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, FCA
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, 2007 and 2006 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, 2007 and 2006 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 25, 2007

CONSOLIDATED STATEMENTS OF EARNINGS

Years ended March 31 (in thousands of dollars, except per share amounts)	2007	2006
Revenues	$ 4,000,980	$ 4,022,210
Cost of sales, selling and administrative expenses	3,574,648	3,656,245
Earnings before interest, depreciation, income taxes and devaluation	426,332	365,965
Depreciation of fixed assets (Note 3)	72,116	69,361
Operating income	354,216	296,604
Devaluation of portfolio investment (Note 2)	–	10,000
Interest on long-term debt	22,603	24,474
Other interest, net (Note 11)	(3,498)	(644)
Earnings before income taxes	335,111	262,774
Income taxes (Note 12)	96,644	70,672
Net earnings	$ 238,467	$ 192,102
Earnings per share (Note 13)		
Net earnings		
Basic	$ 2.30	$ 1.83
Diluted	$ 2.28	$ 1.82

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

Years ended March 31 (in thousands of dollars)	2007	2006
Retained earnings, beginning of year	$ 971,131	$ 884,054
Net earnings	238,467	192,102
Dividends	(80,721)	(72,215)
Excess of purchase price of share capital over carrying value (Note 9)	(43,796)	(32,810)
Retained earnings, end of year	$ 1,085,081	$ 971,131

CONSOLIDATED BALANCE SHEETS

As at March 31 (in thousands of dollars)	2007	2006
ASSETS		
Current assets		
Cash and cash equivalents	$ 276,894	$ 91,533
Receivables	324,702	302,112
Inventories	445,992	453,414
Income taxes	6,413	6,736
Future income taxes	13,045	12,098
Prepaid expenses and other assets	23,939	25,979
	1,090,985	891,872
Portfolio investment (Note 2)	42,991	42,991
Fixed assets (Note 3)	691,226	674,695
Goodwill (Note 4)	547,379	544,472
Trademarks (Note 4)	32,340	30,589
Other assets (Note 5)	73,726	67,664
Future income taxes	9,720	1,650
	$ 2,488,367	$ 2,253,933
LIABILITIES		
Current liabilities		
Bank loans (Note 6)	$ 139,001	$ 41,541
Accounts payable and accrued liabilities	343,911	318,239
Income taxes	85,644	73,087
Future income taxes	1,294	369
Current portion of long-term debt (Note 7)	21	35,013
	569,871	468,249
Long-term debt (Note 7)	254,012	256,833
Other liabilities (Note 8)	16,413	16,623
Future income taxes (Note 12)	115,053	109,685
	955,349	851,390
SHAREHOLDERS' EQUITY		
Share capital (Note 9)	511,737	494,250
Contributed surplus (Note 10)	18,864	14,428
Retained earnings	1,085,081	971,131
Foreign currency translation adjustment	(82,664)	(77,266)
	1,533,018	1,402,543
	$ 2,488,367	$ 2,253,933

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)	2007	2006
Cash flows related to the following activities:		
Operating		
Net earnings	$ 238,467	$ 192,102
Items not affecting cash		
Stock based compensation	7,917	8,196
Depreciation of fixed assets	72,116	69,361
Gain on disposal of fixed assets	(122)	(1,676)
Devaluation of portfolio investment	–	10,000
Future income taxes	(1,525)	(2,438)
Funding of employee plans in excess of costs	(3,207)	(10,134)
	313,646	265,411
Changes in non-cash operating working capital items	29,855	34,156
	343,501	299,567
Investing		
Business acquisitions (Note 14)	(31,794)	(86,338)
Portfolio investment	–	1,000
Additions to fixed assets	(76,127)	(96,152)
Proceeds on disposal of fixed assets	3,808	3,284
Other assets	(6,124)	(6,072)
	(110,237)	(184,278)
Financing		
Bank loans	93,701	28,081
Repayment of long-term debt	(33,828)	–
Issuance of share capital	20,886	13,689
Repurchase of share capital	(50,677)	(38,008)
Dividends	(80,721)	(72,215)
	(50,639)	(68,453)
Increase in cash and cash equivalents	182,625	46,836
Effect of exchange rate changes on cash and cash equivalents	2,736	3,220
Cash and cash equivalents, beginning of year	91,533	41,477
Cash and cash equivalents, end of year	$ 276,894	$ 91,533
Supplemental information		
Interest paid	$ 19,651	$ 24,689
Income taxes paid	$ 84,868	$ 57,460

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended March 31, 2007 and 2006
(Tabular amounts are in thousands of dollars except information on options, units and shares.)

1. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the following significant accounting policies:

Use of estimates

In the preparation of financial statements in conformity with Canadian generally accepted accounting principles, management must make estimates such as the useful life, impairment, 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 stock based compensation 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 the 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 basis 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 to 40 years
Furniture, machinery and equipment	3 to 15 years
Rolling stock	5 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 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, which is based on fair value, 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. 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 advertising rebates.

Foreign currency translation

The balance sheet accounts of the self-sustaining companies operating in the United States, Argentina, Germany and the United Kingdom 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, Argentina, Germany and the United Kingdom. The change in the foreign currency translation account during the year ended March 31, 2007 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.

	2007	2006
Foreign currency gain	$ 855	$ 633

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

Determining the Variability to be Considered in Applying AcG-15

Effective April 1, 2006, the Company adopted the following new recommendation of the CICA, EIC-163, "Determining the Variability to be Considered in Applying AcG-15", which provides guidance on whether certain arrangements, such as a contract to reduce or eliminate the variability created by certain assets or operations of an entity, should be treated as variable interests or be considered creators of variability when applying CICA Accounting Guideline AcG-15, Consolidation of Variable Interest Entities. This new recommendation had no impact on the Company's consolidated financial statements.

Stock-Based Compensation for Employees Eligible to Retire Before the Vesting Date

Effective April 1, 2006, the Company adopted the following new recommendation of the CICA, EIC-162, "Stock-Based Compensation for Employees Eligible to Retire Before the Vesting Date", which addresses how to account for compensation costs attributable to a stock-based award for a compensation plan that contains a provision that allows an employee to continue vesting in accordance with stated vesting terms after the employee has retired. This new recommendation had no impact on the Company's consolidated financial statements.

Discontinued Operations

Effective April 1, 2006, the Company adopted the following new recommendation of the CICA, EIC-161, "Discontinued Operations", which provides guidance on the allocation of interest expense and general corporate overhead expenses to discontinued operations. It also states whether an entity should report the results of operations of a component classified as held for sale as discontinued operations if the remaining operations are insignificant. This new recommendation had no impact on the Company's consolidated financial statements.

2. PORTFOLIO INVESTMENT

	2007	2006
21% share capital interest in Dare Holdings Ltd.	$ 42,991	$ 42,991

The portfolio investment is recorded at cost less the excess of dividends received over the Company's share in accumulated earnings. No dividends were received in fiscal 2007. The dividend of $1,000,000 received during fiscal 2006 was accounted for as a reduction of the cost of the investment.

In fiscal 2006, the Company wrote down the investment by $10,000,000 due to a permanent impairment, resulting from the fair value being below the carrying value.

3. FIXED ASSETS

	2007			2006		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Land	$ 27,666	$ –	$ 27,666	$ 27,084	$ –	$ 27,084
Buildings	278,463	68,750	209,713	249,980	57,799	192,181
Furniture, machinery and equipment	824,427	383,350	441,077	777,635	335,428	442,207
Rolling stock	12,928	7,156	5,772	12,314	6,323	5,991
Held for sale	6,998	–	6,998	7,232	–	7,232
	$1,150,482	$ 459,256	$ 691,226	$1,074,245	$ 399,550	$ 674,695

During the year, a gain on sale of fixed assets held for sale totalling $122,000 ($1,676,000 in 2006) was recorded in cost of sales, selling and administrative expenses. These assets relate mainly to the activities of our Canadian and Other Dairy Products Sector.

During the year, a $3,238,000 ($5,750,000 in 2006) write-down to fair value of certain buildings and machinery and equipment was recorded. This charge is included in depreciation of fixed assets.

