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 independent directors. The Audit Committee meets periodically with management and the external auditors to discuss internal controls, auditing matters and financial reporting issues. It also reviews the annual report, the consolidated financial statements and the external auditors' report. The Audit Committee recommends the external auditors for appointment by the shareholders. The external auditors have unrestricted access to the Audit Committee. The consolidated financial statements have been audited by the external auditors Deloitte & Touche LLP, whose report follows.

Lino Saputo, Jr.
President and
Chief Executive Officer

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, 2006 and 2005 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, 2006 and 2005 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

Deloitte & Touche LLP
Chartered Accountants
Montreal, Québec
May 26, 2006

CONSOLIDATED STATEMENTS OF EARNINGS

Years ended March 31 (in thousands of dollars, except per share amounts)	2006	2005
Revenues	$ 4,022,210	$ 3,883,069
Cost of sales, selling and administrative expenses	3,656,245	3,475,310
Earnings before interest, depreciation, income taxes and devaluation	365,965	407,759
Depreciation of fixed assets (Note 3)	69,361	66,065
Operating income	296,604	341,694
Devaluation of portfolio investment (Note 2)	10,000	-
Interest on long-term debt	24,474	28,026
Other interest, net (Note 11)	(644)	1,064
Earnings before income taxes	262,774	312,604
Income taxes (Note 12)	70,672	80,459
Net earnings	$ 192,102	$ 232,145
Earnings per share (Note 13)		
Net earnings		
Basic	$ 1.83	$ 2.23
Diluted	$ 1.82	$ 2.20

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

Years ended March 31 (in thousands of dollars)	2006	2005
Retained earnings, beginning of year	$ 884,054	$ 711,371
Net earnings	192,102	232,145
Dividends	(72,215)	(59,462)
Excess of purchase price of share capital over carrying value (Note 9)	(32,810)	-
Retained earnings, end of year	$ 971,131	$ 884,054

CONSOLIDATED BALANCE SHEETS

As at March 31 (in thousands of dollars)	2006	2005
ASSETS		
Current assets		
Cash and cash equivalents	$ 91,533	$ 41,477
Receivables	302,112	299,828
Inventories	453,414	452,814
Income taxes	6,736	14,381
Future income taxes	12,098	10,711
Prepaid expenses and other assets	25,979	16,795
	891,872	836,006
Portfolio investment (Note 2)	42,991	53,991
Fixed assets (Note 3)	674,695	648,584
Goodwill (Note 4)	544,472	507,200
Trademarks (Note 4)	30,589	24,054
Other assets (Note 5)	67,664	53,437
Future income taxes	1,650	9,800
	$ 2,253,933	$ 2,133,072
LIABILITIES		
Current liabilities		
Bank loans (Note 6)	$ 41,541	$ 15,083
Accounts payable and accrued liabilities	318,239	291,197
Income taxes	73,087	67,438
Future income taxes	369	9,653
Current portion of long-term debt (Note 7)	35,013	-
	468,249	383,371
Long-term debt (Note 7)	256,833	302,521
Other liabilities (Note 8)	16,623	19,139
Future income taxes	109,685	112,191
	851,390	817,222
SHAREHOLDERS' EQUITY		
Share capital (Note 9)	494,250	483,896
Contributed surplus (Note 10)	14,428	8,095
Retained earnings	971,131	884,054
Foreign currency translation adjustment	(77,266)	(60,195)
	1,402,543	1,315,850
	$ 2,253,933	$ 2,133,072

On behalf of the Board

Lino Saputo, Director

Louis A. Tanguay, Director

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended March 31 (in thousands of dollars)	2006	2005
Cash flows related to the following activities:		
Operating		
Net earnings	$ 192,102	$ 232,145
Items not affecting cash		
Stock based compensation	8,196	4,774
Depreciation of fixed assets	69,361	66,065
Gain on disposal of fixed assets	(1,676)	(2,576)
Devaluation of portfolio investment	10,000	-
Future income taxes	(2,438)	4,860
Funding of employee plans in excess of costs	(10,134)	(6,155)
	265,411	299,113
Changes in non-cash operating working capital items	34,156	(30,437)
	299,567	268,676
Investing		
Business acquisitions (Note 14)	(86,338)	-
Portfolio investment	1,000	-
Additions to fixed assets	(96,152)	(81,786)
Proceeds on disposal of fixed assets	3,284	5,441
Other assets	(6,072)	973
	(184,278)	(75,372)
Financing		
Bank loans	28,081	(68,844)
Repayment of long-term debt	-	(43,965)
Issuance of share capital	13,689	13,544
Repurchase of share capital	(38,008)	-
Dividends	(72,215)	(59,462)
	(68,453)	(158,727)
Increase in cash and cash equivalents	46,836	34,577
Effect of exchange rate changes on cash and cash equivalents	3,220	(974)
Cash and cash equivalents, beginning of year	41,477	7,874
Cash and cash equivalents, end of year	$ 91,533	$ 41,477
Supplemental information		
Interest paid	$ 24,689	$ 27,565
Income taxes paid	$ 57,460	$ 37,896

