CONSOLIDATED FINANCIAL STATEMENTS

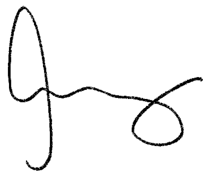
MANAGEMENT'S STATEMENT OF RESPONSIBILITY FOR FINANCIAL REPORTING

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 International Financial Reporting Standards.

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



Lino A. Saputo, Jr.
Chief Executive Officer
and Vice Chairman of the Board

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

June 5, 2012

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Saputo Inc.

We have audited the accompanying consolidated financial statements of Saputo Inc., which comprise the consolidated balance sheets as at March 31, 2012, March 31, 2011 and April 1, 2010, and the consolidated statements of earnings, statements of comprehensive income, statements of shareholders' equity and statements of cash flows for the years ended March 31, 2012 and March 31, 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Saputo Inc. as at March 31, 2012, March 31, 2011 and April 1, 2010, and its financial performance and its cash flows for the years ended March 31, 2012 and March 31, 2011 in accordance with International Financial Reporting Standards.

Deloitte & Touche LLP[1]

Montréal, Québec
June 5, 2012

[1] CPA auditor, CA public accountancy permit No. A114871

CONSOLIDATED STATEMENTS OF **EARNINGS**

(in thousands of CDN dollars, except per share amounts)

Years ended March 31		**2012**		2011
Revenues	**$**	**6,930,370**	$	6,002,932
Operating costs excluding depreciation and amortization (Notes 5 and 25)		**6,099,439**		5,214,651
Earnings before interest, depreciation, amortization, impairment and income taxes		**830,931**		788,281
Depreciation and amortization (Notes 7, 8 and 25)		**101,943**		105,981
Operating income		**728,988**		682,300
Impairment of goodwill (Note 8)		**125,000**		-
Impairment of portfolio investment (Note 6)		-		13,600
Interest on long-term debt		**23,081**		23,211
Other financial charges (Note 14)		**1,569**		663
Earnings before income taxes		**579,338**		644,826
Income taxes (Notes 15 and 25)		**198,498**		194,775
Net earnings	**$**	**380,840**	$	450,051
Earnings per share (Note 16)				
Net earnings				
Basic	**$**	**1.89**	$	2.18
Diluted	**$**	**1.86**	$	2.15

CONSOLIDATED STATEMENTS OF **COMPREHENSIVE INCOME**

(in thousands of CDN dollars)

Years ended March 31		2012		2011
Net earnings	**$**	**380,840**	$	450,051
Other comprehensive income (loss):				
Exchange differences arising from foreign currency translation		**31,066**		(60,930)
Actuarial losses[1] (Note 18)		**(21,248)**		(1,181)
Other comprehensive income (loss)		**9,818**		(62,111)
Comprehensive income	**$**	**390,658**	$	387,940

[1] Net of income taxes of $7,661 (2011 - $435).

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(in thousands of CDN dollars, except common shares)

For the year ended March 31, 2012	Share capital		Reserves				
	Common Shares (in thousands)	Amount	Foreign Currency Translation	Stock-Based Compensation	Total Reserves	Retained Earnings	**Total Shareholders' Equity**
Balance, beginning of year	203,830	$ 617,675	$ (60,930)	$ 33,384	$ (27,546)	$ 1,482,506	$ 2,072,635
Net earnings	-	-	-	-	-	380,840	380,840
Other comprehensive income	-	-	31,066	-	31,066	(21,248)	9,818
Comprehensive income							390,658
Dividends declared	-	-	-	-	-	(147,053)	(147,053)
Stock-based compensation (Note 13)	-	-	-	9,288	9,288	-	9,288
Shares issued under stock option plan	1,270	25,266	-	-	-	-	25,266
Amount transferred from reserves to share capital upon exercise of options	-	5,506	-	(5,506)	(5,506)	-	-
Excess tax benefit that results from the excess of the deductible amount over the compensation cost recognized	-	-	-	1,670	1,670	-	1,670
Shares repurchased and cancelled	(5,944)	(18,468)	-	-	-	(223,224)	(241,692)
Shares repurchased and not cancelled	(118)	(373)	-	-	-	(4,713)	(5,086)
Balance, end of year	199,038	$ 629,606	$ (29,864)	$ 38,836	$ 8,972	$ 1,467,108	$ 2,105,686