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 book value of fixed assets under construction, that are not being amortized, amounts to $22,518,000 as at March 31, 2007 ($41,465,000 as at March 31, 2006) and consists mainly of machinery and equipment.

4. GOODWILL AND TRADEMARKS

	2007			2006		
	Dairy products sector	Grocery products sector	Total	Dairy products sector	Grocery products sector	Total
Goodwill						
Balance, beginning of year	$ 379,959	$ 164,513	$ 544,472	$ 342,687	$ 164,513	$ 507,200
Foreign currency translation adjustment	(2,405)	–	(2,405)	(9,032)	–	(9,032)
Business acquisitions (Note 14)	395	4,917	5,312	46,304	–	46,304
Balance, end of year	$ 377,949	$ 169,430	$ 547,379	$ 379,959	$ 164,513	$ 544,472
Trademarks						
Balance, beginning of year	$ 30,589	$ –	$ 30,589	$ 24,054	$ –	$ 24,054
Foreign currency translation adjustment	(249)	–	(249)	(845)	–	(845)
Business acquisitions (Note 14)	–	2,000	2,000	7,380	–	7,380
Balance, end of year	$ 30,340	$ 2,000	$ 32,340	$ 30,589	$ –	$ 30,589

5. OTHER ASSETS

	2007	2006
Net accrued pension plan asset (Note 15)	$ 54,326	$ 50,606
Taxes receivable	12,626	9,370
Other	6,774	7,688
	$ 73,726	$ 67,664

6. BANK LOANS

The Company has available short-term bank credit facilities providing for bank loans up to a maximum of approximately $357,000,000. 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 bears interest at local market rates.

7. LONG-TERM DEBT

	2007	2006
Senior notes		
7.97%, repaid in 2007 (US$30,000,000)	$ –	$ 35,013
8.12%, due in November 2009 (US$170,000,000)	196,282	198,407
8.41%, due in November 2014 (US$50,000,000)	57,730	58,355
Other loans, repayable in 2008	21	71
	254,033	291,846
Current portion	21	35,013
	$ 254,012	$ 256,833

Estimated principal payments required in future years are as follows:

2008	$ 21
2009	–
2010	196,282
2011	–
2012	–
2013 and subsequent years	57,730
	$ 254,033

8. OTHER LIABILITIES

	2007	2006
Employee future benefits (Note 15)	$ 9,430	$ 9,101
Other	6,983	7,522
	$ 16,413	$ 16,623

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.

	2007	2006
Issued		
103,676,917 common shares (104,114,555 in 2006)	$ 511,737	$ 494,250

9. SHARE CAPITAL (cont'd)

969,062 common shares (682,173 in 2006) for an amount of $20,886,000 ($13,689,000 in 2006) were issued during the year ended March 31, 2007 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, 2007, the amount transferred from contributed surplus was $3,481,000 ($1,863,000 in 2006).

Pursuant to the normal course issuer bid, which began on November 11, 2005, the Company could have purchased for cancellation up to 5,256,369 common shares until November 10, 2006. Pursuant to the new normal course issuer bid, which began on November 13, 2006, the Company may purchase for cancellation up to 5,179,304 common shares until November 12, 2007. During the year ended March 31, 2007, the Company purchased 1,406,700 (1,094,900 in 2006) common shares at prices ranging from $34.75 to $38.00 per share ($32.39 to $35.94 in 2006). The excess of the purchase price over the carrying value of the shares in the amount of $43,796,000 ($32,810,000 in 2006) 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.