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended March 31

(tabular amounts are in thousands of dollars except information on options)

1. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with generally accepted accounting principles used in Canada and include 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 such as the useful life and depreciation of fixed assets, the valuation of goodwill, portfolio investments, trademarks and future income taxes and certain actuarial and economic assumptions used in determining defined benefit pension costs, accrued pension benefits obligation and pension plan assets, 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

Investments over which the Company has effective control are consolidated. The interest in a joint venture, that is jointly controlled is accounted for by the proportionate consolidation method. The operating results of acquired businesses, from their respective acquisition dates, are included in the consolidated statements of earnings.

Cash and cash equivalents

Cash and cash equivalents consists primarily of unrestricted cash and short-term investments having an initial maturity of three months or less at the time of acquisition.

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.

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 or substantially enacted tax rates that will be in effect when the differences are expected to reverse. Future income tax assets are recognized only to the extent that, in the opinion of management, it is more likely than not that the future income tax asset will be realized.

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	20 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

Assets held for sale are recorded at the lower of cost or net realizable value less costs to dispose, and no depreciation is recorded.

Impairment of long-lived assets

In the event indications exist that the carrying amount of long-lived assets may not be recoverable, undiscounted estimated cash flows are projected over their remaining term, and compared to the carrying amount. To the extent such projections indicate that future undiscounted cash flows are not sufficient to recover the carrying amounts of related assets, a charge is recorded to reduce the carrying amount to equal projected future discounted cash flows.

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Goodwill, trademarks, and business combinations

Goodwill and trademarks are not amortized; however they are tested for impairment annually, or more frequently if events or changes in circumstances indicate that the assets might be impaired. The carrying values of goodwill and trademarks are compared with their respective fair values, and an impairment loss is recognized for the excess, if any. The Company accounts for its business combinations using the purchase method of accounting. Under this method, the Company allocates the purchase price to tangible and intangible assets acquired and liabilities assumed based on estimated fair values at the date of acquisition, with the excess of the purchase price amount being allocated to goodwill.

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. Current service costs are expensed in the year. In accordance with generally accepted accounting principles, past service costs and the excess of the net actuarial gains or losses related to defined benefit pension plans over 10% of the greater of the benefit obligation or fair value of plan assets are amortized over the expected average remaining service period of active employees entitled to receive benefits under the plans. The Company uses five-year asset smoothing to determine the defined benefit pension costs. On January 1, 2000, the Company prospectively adopted the new employees future benefit accounting standards. It amortizes on a straight-line basis the transitional obligation over the expected average remaining service life of the employee groups for each of the plans at January 1, 2000. In the case where a plan restructuring entails both a plan curtailment and settlement of obligations from the plan, the curtailment is recorded before the settlement.

Revenue recognition

The Company recognizes revenue upon shipment of goods when the title and risk of loss are transferred to customers, price is determinable, and collection is reasonably assured. Revenues are recorded net of sales incentives including volume rebates, shelving or slotting fees, and coop advertising rebates.

Foreign currency translation

The balance sheet accounts of the self-sustaining companies operating in the United States and Argentina are translated into Canadian dollars using the exchange rates at the balance sheet dates. Statement of earnings accounts are translated into Canadian dollars using the average monthly exchange rates in effect during the fiscal years. 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 and Argentina. The change in the foreign currency translation account during the year ended March 31, 2006 principally resulted from the increase in value of the Canadian dollar as compared to the US dollar.

Foreign currency accounts of the Company and its subsidiaries are translated using the exchange rates at the end of the year for monetary 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.

	2006	2005
Foreign currency gain	$ 633	$ 562

Stock based compensation

The fair value based method of accounting is used to expense stock based compensation awards. This method consists of recording compensation cost to earnings over the vesting period of options granted. When stock options are exercised, any consideration paid by employees and the related compensation expense recorded as contributed surplus are credited to share capital.