For the year ended March 31, 2011	Share capital		Reserves				
	Common Shares (in thousands)	Amount	Foreign Currency Translation	Stock-Based Compensation	Total Reserves	Retained Earnings	**Total Shareholders' Equity**
Balance, beginning of year	207,426	$ 584,749	$ -	$ 32,681	$ 32,681	$ 1,363,181	$ 1,980,611
Net earnings	-	-	-	-	-	450,051	450,051
Other comprehensive loss	-	-	(60,930)	-	(60,930)	(1,181)	(62,111)
Comprehensive income							387,940
Dividends declared	-	-	-	-	-	(128,929)	(128,929)
Stock-based compensation (Note 13)	-	-	-	8,375	8,375	-	8,375
Shares issued under stock option plan	2,280	40,375	-	-	-	-	40,375
Amount transferred from reserves to share capital upon exercise of options	-	9,831	-	(9,831)	(9,831)	-	-
Excess tax benefit that results from the excess of the deductible amount over the compensation cost recognized	-	-	-	2,159	2,159	-	2,159
Shares repurchased and cancelled	(5,807)	(17,072)	-	-	-	(197,832)	(214,904)
Shares repurchased and not cancelled	(69)	(208)	-	-	-	(2,784)	(2,992)
Balance, end of year	203,830	$ 617,675	$ (60,930)	$ 33,384	$ (27,546)	$ 1,482,506	$ 2,072,635

CONSOLIDATED **BALANCE SHEETS**

(in thousands of CDN dollars)

As at		**March 31, 2012**		March 31, 2011		April 1, 2010
ASSETS						
Current assets						
Cash and cash equivalents	**$**	**144,137**	$	77,491	$	54,819
Receivables		**487,502**		460,807		367,069
Inventories (Note 4)		**712,885**		662,194		566,754
Income taxes (Note 15)		**364**		12,623		5,940
Prepaid expenses and other assets		**54,576**		50,940		29,494
Portfolio investment (Note 6)		**-**		27,743		-
		1,399,464		1,291,798		1,024,076
Portfolio investment (Note 6)		**-**		-		41,343
Property, plant and equipment (Notes 7 and 25)		**1,105,205**		1,079,083		1,093,695
Goodwill (Notes 8 and 25)		**733,527**		843,862		716,695
Trademarks and other intangibles (Note 8)		**335,452**		339,038		316,613
Other assets (Notes 9 and 25)		**18,031**		19,081		25,821
Deferred income taxes (Notes 15 and 25)		**7,441**		5,469		1,108
	$	**3,599,120**	$	3,578,331	$	3,219,351
LIABILITIES						
Current liabilities						
Bank loans (Note 10)	**$**	**166,631**	$	170,589	$	61,572
Accounts payable and accrued liabilities		**571,814**		573,779		471,106
Income taxes (Note 15)		**163,996**		198,638		149,377
		902,441		943,006		682,055
Long-term debt (Note 11)		**379,875**		378,480		380,790
Other liabilities (Notes 12 and 25)		**54,486**		32,727		35,392
Deferred income taxes (Notes 15 and 25)		**156,632**		151,483		140,503
		1,493,434		1,505,696		1,238,740
SHAREHOLDERS' EQUITY						
Share capital		**629,606**		617,675		584,749
Reserves		**8,972**		(27,546)		32,681
Retained earnings		**1,467,108**		1,482,506		1,363,181
		2,105,686		2,072,635		1,980,611
	$	**3,599,120**	$	3,578,331	$	3,219,351

On behalf of the Board,

Lino Saputo
Director

Tony Meti
Director

CONSOLIDATED **STATEMENTS OF CASH FLOWS**

(in thousands of CDN dollars)

Years ended March 31		2012		2011
Cash flows related to the following activities:				
Operating				
Net earnings	**$**	**380,840**	$	450,051
Adjustments for:				
Stock option plan		**9,288**		8,375
Interest and other financial charges		**24,650**		23,874
Income tax expense		**198,498**		194,775
Depreciation and amortization		**101,943**		105,981
Gain on disposal of property, plant and equipment		**(3,313)**		(196)
Impairment of goodwill		**125,000**		-
Impairment of portfolio investment		**-**		13,600
Deferred share units		**1,456**		4,455
Funding of employee plans in excess of costs		**(7,437)**		(6,279)
		830,925		794,636
Changes in non-cash operating working capital items		**(76,192)**		(88,272)
Cash generated from operating activities		**754,733**		706,364
Interest paid		**(25,435)**		(25,267)
Income taxes paid		**(206,311)**		(92,577)
Net cash generated from operating activities		**522,987**		588,520
Investing				
Business acquisition		**(10,325)**		(265,672)
Proceeds on disposal of portfolio investment		**27,720**		-
Additions to property, plant and equipment		**(118,587)**		(112,100)
Proceeds on disposal of property, plant and equipment		**12,871**		6,278
Other assets and other liabilities		**1,204**		(58)
		(87,117)		(371,552)
Financing				
Bank loans		**(5,349)**		107,754
Issuance of share capital		**25,266**		40,375
Repurchase of share capital		**(241,692)**		(214,904)
Dividends		**(147,053)**		(128,929)
		(368,828)		(195,704)
Increase in cash and cash equivalents		**67,042**		21,264
Effect of exchange rate changes on cash and cash equivalents		**(396)**		1,408
Cash and cash equivalents, beginning of year		**77,491**		54,819
Cash and cash equivalents, end of year	**$**	**144,137**	$	77,491