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

	2007			2006	
Granting period	Exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
1998	$ 8.50	19,000	$ 8.50	62,226	$ 8.50
1999	from $16.13 to $18.75	53,140	$ 18.43	95,236	$ 18.33
2000	$ 19.70	106,949	$ 19.70	179,238	$ 19.70
2001	$ 13.50	263,402	$ 13.50	410,797	$ 13.50
2002	from $19.00 to $23.00	419,205	$ 19.04	685,335	$ 19.10
2003	$ 30.35	542,594	$ 30.35	701,465	$ 30.35
2004	$ 22.50	798,755	$ 22.50	1,012,030	$ 22.50
2005	$ 33.05	727,313	$ 33.05	831,135	$ 33.05
2006	$ 36.15	827,932	$ 36.15	901,781	$ 36.15
2007	$ 32.70	1,097,318	$ 32.70	–	$ –
		4,855,608	$ 28.64	4,879,243	$ 26.35
Options exercisable at end of year		2,011,821	$ 24.03	2,077,799	$ 21.28

Changes in the number of options are as follows:

	2007		2006	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance at beginning of year	4,879,243	$ 26.35	4,797,915	$ 23.62
Options granted	1,141,225	$ 32.70	914,952	$ 36.15
Options exercised	(969,062)	$ 21.55	(682,173)	$ 20.07
Options cancelled	(195,798)	$ 30.25	(151,451)	$ 27.37
Balance at end of year	4,855,608	$ 28.64	4,879,243	$ 26.35

9. SHARE CAPITAL (cont'd)

The fair value of share purchase options granted was estimated at $9.78 per option ($10.21 in 2006), using the Black-Scholes option pricing model with the following assumptions:

	2007	2006
Risk-free interest rate:	4.2%	4.0%
Expected life of options:	5 years	5 years
Volatility:	35%	31%
Dividend rate:	2.5%	2.0%

The exercise price of these options is $32.70 ($36.15 in 2006), which corresponds to the closing quoted value of the shares on the day preceding the grant date.

A compensation expense of $7,917,000 ($6,958,000 after income taxes) relating to stock options was recorded in the statement of earnings for the year ended March 31, 2007 and $8,196,000 ($7,455,000 after income taxes) was recorded for the year ended March 31, 2006.

The effect of this expense on basic and diluted earnings per share was $0.07 for the year ended March 31, 2007, and $0.07 for the year ended March 31, 2006.

Options to purchase 889,586 common shares at a price of $46.18 were also granted on April 1, 2007.

Deferred share units plan for directors

Since April 1, 2004, all eligible directors of the company are allocated annually a fixed amount of deferred share units (annual grant) which are granted on a quarterly basis in accordance with the deferred share units plan. Also, 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 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.

	2007		2006	
	Units	Liability	Units	Liability
Beginning of year	27,904	$ 1,009	11,213	$ 448
Annual Grant	8,000	309	8,000	282
Board compensation	6,821	323	8,691	367
Increase (decrease) due to change in stock price	–	541	–	(88)
End of year	42,725	$ 2,182	27,904	$ 1,009

10. CONTRIBUTED SURPLUS

	2007	2006
Contributed surplus, beginning of year	$ 14,428	$ 8,095
Stock based compensation	7,917	8,196
Amount transferred to share capital	(3,481)	(1,863)
Contributed surplus, end of year	$ 18,864	$ 14,428

11. OTHER INTEREST

	2007	2006
Expense	$ 4,055	$ 2,174
Income	(7,553)	(2,818)
	$ (3,498)	$ (644)

12. INCOME TAXES

The provision for income taxes is comprised of the following:

	2007	2006
Current income taxes	$ 98,169	$ 73,110
Future income taxes	(1,525)	(2,438)
	$ 96,644	$ 70,672

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

	2007	2006
Income taxes, calculated using Canadian statutory income tax rates	$ 108,415	$ 82,569
Adjustments resulting from the following:		
Effect of tax rates of foreign subsidiaries	685	108
Changes in tax laws and rates	(6,058)	1,448
Benefit arising from investment in subsidiaries	(8,033)	(8,901)
Other	1,635	(4,552)
Provision for income taxes	$ 96,644	$ 70,672

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

	2007	2006
Future income tax asset		
Accounts payable and accrued liabilities	$ 6,895	$ 5,872
Income tax losses	10,681	12,839
Portfolio Investment	1,151	1,832
Other	7,272	4,699
	$ 25,999	$ 25,242
Future income tax liability		
Inventories	$ 5,863	$ 875
Fixed assets	82,757	89,627
Net assets of pension plans	13,423	14,333
Other assets	6,596	3,273
Long-term debt	10,942	13,440
	$ 119,581	$ 121,548
Classified in the financial statements as:		
Current future income tax asset	$ 13,045	$ 12,098
Long-term future income tax asset	9,720	1,650
Current future income tax liability	(1,294)	(369)
Long-term future income tax liability	(115,053)	(109,685)
Net future income tax liability	$ (93,582)	$ (96,306)