Earnings per share

Basic earnings per share are based on the weighted-average number of shares outstanding during the year. The dilutive effect of stock options is determined using the treasury stock method.

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

New accounting policies

Effective April 1, 2004, the Company adopted the following new recommendations of the CICA regarding "Asset retirement obligation", which requires the recognition of liabilities for legal obligations, whether they are of a legal, prescribed, contractual or other nature, and normally when these obligations arise; "Hedging relationships", which specifies the circumstances in which hedge accounting is appropriate, and examines in particular the identification, documentation, designation and effectiveness of hedging relationships for the purpose of hedge accounting, as well as the discontinuance of hedge accounting; and "Employee future benefits", which expands the disclosure requirements in both annual and interim financial statements. These new recommendations had no significant impact on the Company's consolidated financial statements.

Effective July 1, 2004, the Company adopted the following new recommendation of the CICA regarding "Accounting by a Customer for Certain Consideration Received from a Vendor", which provides guidance on how a customer of a vendor's products should account for a cash consideration received from a vendor. This new recommendation had no significant impact on the Company's consolidated financial statements.

Effective January 1, 2005, the Company adopted the following new recommendation of the CICA regarding "Consolidation of Variable Interest Entities", which requires enterprises to identify variable interest entities in which they have an interest, to determine if they are the primary beneficiary of such entities, and, if so, to consolidate them. This new recommendation had no impact on the Company's consolidated financial statements.

Effective April 1, 2005, the Company adopted the following new recommendation of the CICA regarding "Non-Monetary Transactions", which establishes standards for the measurement and disclosure of non-monetary transactions. It defines when an exchange of assets is measured at the fair value and when an exchange of assets is measured at carrying amount. This new recommendation had no impact on the Company's consolidated financial statements.

2. PORTFOLIO INVESTMENT

	2006	2005
21% share capital interest in Dare Holdings Ltd.	$ 42,991	$ 53,991

The portfolio investment is recorded at cost less the excess of dividends received over the Company's share in accumulated earnings. The dividend of $1,000,000 received during fiscal 2006 was accounted for as a reduction of the cost of the investment. No dividends were received during fiscal 2005.

In addition, the Company wrote down the investment by $10,000,000 during the year due to a permanent impairment, resulting from the fair value being below the carrying value.

3. FIXED ASSETS

	2006			2005		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Land	$ 27,084	$ -	$ 27,084	$ 27,872	$ -	$ 27,872
Buildings	249,980	57,799	192,181	246,887	53,657	193,230
Furniture, machinery and equipment	777,635	335,428	442,207	707,965	290,014	417,951
Rolling stock	12,314	6,323	5,991	11,817	5,378	6,439
Held for sale	7,232	-	7,232	3,092	-	3,092
	$ 1,074,245	$ 399,550	$ 674,695	$ 997,633	$ 349,049	$ 648,584

During the year, a gain on sale of fixed assets held for sale totalling $1,676,000 ($2,576,000 in 2005) was recorded in cost of sales, selling and administrative expenses. These assets relate to the activities of the Canadian dairy products sector.

During the year, a $5,750,000 ($6,000,000 in 2005) write-down to fair value of certain buildings and machinery and equipment was recorded. This charge is included in depreciation of fixed assets.

3. FIXED ASSETS (cont'd)

Fixed assets held for sale represent mainly machinery, equipment and buildings of the Canadian and US dairy products sector that will be disposed of as a result of certain plant closures.

The net book value of fixed assets under construction, that are not being amortized, amounts to $41,465,000 as at March 31, 2006 ($47,921,000 as at March 31, 2005) and consists mainly of machinery and equipment.

4. GOODWILL AND TRADEMARKS

	2006			2005		
	Dairy products sector	Grocery products sector	Total	Dairy products sector	Grocery products sector	Total
Goodwill						
Balance, beginning of year	$ 342,687	$ 164,513	$ 507,200	$ 360,343	$ 164,513	$ 524,856
Foreign currency translation adjustment	(9,032)	-	(9,032)	(17,656)	-	(17,656)
Business acquisitions (Note 14)	46,304	-	46,304	-	-	-
Balance, end of year	$ 379,959	$ 164,513	$ 544,472	$ 342,687	$ 164,513	$ 507,200
Trademarks						
Balance, beginning of year	$ 24,054	$ -	$ 24,054	$ 26,076	$ -	$ 26,076
Foreign currency translation adjustment	(845)	-	(845)	(2,022)	-	(2,022)
Business acquisitions (Note 14)	7,380	-	7,380	-	-	-
Balance, end of year	$ 30,589	$ -	$ 30,589	$ 24,054	$ -	$ 24,054