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended March 31, 2012 and 2011
(Tabular amounts are in thousands of CDN dollars except information on options, units and shares)

NOTE 1 CORPORATE INFORMATION

Saputo Inc. (the “Company”) is a publicly traded company incorporated and domiciled in Canada. The Company’s shares are listed on the Toronto Stock Exchange under the symbol “SAP.” The Company produces, markets and distributes a wide array of dairy products in Canada, the United States, Argentina and Europe, as well as bakery products in Canada. The address of the Company’s head office is 6869, Metropolitain Blvd. East, St-Léonard, Québec, Canada, H1P 1X8. The consolidated financial statements (“financial statements”) of the Company for the year ended March 31, 2012 comprise the financial results of the Company and its subsidiaries.

The financial statements for the year ended March 31, 2012 have been authorized for issuance by the Board of Directors on June 5, 2012.

NOTE 2 BASIS OF PRESENTATION

STATEMENT OF COMPLIANCE

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB) and IFRS 1, First-Time Adoption of International Financial Reporting Standards. The Company’s date of transition to IFRS is April 1, 2010, the first day of the comparative period presented in the balance sheet. The Company’s previously filed annual financial statements were prepared in accordance with Canadian Generally Accepted Accounting Principles (CGAAP), which differs in several respects from the requirements of currently enacted IFRS. Accordingly, the Company has modified certain of its accounting policies in order to comply with IFRS. For further information on the impact of the amended accounting policies, please refer to Note 25.

BASIS OF MEASUREMENT

The Company’s financial statements have been prepared on a going concern basis and applied based on the historical cost principle except for certain assets and liabilities as described in the significant account policies section.

FUNCTIONAL AND PRESENTATION CURRENCY

The Company’s financial statements are presented in Canadian dollars, which is also the consolidated entity’s functional currency. All financial information has been rounded to the nearest thousand unless stated otherwise.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES

CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements include the accounts of the Company and entities under its control. Control is defined as the power (either directly or indirectly) to govern the financial and operating policies of an entity so as to obtain benefits from its activities. All intercompany transactions and balances have been eliminated. Investments over which the Company has effective control are consolidated. 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 consist 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, raw materials and work in process are valued at the lower of cost and net realizable value, cost being determined under the first in, first out method. Borrowing costs are allocated to qualifying inventory where inventory takes a substantial period of time to reach finished goods status.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses and are depreciated using the straight-line method over their estimated useful lives as described below:

Buildings	15 to 40 years
Furniture, machinery and equipment	3 to 20 years
Rolling stock	5 to 10 years based on estimated kilometres traveled

Where components of an item of building or furniture, machinery and equipment are individually significant, they are accounted for separately within the categories described above.

Assets held for sale are recorded at the lower of their carrying amount or fair value less costs to sell, and no depreciation is recorded. Assets under construction are not depreciated. Borrowing costs are capitalized to qualifying property, plant and equipment where the period of construction of those assets takes a substantial period of time to get ready for their intended use. Borrowing costs, if incurred, are added to the cost of those assets until such time as the assets are substantially ready for their intended use.

For the purposes of impairment testing, property, plant and equipment are tested at the cash-generating unit (CGU) level. Write-downs are included in "depreciation and amortization" presented on the consolidated statements of earnings.

GOODWILL, TRADEMARKS AND OTHER INTANGIBLES

Goodwill represents the excess of the consideration transferred in a given acquisition over the fair value of the identifiable net assets acquired and is initially recorded at that value. Goodwill is subsequently carried at cost less any impairment. Trademarks and other intangibles are initially recorded at their transaction fair values. Trademarks are subsequently carried at cost less any impairment losses. Other intangibles are subsequently carried at cost less accumulated amortization and less impairment losses, if any.

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. When testing goodwill, the carrying values of the CGU's or group of CGU's including goodwill are compared with their respective recoverable amounts (higher of fair value less costs to sell and value in use) and an impairment loss, if any, is recognized for the excess.

When testing trademarks and indefinite life intangibles for impairment, the carrying values (including the carrying value of the related CGU's or group of CGU's excluding goodwill) are also compared to their recoverable amounts.

Other intangibles are amortized using the straight-line method over their useful lives which vary from 5 to 15 years and are reviewed for indicators of impairment prior to each reporting period.

Refer to "Impairment Testing of Cash-Generating Units" in Note 8 for a discussion of the CGU levels at which goodwill, trademarks and other intangibles are tested.