Potential tax benefits

As of March 31, 2007, in addition to the income tax losses recorded, the Company has income tax losses of approximately $26,357,000 ($40,423,000 in 2006) which may be used to reduce future years' taxable income of its subsidiaries in Argentina. These losses expire as follows:

2008	$ 26,357,000

13. EARNINGS PER SHARE

	2007	2006
Net earnings	$ 238,467	$ 192,102
Weighted average number of common shares outstanding	103,720,154	104,698,601
Dilutive options	727,728	813,052
Dilutive number of common shares outstanding	104,447,882	105,511,653
Basic earnings per share	$ 2.30	$ 1.83
Diluted earnings per share	$ 2.28	$ 1.82

When calculating dilutive earnings per share in 2006, 901,781 options were excluded from the calculation because their exercise price is higher than the average market value. In 2007, no options were excluded from the calculation.

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

14. BUSINESS ACQUISITIONS

On April 13, 2006, the Company acquired the activities of Spezialitäten-Käserei De Lucia GmbH (a German cheese manufacturer producing Italian cheese specialties) for a cash consideration of $7,086,000, which was attributed mainly to fixed assets.

On July 28, 2006, the Company acquired the activities of Boulangerie Rondeau Inc. and Biscuits Rondeau Inc. (a fresh tart and cookie manufacturer operating in Canada) for a cash consideration of $12,545,000. The fair values attributed to the assets acquired were $1,218,000 to working capital, $4,410,000 to fixed assets, $4,917,000 to goodwill, and $2,000,000 to trademarks.

On March 23, 2007, the Company acquired the activities of Dansco Dairy Products Limited (a United Kingdom manufacturer producing mainly mozzarella) for a cash consideration of $12,163,000. The fair values attributed to the assets acquired were $3,935,000 to working capital, and $8,228,000 to fixed assets. The final allocation of the purchase price will be completed in the next fiscal year.

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 paid by employees and contributions by the Company are based on recommendations from independent actuaries. Actuarial valuations were performed in December 2003 and 2005. The measurement date of pension plan assets and liabilities is December 31.

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

	2007		2006	
	Defined benefit pension plans	Other benefit plans	Defined benefit pension plans	Other benefit plans
Changes in accrued benefit obligations				
Benefits obligation at beginning of year	$ 200,370	$ 13,001	$ 175,635	$ 20,586
Current service cost	7,096	256	5,960	467
Interest cost	10,339	658	10,354	912
Benefits paid	(14,612)	(1,144)	(13,018)	(1,591)
Actuarial losses (gains)	(3,225)	406	21,030	672
Amendments and divestitures	–	–	530	(7,951)
Foreign currency gain	(30)	(34)	(121)	(94)
Benefits obligation at end of year	199,938	13,143	200,370	13,001
Changes in fair value of plan assets				
Fair value of plan assets at beginning of year	175,819	–	163,487	–
Actual return on plan assets	19,254	–	14,225	–
Employer contributions	11,563	944	10,071	1,373
Employee contributions	1,150	200	1,150	218
Benefits paid	(14,613)	(1,144)	(13,018)	(1,591)
Foreign currency loss	(27)	–	(96)	–
Fair value of plan assets at end of year	193,146	–	175,819	–
Funded status				
Deficit, end of year	(6,792)	(13,143)	(24,551)	(13,001)
Unamortized actuarial losses	67,104	2,251	82,260	2,113
Unamortized past service cost	1,081	231	1,196	262
Valuation allowance	(181)	–	–	–
Unamortized transitional obligation	(8,749)	1,169	(9,905)	1,365
Asset (liability) as at the measurement date	52,463	(9,492)	49,000	(9,261)
Employer contributions made from the measurement date to the end of the year	1,863	62	1,606	160
Net asset (liability) recognized in the balance sheet	$ 54,326	$ (9,430)	$ 50,606	$ (9,101)

All defined benefit pension plans present an accrued benefit obligations in excess of plan assets.