5. OTHER ASSETS

	2006	2005
Net accrued pension plan asset (Note 15)	$ 50,606	$ 45,505
Taxes receivable	9,370	-
Other	7,688	7,932
	$ 67,664	$ 53,437

6. BANK LOANS

The Company has available short-term bank credit facilities providing for bank loans up to a maximum of approximately $325,000,000. The North American bank loans are available mainly in US dollars or the equivalent in other currencies and bear interest at rates based on lenders' prime rates plus a maximum of 0.25% or LIBOR or bankers' acceptances rate plus 0.50% up to a maximum of 1.125%, depending on the interest-bearing debt to the earnings before interest, depreciation and amortization and income taxes ratio of the Company. Part of the total short-term bank credit facilities is available for the Argentina business and bear interest at local market rates.

7. LONG-TERM DEBT

	2006	2005
Senior notes		
7.97%, due in November 2006 (US$30,000,000)	$ 35,013	$ 36,288
8.12%, due in November 2009 (US$170,000,000)	198,407	205,632
8.41%, due in November 2014 (US$50,000,000)	58,355	60,480
Other loans, repayable up to 2008	71	121
	291,846	302,521
Current portion	35,013	-
	$ 256,833	$ 302,521

7. LONG-TERM DEBT (cont'd)

Estimated principal payments required in future years are as follows:

2007	$ 35,013
2008	71
2009	-
2010	198,407
2011	-
2012 and subsequent years	58,355
	$ 291,846

8. OTHER LIABILITIES

	2006	2005
Employee future benefits (Note 15)	$ 9,101	$ 14,383
Other	7,522	4,756
	$ 16,623	$ 19,139

9. 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.

	2006	2005
Issued		
104,114,555 common shares (104,527,282 in 2005)	$ 494,250	$ 483,896

682,173 common shares (749,552 in 2005) for an amount of $13,689,000 ($13,544,000 in 2005) were issued during the year ended March 31, 2006 pursuant to the share option plan. For share options granted since April 1, 2002, the amount previously accounted for as an increase to contributed surplus was also transferred to share capital upon the exercise of options. For the year ended March 31, 2006, the amount transferred from contributed surplus was $1,863,000 ($1,090,000 in 2005).

Pursuant to the normal course issuer bid, which began on November 11, 2005, the Company may purchase for cancellation up to 5,256,369 common shares until November 10, 2006. During the year ended March 31, 2006, the Company purchased 1,094,900 common shares at prices ranging from $32.39 to $35.94 per share. The excess of the purchase price over the carrying value of the shares in the amount of $32,810,000 was charged to retained earnings.

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 grant date. The options vest at 20% per year and expire ten years from the grant date.

9. SHARE CAPITAL (cont'd)

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

		2006		2005	
Granting period	Exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
1998	$8.50	62,226	$ 8.50	77,420	$ 8.50
1999	from $16.13 to $18.75	95,236	$ 18.33	160,602	$ 18.34
2000	$19.70	179,238	$ 19.70	272,403	$ 19.70
2001	$13.50	410,797	$ 13.50	582,608	$ 13.50
2002	from $19.00 to $23.00	685,335	$ 19.10	814,073	$ 19.09
2003	$30.35	701,465	$ 30.35	815,518	$ 30.35
2004	$22.50	1,012,030	$ 22.50	1,174,625	$ 22.50
2005	$33.05	831,135	$ 33.05	900,666	$ 33.05
2006	$36.15	901,781	$ 36.15	-	$ -
		4,879,243	$ 26.35	4,797,915	$ 23.62
Options exercisable at end of year		2,077,799	$ 21.28	1,778,646	$ 19.71

Changes in the number of options are as follows:

	2006		2005	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance at beginning of year	4,797,915	$ 23.62	4,745,580	$ 20.96
Options granted	914,952	$ 36.15	984,055	$ 33.05
Options exercised	(682,173)	$ 20.07	(749,552)	$ 18.07
Options cancelled	(151,451)	$ 27.37	(182,168)	$ 28.01
Balance at end of year	4,879,243	$ 26.35	4,797,915	$ 23.62

The fair value of share purchase options granted was estimated at $10.21 per option ($9.86 in 2005), using the Black-Scholes option pricing model with the following assumptions:

	2006	2005
Risk-free interest rate:	4.0%	3.5%
Expected life of options:	5 years	$6^1/_2$ years
Volatility:	31%	28%
Dividend rate:	2.0%	1.8%

The exercise price of these options is $36.15 ($33.05 in 2005), which corresponds to the closing quoted value of the shares on the day preceding the grant date.

