performance of a fellow director, or submit such a matter to the Chairman of the Corporate Governance Committee who ensures the implementation of appropriate measures to deal with any concern



regarding the effectiveness of the Board of Directors and its various committees. As Board members are elected annually, the Corporate Governance Committee takes into account each director's performance when recommending nominees for election of Board members at the next annual general meeting of shareholders and when recommending the composition of the committees as well as their chairman for approval by the Board of Directors.

b) Composed exclusively of outside (non management) directors, the majority of whom are unrelated

The Committee is composed of four (4) members, all of whom are outside, unrelated and independent directors.

5. The Board should implement a process for assessing the effectiveness of the Board, its committees and individual directors

The Corporate Governance Committee is responsible for the implementation of a process to assess, on an annual basis, the effectiveness of the Board of Directors and its various committees. A formal evaluation process is currently in place (see 4 a) above).

6. The Company should provide orientation and education programs for new directors

The Board of Directors considers that orienting and educating new directors is an important element of ensuring responsible corporate governance. By ensuring that the Board members are properly informed of the business of the Company, the Board considers that it complies with this Guideline. Newly appointed directors are provided with the Company's continuous disclosure documents, copies of the mandate of the Board and its committees, minutes of previous meetings of the Board of Directors and copies of the policies and procedures adopted by the Board of Directors and its committees. The President of each committee of the Board presents, during the quarterly Board meetings, a summary of the achievements and current projects of the Committee. Directors also meet with members of Management to discuss the affairs of the Company, the continuous disclosure documents, sector of activities of the Company, its competitive and regulated environment as well as its business and operational strategies. Moreover, the Directors are invited to attend the Company's meeting of shareholders and visit certain Company facilities. Board members also hold a strategic planning meeting annually with Management. See 1 a) above. Finally, each Board member is invited to address to the Corporate Governance Committee any request he may have regarding additional information or education. The Corporate Committee reviews such requests and takes the measures it deems appropriate.

7. The Board should examine reducing its size and review the composition of its members with a view to improving effectiveness

After reviewing its size, the Board of Directors determined that a board of nine (9) to eleven (11) is appropriate for decision-making purposes. The Board of Directors is composed of ten (10) members.

8. The Board should review the adequacy and form of the director compensation in light

The Corporate Governance Committee evaluates annually the compensation of the directors in their capacity as directors in

of risks and responsibilities

light of the practices of the market, as well as the risks and responsibilities involved in being a director. In April 2004, the Board adopted a new compensation policy pursuant to which all directors of the Company shall, at all times while a director, own a number of shares and/or deferred share units having a total market value of at least \$150,000, calculated on April 1<sup>st</sup> of each year. Each director must comply with this new policy by March 31, 2007 or within three (3) years following his appointment as a director of the Company. Pursuant to the deferred share unit plan (the "Deferred Share Unit Plan") adopted by the Board of Directors on the same date, each director who does not meet the minimum value of \$150,000 must receive his entire compensation in deferred share units. Moreover, starting fiscal 2005, the options granted to each director who is not an officer or an employee of the Company were replaced by deferred share units pursuant to the terms and conditions of the Deferred Share Unit Plan. All options currently held by the directors were granted before April 1, 2004.

9. Committees of the Board should generally be composed of outside (non management) directors, a majority of whom should be unrelated directors

The Company currently has two (2) committees: the Audit Committee and the Corporate Governance Committee. The Audit and Corporate Governance Committees are composed exclusively of outside unrelated and independent directors.

10. The Board should expressly assume responsibility for corporate governance issues or assign general responsibility therefore to a committee

The Board of Directors has delegated to the Corporate Governance Committee the responsibility to review the Company's corporate governance practices and making recommendations to the Board of Directors with respect thereto.

11. a) The Board should define limits to management's responsibilities by formulating mandates for the following:

The Board of Directors has defined its mandate thereby imposing certain limits on the powers of Management. The Board believes that it is responsible for overseeing the affairs of the Company and that the Chief Executive Officer is responsible for implementing the Company's strategic plan and business objectives as prepared by Management and submitted to the Board annually (see 1 a) above). In 2003, the Company has elaborated a formal mandate for the Chief Executive Officer which was appointed on March 30, 2004. With this appointment and following a transition period, the Corporate Governance Committee implemented in April 2005 a formal annual review process of the Chief Executive Officer's performance. Therefore, starting in fiscal 2006, the Corporate Governance Committee will formally evaluate the Chief Executive Officer's performance and report same to the Board on an annual basis.

- (i) the Board
- (ii) Chief Executive Officer

b) The Board should approve the CEO's corporate objectives

12. The Board should establish procedures to enable the Board to function independently of management

The significant shareholder of the Company as defined in the Guidelines and its founder, Mr. Emanuele (Lino) Saputo, holds the position of Chairman of the Board. The experience and expertise of Mr. Emanuele (Lino) Saputo in those sectors in which the Company is engaged benefit all members of the Company's Management team and the Board of Directors.

With the appointment of Lino A. Saputo, Jr. as Chief Executive Officer of the Company, the positions of Chairman of the Board and CEO are split. However, as the position of Chairman of the Board is held by a related member, the Board appointed the Chairman of the Corporate Governance Committee as Lead Director. The responsibilities of the Lead Director are to set Board agendas with the Chairman of the Board, be responsible for the quality of the information sent to directors, call and chair the meetings of independent directors without management and without the Chairman of the Board which are held following each Board meetings and to review any comments or requests made by an independent director. The Lead Director is elected annually by a vote of the directors who qualify as independent directors.

13. a) The Board shall establish an Audit Committee with a specifically defined mandate

The Audit Committee has the mandate to (i) review the annual and quarterly financial statements of the Company and certain other public disclosure documents required by regulatory authorities, (ii) review the nature and scope of the annual audit as proposed by the auditors and management, (iii) review with the auditors and management, the adequacy of the internal control and management information systems of the Company, (iv) approve all services not related to audit services which the external auditors may render to the Company and its subsidiaries, subject to the policy of the Company on services which may be provided by the Company's external auditors and by other accounting firms, (v) oversee the application of the Company's procedure regarding complaints of an auditing or a financial nature, (vi) examine, approve and apply the hiring policy of the Company with respect to employees and former employees of the present auditors and former auditors of the Company, (vii) review and evaluate the risk factors inherent to the Company's business and ensure that appropriate measures are in place to manage them effectively and (viii) present quarterly reports to the Board of Directors with respect to its achievements and current projects. The Audit Committee's charter is published in the Annual Information Form of the Company under Appendix A. During fiscal 2005, the Audit Committee met eight (8) times.

- b) All members should be non management directors

The Audit Committee is presently composed exclusively of outside unrelated directors. All members of the Audit Committee are financially literate and independent as defined under applicable regulations.

14. The Board should implement a system to enable individual directors to engage outside advisors, at the Company's expense

In certain circumstances, it may be appropriate for an individual director to engage an outside advisor at the expense of the Company. The Corporate Governance Committee has the mandate to determine if the circumstances warrant the engagement of an outside advisor. In addition, both Committees have the right to engage outside advisors in order to assist them in fulfilling their mandate.