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

Employee benefit plans expense

	2007		2006	
	Pension plans	Other benefit plans	Pension plans	Other benefit plans
Defined benefit plans				
Employer current service cost	$ 5,946	$ 56	$ 4,809	$ 249
Interest cost on benefits obligation	10,339	658	10,354	912
Actual return on plan assets	(19,254)	–	(14,225)	–
Actual losses (gains)	(3,225)	406	21,030	687
Plan amendments	–	–	530	39
Curtailment and settlement of plans	–	–	–	(5,291)
Unadjusted benefits expense taking into account the long-term nature of the cost	(6,194)	1,120	22,498	(3,404)
Difference between expected return and actual return on plan assets	6,538	–	1,737	–
Difference between amortized past service costs and plan amendments for the year	115	31	(415)	16
Difference between net actuarial loss recognized and actual actuarial loss on benefits obligation	8,608	(140)	(17,659)	(504)
Transitional obligation amortization	(1,156)	196	(1,156)	197
Defined benefit plan expense before valuation allowance	7,911	1,207	5,005	(3,695)
Valuation allowance	181	–	–	–
Defined benefit plan expense	8,092	1,207	5,005	(3,695)
Defined contribution plan expense	11,929	–	11,093	–
Total benefit plan expense	$ 20,021	$ 1,207	$ 16,098	$ (3,695)

For the year ended March 31, 2007, the Company's total expense for all its employee benefits plans was $ 21,229,000 ($12,403,000 in 2006) and the total Company contributions to the employee benefits plans was $ 24,436,000 ($22,537,000 in 2006).

Weighted average assumptions				
To determine benefits obligation at the end of year:				
Discount rate	5.26%	5.35%	5.26%	5.31%
Rate of compensation increase	3.50%	3.50%	3.50%	3.50%
To determine benefit plan expense:				
Discount rate	5.26%	5.31%	6.00%	6.00%
Expected long-term rate of return on plan assets	7.31%	N/A	7.32%	N/A
Rate of compensation increase	3.50%	3.50%	3.50%	3.50%

For measurement purposes, a 7% to 10% annual rate of increase was used for health, life insurance and dental plan costs for the year 2008 and this rate is assumed to decrease gradually to 5.1% in 2012. In comparison, during the previous year, a 7% to 12% annual rate was used for the year 2007 and that rate was assumed to decrease gradually to 6% in 2011.

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:

2008	$ 10,038
2009	8,275
2010	7,111
2011	6,228
2012	3,482
Subsequent years	4,890
	$ 40,024

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. During the fiscal year, a proposed change with retroactive effect to Canadian provincial tax legislation was effectively enacted. A tax assessment for an amount of approximately $12,000,000 was issued as a result of the enactment. The Company has legal basis to believe that it will not have to pay such tax assessment. Therefore, no amount relating to this assessment has been included in the March 31, 2007 financial statements.

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, 2007, 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, 2007 and 2006, the Company has 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 which mature until 2013. 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 through ownership 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:

	2007	2006
Rent, travel and lodging expenses	$ 2,164	$ 1,937
Management fees for compensation of the Chairman of the Board	500	500
	$ 2,664	$ 2,437
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, 2007 and 2006.

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 $277,505,000 ($318,292,000 in 2006).

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, 2007, 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 1,300,000 euros (1,800,000 euros in 2006) and $5,000,000 US.

The Company realizes approximately 26% and 5% 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 negative fair value of $756,000 (positive fair value of $1,800,000 in 2006).

19. SEGMENTED INFORMATION

The Company has two operating segments, Dairy Products and Grocery Products.

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, United States, Argentina, Germany and the United Kingdom.

The grocery products sector consists of the production and marketing of mainly 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 intersegment sales.

Revenues are attribuable to countries based upon manufacturing origin.