A compensation expense of $8,196,000 ($7,455,000 after income taxes) relating to stock options was recorded in the statement of earnings for the year ended March 31, 2006 and $4,774,000 ($4,173,000 after income taxes) was recorded for the year ended March 31, 2005.

The effect of this expense on basic and diluted earnings per share was $0.07 for the year ended March 31, 2006, and $0.04 for the year ended March 31, 2005.

Options to purchase 1,141,225 common shares at a price of $32.70 were also granted on April 1, 2006.

9. SHARE CAPITAL (cont'd)

Deferred share units plan for directors

Effective April 1, 2004, all eligible directors of the company were allocated a fixed amount of deferred share units which were granted on a quarterly basis in accordance with the deferred share units plan. The directors have a choice to receive either cash or deferred units for their compensation. The number of units issued to each director is based on the market value of the Company's common shares at each grant date. As directors cease their functions with the Company, a cash payment equal to the market value of the accumulated deferred share units will be disbursed. The liability relating to these units is adjusted by taking the number of units outstanding of 27,904 in 2006 (11,213 in 2005) multiplied by the market value of common shares at the Company's year-end. The variation of the liability is recorded as an expense by the Company. During the year ended March 31, 2006, the expense recorded for the deferred share units was $540,000 ($488,000 in 2005).

10. CONTRIBUTED SURPLUS

	2006	2005
Contributed surplus, beginning of year	$ 8,095	$ 4,411
Stock based compensation	8,196	4,774
Amount transferred to share capital	(1,863)	(1,090)
Contributed surplus, end of year	$ 14,428	$ 8,095

11. OTHER INTEREST

	2006	2005
Expense	$ 2,174	$ 1,568
Income	(2,818)	(504)
	$ (644)	$ 1,064

12. INCOME TAXES

The provision for income taxes is comprised of the following:

	2006	2005
Current income taxes	$ 73,110	$ 75,599
Future income taxes	(2,438)	4,860
	$ 70,672	$ 80,459

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

	2006	2005
Income taxes, calculated using Canadian statutory income tax rates	$ 82,569	$ 97,212
Adjustments resulting from the following:		
Manufacturing and processing credit	-	(1,453)
Effect of tax rates of American subsidiaries	108	4,593
Changes in tax laws and rates	1,448	(3,816)
Utilization of tax benefit not previously recognized	-	(2,381)
Benefit arising from investment in subsidiaries	(8,901)	(9,118)
Other	(4,552)	(4,578)
Provision for income taxes	$ 70,672	$ 80,459

12. INCOME TAXES (cont'd)

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

	2006	2005
Future income tax asset		
Accounts payable and accrued liabilities	$ 5,872	$ 5,088
Income tax losses	12,839	5,639
Portfolio investment	1,832	-
Other	4,699	3,634
	$ 25,242	$ 14,361
Future income tax liability		
Inventories	$ 875	$ 7,350
Fixed assets	89,627	84,027
Net assets of pension plans	14,333	4,979
Other assets	3,273	1,463
Portfolio investment	-	6,225
Long-term debt	13,440	11,650
	$ 121,548	$ 115,694
Classified in the financial statements as:		
Current future income tax asset	$ 12,098	$ 10,711
Long-term future income tax asset	1,650	9,800
Current future income tax liability	(369)	(9,653)
Long-term future income tax liability	(109,685)	(112,191)
Net future income tax liability	$ (96,306)	$ (101,333)

Potential tax benefits

As of March 31, 2006, in addition to the income tax losses recorded, the Company has income tax losses of approximately $40,423,000 ($60,857,000 in 2005) which may be used to reduce future years' taxable income of its subsidiaries in Argentina. These losses expire as follows:

2008	$31,420,000
2009	$ 7,515,000
2010	$ 836,000
2011	$ 652,000

13. EARNINGS PER SHARE

	2006	2005
Net earnings	$ 192,102	$ 232,145
Weighted average number of common shares outstanding	104,698,601	104,257,660
Dilutive options	813,052	1,441,040
Dilutive number of common shares outstanding	105,511,653	105,698,700
Basic earnings per share	$ 1.83	$ 2.23
Diluted earnings per share	$ 1.82	$ 2.20

When calculating dilutive earnings per share, 901,781 options (nil in 2005) were excluded from the calculation because their exercise price is higher than the average market value.

Shares purchased during the year, under the normal course issuer bid, were excluded from the calculation of earnings per share as of the date of purchase.

14. BUSINESS ACQUISITIONS

On April 18, 2005, the Company acquired the activities of Fromage Coté S.A. and Distributions Kingsey Inc. (a cheese manufacturer operating in Canada) for a cash consideration of $53,421,000. The fair values attributed to the assets acquired were $11,040,000 to working capital, $11,375,000 to fixed assets, $23,626,000 to goodwill, and $7,380,000 to trademarks.

On May 27, 2005, the Company acquired the activities of Schneider Cheese, Inc. (a cheese manufacturer operating in the United States) for a cash consideration of $32,917,000. The fair values attributed to the assets acquired were $4,718,000 to working capital, $5,521,000 to fixed assets and $22,678,000 to goodwill.

15. EMPLOYEE PENSION AND OTHER BENEFIT PLANS

The Company provides defined benefit and defined contribution pension plans as well as other benefit plans 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. Actuarial valuations were performed in December 2002 and 2003. The measurement date of pension plan assets and liabilities is December 31. Certain pension plans had a valuation performed on December 31, 2005, of which the results have not been finalized, while the next valuation for other pension plans is scheduled for December 2006 and December 2007.

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.

Financial position of the plans

	2006		2005	
	Defined benefit pension plans	Other benefit plans	Defined benefit pension plans	Other benefit plans
Changes in accrued benefits obligation				
Benefits obligation at beginning of year	$ 175,635	$ 20,586	$ 165,460	$ 17,614
Current service cost	5,960	467	5,214	680
Interest cost	10,354	912	10,099	1,173
Benefits paid	(13,018)	(1,591)	(12,962)	(1,175)
Actuarial losses	21,030	672	8,085	3,013
Amendments and divestitures	530	(7,951)	-	205
Foreign currency gain	(121)	(94)	(261)	(924)
Benefits obligation at end of year	200,370	13,001	175,635	20,586
Changes in fair value of plan assets				
Fair value of plan assets at beginning of year	163,487	-	152,730	-
Actual return on plan assets	14,225	-	13,584	-
Employer contributions	10,071	1,373	9,175	1,046
Employee contributions	1,150	218	1,170	129
Benefits paid	(13,018)	(1,591)	(12,962)	(1,175)
Foreign currency loss	(96)	-	(210)	-
Fair value of plan assets at end of year	175,819	-	163,487	-
Deficit	(24,551)	(13,001)	(12,148)	(20,586)
Unamortized actuarial losses	82,260	2,113	66,461	4,561
Unamortized past service cost	1,196	262	680	35
Adjustment to recognize obligation	-	-	14	-
Unamortized transitional obligation	(9,905)	1,365	(11,059)	1,561
Asset (liability) as at the measurement date	49,000	(9,261)	43,948	(14,429)
Employer contributions made from the measurement date to the end of the year	1,606	160	1,557	46
Net asset (liability) recognized in the balance sheet	$ 50,606	$ (9,101)	$ 45,505	$ (14,383)

15. EMPLOYEE PENSION AND OTHER BENEFIT PLANS (cont'd)

All defined benefit pension plans present an accumulated benefit obligation in excess of plan assets.

Employee benefit plans expense

	2006		2005	
	Pension plans	Other benefit plans	Pension plans	Other benefit plans
Defined benefit plans				
Employer current service cost	$ 4,809	$ 249	$ 4,044	$ 550
Interest cost on benefit obligation	10,354	912	10,099	1,173
Actual return on plan assets	(14,225)	-	(13,584)	-
Actual losses	21,030	687	8,085	3,013
Plan amendments	530	39	-	205
Curtailment and settlement of plans	-	(5,291)	70	-
Unadjusted benefits expense taking into account the long-term nature of the cost	22,498	(3,404)	8,714	4,941
Difference between expected return and actual return on plan assets	1,737	-	175	-
Difference between amortized past service costs and plan amendments for the year	(415)	16	78	(109)
Difference between net actuarial loss recognized and actual actuarial loss on benefit obligation	(17,659)	(504)	(5,995)	(2,779)
Transitional obligation amortization	(1,156)	197	(1,155)	196
Defined benefit plans expense	5,005	(3,695)	1,817	2,249
Defined contribution plans expense	11,093	-	10,278	-
Total benefit plans expense	$ 16,098	$ (3,695)	$ 12,095	$ 2,249

For the year ended March 31, 2006, the Company's total expense for all its employee benefits plans was $12,403,000 ($14,344,000 in 2005) and the total Company contributions to the employee benefits plans was $22,537,000 ($20,499,000 in 2005).