19. SEGMENTED INFORMATION (cont'd)

Information on operating sectors

	2007			2006		
	Canada and other	United States	Total	Canada and other	United States	Total
Revenues						
Dairy products	$2,794,099	$1,036,830	$3,830,929	$2,651,402	$1,206,601	$3,858,003
Grocery products	170,051	–	170,051	164,207	–	164,207
	$2,964,150	$1,036,830	$4,000,980	$ 2,815,609	$1,206,601	$4,022,210
Earnings before interest, depreciation, income taxes, and devaluation						
Dairy products	$ 317,086	$ 82,890	$ 399,976	$ 261,593	$ 78,300	$ 339,893
Grocery products	26,356	–	26,356	26,072	–	26,072
	$ 343,442	$ 82,890	$ 426,332	$ 287,665	$ 78,300	$ 365,965
Depreciation of fixed assets						
Dairy products	$ 36,163	$ 29,849	$ 66,012	$ 34,146	$ 29,881	$ 64,027
Grocery products	6,104	–	6,104	5,334	–	5,334
	$ 42,267	$ 29,849	$ 72,116	$ 39,480	$ 29,881	$ 69,361
Operating income						
Dairy products	$ 280,923	$ 53,041	$ 333,964	$ 227,447	$ 48,419	$ 275,866
Grocery products	20,252	–	20,252	20,738	–	20,738
	$ 301,175	$ 53,041	$ 354,216	$ 248,185	$ 48,419	$ 296,604
Devaluation of portfolio investment			–			10,000
Interest			19,105			23,830
Earnings before income taxes			335,111			262,774
Income taxes			96,644			70,672
Net earnings			$ 238,467			$ 192,102

19. SEGMENTED INFORMATION (cont'd)

Geographic information

	2007				2006			
	Canada	Argentina & Europe	United States	Total	Canada	Argentina & Europe	United States	Total
Revenues								
Dairy products	$2,566,645	$ 227,454	$1,036,830	$3,830,929	$2,473,045	$ 178,357	$1,206,601	$3,858,003
Grocery products	170,051	–	–	170,051	164,207	–	–	164,207
	$2,736,696	$ 227,454	$1,036,830	$4,000,980	$2,637,252	$ 178,357	$1,206,601	$4,022,210
Total assets								
Dairy products	$1,014,705	$ 206,145	$ 961,923	$2,182,773	$1,116,636	$ 148,157	$ 695,881	$1,960,674
Grocery products	305,594	–	–	305,594	293,259	–	–	293,259
	$1,320,299	$ 206,145	$ 961,923	$2,488,367	$1,409,895	$ 148,157	$ 695,881	$2,253,933
Net book value of fixed assets								
Dairy products	$ 332,980	$ 102,073	$ 209,666	$ 644,719	$ 336,772	$ 70,863	$ 226,433	$ 634,068
Grocery products	46,507	–	–	46,507	40,627	–	–	40,627
	$ 379,487	$ 102,073	$ 209,666	$ 691,226	$ 377,399	$ 70,863	$ 226,433	$ 674,695
Additions to fixed assets								
Dairy products	$ 24,264	$ 28,588	$ 15,699	$ 68,551	$ 42,569	$ 29,798	$ 18,503	$ 90,870
Grocery products	7,576	–	–	7,576	5,282	–	–	5,282
	$ 31,840	$ 28,588	$ 15,699	$ 76,127	$ 47,851	$ 29,798	$ 18,503	$ 96,152
Goodwill								
Dairy products	$ 156,324	$ 395	$ 221,230	$ 377,949	$ 156,324	$ –	$ 223,635	$ 379,959
Grocery products	169,430	–	–	169,430	164,513	–	–	164,513
	$ 325,754	$ 395	$ 221,230	$ 547,379	$ 320,837	$ –	$ 223,635	$ 544,472

20. SUBSEQUENT EVENTS

On April 2, 2007, the Company acquired the activities of Land O'Lakes West Coast industrial cheese business in the US for a cash consideration of $254,000,000. The fair values attributed to the assets acquired were $24,000,000 to working capital, $225,000,000 to fixed assets, and $5,000,000 to goodwill. 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.