Weighted average assumptions				
To determine benefit obligation at the end of year:				
Discount rate of obligation	5.26%	5.31%	6.00%	6.00%
Rate of increase of future compensation expense	3.50%	3.50%	3.50%	3.50%
To determine benefit plans expense:				
Discount rate of obligation	6.00%	6.00%	6.25%	6.25%
Expected long-term rate of return on plan assets	7.32%	N/A	7.90%	N/A
Rate of increase of future compensation expense	3.50%	3.50%	3.50%	3.50%

For measurement purposes, a 7% to 12% annual rate of increase was used for health, life insurance and dental plan costs for the year 2007 and this rate is assumed to decrease gradually to 6% in 2011. In comparison, during the previous year, a 5.5% to 7% annual rate was used for the year 2006 and that rate was assumed to decrease gradually to 5.3% in 2008.

16. 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 are as follows:

2007	$ 10,624
2008	8,714
2009	7,509
2010	6,322
2011	4,855
Subsequent years	5,862
	$ 43,886

The Company is defendant to certain claims arising from the normal course 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. Subsequent to March 31, 2006, there has been a proposed change to the income tax legislation that would likely have an impact on the consolidated financial statements. The Company is currently evaluating the impact and alternatives to reduce it.

Indemnifications

The Company from time to time offers indemnifications to third parties in the normal course of its business, in connection with business or asset acquisitions or dispositions. These indemnification provisions may be in connection with breach of representations and warranties and for future claims for certain liabilities, including liabilities related to tax and environmental matters. The terms of these indemnification provisions vary in duration. At March 31, 2006, given that the nature and amount of such indemnifications depend on future events, the Company is unable to reasonably estimate its maximum potential liability under these agreements. The Company has not made any significant indemnification payments in the past, and as at March 31, 2006 and 2005, had not recorded a liability associated with these indemnifications.

Leases

The Company guarantees to certain lessors a portion of the residual value of certain leased assets with respect to operating leases which mature until 2012. If the market value of leased assets, at the end of the respective operating lease term, is inferior to the guaranteed residual value, the Company is obligated to indemnify the lessor, specific to certain conditions, for the shortfall up to a maximum value. The Company believes that the potential indemnification will not have a significant effect on the consolidated financial statements.

17. RELATED PARTY TRANSACTIONS

The Company receives and provides services from companies subject to significant influence by its principal shareholder. These transactions were made in the normal course of business and have been recorded at the exchange amount which corresponds to the fair market value. All amounts are included in cost of sales, selling and administrative expenses on the statement of earnings.

Services received were the following:	2006	2005
Rent, travel and lodging expenses	$ 1,937	$ 2,970
Management fees for compensation of the Chairman of the Board	500	600
	$ 2,437	$ 3,570
Services provided were the following:		
Management fees for services provided by the Company	$ 175	$ 175

There are no amounts receivable or payable with respect to these transactions as at March 31, 2006 and 2005.

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

a) Fair value of financial instruments

The fair value of cash and cash equivalents, receivables, bank loans and 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 $318,292,000 ($345,285,000 in 2005).

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 bear interest at fluctuating rates.

The Company occasionally enters into interest swap contracts to hedge against exposures to increases in interest rates. As at March 31, 2006, the Company had no outstanding interest swap 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. The Company had outstanding foreign currency contracts as at the balance sheet date for the purchase of 1,800,000 Euros.

The Company realizes approximately 30% and 4% of its sales in the United States and Argentina, respectively, and is therefore exposed to currency exchange fluctuations.

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

e) Price commodities risk

The Company occasionally enters into hedging contracts to hedge against fluctuations on the price of certain commodities. Outstanding contracts as at the balance sheet date had a fair value of $1,800,000.

19. SEGMENTED INFORMATION

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

The grocery products sector consists of the production and marketing of snack cakes. Total assets of this sector include the portfolio investment.

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

The accounting policies of the sectors are the same as those described in Note 1 relating to significant accounting policies. The Company does not have any intersector sales.

19. SEGMENTED INFORMATION (cont'd)

Information on operating sectors

	2006			2005		
	Canada and other	United States	Total	Canada and other	United States	Total
Revenues						
Dairy products	$ 2,651,402	$ 1,206,601	$ 3,858,003	$ 2,415,541	$ 1,308,735	$ 3,724,276
Grocery products	164,207	-	164,207	158,793	-	158,793
	$ 2,815,609	$ 1,206,601	$ 4,022,210	$ 2,574,334	$ 1,308,735	$ 3,883,069
Earnings before interest, depreciation, income taxes, and devaluation						
Dairy products	$ 261,593	$ 78,300	$ 339,893	$ 244,161	$ 137,043	$ 381,204
Grocery products	26,072	-	26,072	26,555	-	26,555
	$ 287,665	$ 78,300	$ 365,965	$ 270,716	$ 137,043	$ 407,759
Depreciation of fixed assets						
Dairy products	$ 34,146	$ 29,881	$ 64,027	$ 29,743	$ 31,175	$ 60,918
Grocery products	5,334	-	5,334	5,147	-	5,147
	$ 39,480	$ 29,881	$ 69,361	$ 34,890	$ 31,175	$ 66,065
Operating income						
Dairy products	$ 227,447	$ 48,419	$ 275,866	$ 214,418	$ 105,868	$ 320,286
Grocery products	20,738	-	20,738	21,408	-	21,408
	$ 248,185	$ 48,419	296,604	$ 235,826	$ 105,868	341,694
Devaluation of portfolio investment			10,000			-
Interest			23,830			29,090
Earnings before income taxes			262,774			312,604
Income taxes			70,672			80,459
Net earnings			$ 192,102			$ 232,145

19. SEGMENTED INFORMATION (cont'd)

Geographic information

	2006				2005			
	Canada	Argentina	United States	Total	Canada	Argentina	United States	Total
Revenues								
Dairy products	$ 2,473,045	$ 178,357	$ 1,206,601	$ 3,858,003	$ 2,265,277	$ 150,264	$ 1,308,735	$ 3,724,276
Grocery products	164,207	-	-	164,207	158,793	-	-	158,793
	2,637,252	$ 178,357	$ 1,206,601	$ 4,022,210	$ 2,424,070	$ 150,264	$ 1,308,735	$ 3,883,069
Total assets								
Dairy products	$ 1,116,636	$ 148,157	$ 695,881	$ 1,960,674	$ 1,017,031	$ 100,696	$ 716,395	$ 1,834,122
Grocery products	293,259	-	-	293,259	298,950	-	-	298,950
	$ 1,409,895	$ 148,157	$ 695,881	$ 2,253,933	$ 1,315,981	$ 100,696	$ 716,395	$ 2,133,072
Net book value of fixed assets								
Dairy products	$ 336,772	$ 70,863	$ 226,433	$ 634,068	$ 315,260	$ 51,601	$ 240,984	$ 607,845
Grocery products	40,627	-	-	40,627	40,739	-	-	40,739
	$ 377,399	$ 70,863	$ 226,433	$ 674,695	$ 355,999	$ 51,601	$ 240,984	$ 648,584
Additions to fixed assets								
Dairy products	$ 42,569	$ 29,798	$ 18,503	$ 90,870	$ 38,856	$ 18,134	$ 18,786	$ 75,776
Grocery products	5,282	-	-	5,282	6,010	-	-	6,010
	$ 47,851	$ 29,798	$ 18,503	$ 96,152	$ 44,866	$ 18,134	$ 18,786	$ 81,786
Goodwill								
Dairy products	$ 156,324	$ -	$ 223,635	$ 379,959	$ 132,698	$ -	$ 209,989	$ 342,687
Grocery products	164,513	-	-	164,513	164,513	-	-	164,513
	$ 320,837	$ -	$ 223,635	$ 544,472	$ 297,211	$ -	$ 209,989	$ 507,200

20. SUBSEQUENT EVENTS

On April 13, 2006 the Company acquired the activities of *Spezialitäten-Käserei De Lucia GmbH* (a cheese manufacturer operating in Germany) for a cash consideration of 5,000,000 Euros subject to adjustments. The preliminary purchase price is allocated to fixed assets. The final allocation of the purchase price will be completed in the next fiscal year.

21. COMPARATIVE AMOUNTS

Certain of the prior year's comparative figures have been reclassified to conform to the current year's presentation.