IMPAIRMENT OF OTHER LONG-LIVED ASSETS

Other long-lived assets are subject to an "indicators of impairment" test at each reporting period. In the event of an indication of impairment, the asset or group of assets (referred to as CGU's), for which identifiable cash flows that are largely independent of the cash inflows from other assets or group of assets exist, are tested for impairment. An impairment loss is recorded when the carrying value exceeds the recoverable amount. The recoverable amount is defined as the greater of fair value less costs to sell and value in use.

BUSINESS COMBINATIONS

The Company accounts for its business combinations using the acquisition 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.

Debt issuance costs directly related to the funding of business acquisitions are included in the carrying value of the debt and are amortized over the related debt term using the effective interest rate method. Transaction costs are expensed as incurred.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

EMPLOYEE FUTURE BENEFITS

The cost of pension and other post-retirement benefits is actuarially determined annually on March 31 using the projected benefit method prorated based on years of service and using Management's best estimates of expected return on plan assets, which are based on market values, rates of compensation increases, retirement ages of employees and expected health care costs. Current service costs, interest on obligations offset by expected return on assets are expensed in the year. Actuarial gains or losses, the effect of an adjustment, if any, on the maximum amount recognized as an asset and the impact of the minimum funding requirements, are recorded in other comprehensive income (loss) and immediately recognized in retained earnings without subsequent reclassification to the consolidated statements of earnings. The net pension expenditure under defined contribution pension plans is generally equal to the contributions made by the employer.

REVENUE RECOGNITION

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

FOREIGN CURRENCY TRANSLATION

The Company's functional currency is the Canadian dollar. Accordingly, the balance sheet accounts of foreign operations are translated into Canadian dollars using the exchange rates at the balance sheet dates and statements of earnings accounts are translated into Canadian dollars using the average monthly exchange rates in effect during the periods. The foreign currency translation adjustment (CTA) reserve presented in the consolidated statements of comprehensive income and the consolidated statements of shareholders' equity, represents accumulated foreign currency gains (losses) on the Company's net investments in companies operating outside Canada. The change in the unrealized gains (losses) on translation of the financial statements of foreign operations for the periods presented resulted mainly from the fluctuation in value of the Canadian dollar as compared to the US dollar.

As described in Note 25, the Company has elected to apply the IFRS 1 exemption to reset its CTA reserve on April 1, 2010 (the Company's transition date) to nil.

Foreign currency accounts of the Company and its subsidiaries are translated using the exchange rates at the balance sheet dates for monetary assets and liabilities, and at the prevailing exchange rates at the time of transactions for income and expenses. Non-monetary items are translated at the historical exchange rates. Gains or losses resulting from this translation are included in operating costs.

STOCK-BASED COMPENSATION

The Company offers equity settled stock-based compensation awards to certain employees within the organization pursuant to which options are granted over a five-year vesting period with a ten-year expiration term. The fair value of each instalment of an award is determined separately and recognized over the vesting period. When stock options are exercised, any consideration paid by employees and the related compensation expense recorded as a stock-based compensation reserve are credited to share capital.

The Company allocates deferred share units (DSUs) to eligible Directors of the Company which are based on the market value of the Company's common shares. DSUs are granted on a quarterly basis and vest following cessation of functions as a Director of the Company. The Company recognizes an expense in its consolidated statements of earnings and a liability in its consolidated balance sheets for each grant. The liability and related expense is subsequently re-measured at each reporting period.

EARNINGS PER SHARE

Basic earnings per share are based on the weighted average number of shares outstanding during the period. In calculating the diluted earnings per share, the weighted average of the number of outstanding shares is adjusted to reflect the impact of the conversion of potential shares that may have a dilutive impact and is determined independently for each reporting period presented.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

RESEARCH AND DEVELOPMENT TAX CREDITS

The Company benefits from research and development tax credits related to operating costs and property, plant and equipment. These credits are accounted for either as a reduction of operating costs or property, plant and equipment.

INCOME TAXES

Income tax expense represents the sum of current and deferred income tax and is recognized in the consolidated statements of earnings with the exception of items that are recognized in the consolidated statements of comprehensive income or directly in equity.

Current income taxes are determined in relation to taxable earnings for the year and incorporate any adjustments to current taxes payable in respect of previous years.

The Company follows the liability method of accounting for income taxes. Under this method, deferred income tax assets and liabilities are determined based on temporary differences between the carrying amount of an asset or liability in the consolidated balance sheets and its tax basis. They are measured using the enacted or substantively enacted rates that are expected to apply when the asset is realized or the liability is settled. A deferred income tax asset is recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be used.

FINANCIAL INSTRUMENTS

Financial assets and liabilities are initially measured at fair value. Subsequently, financial instruments classified as financial assets available for sale, held for trading and derivative financial instruments, part of a hedging relationship or not, continue to be measured at fair value on the balance sheet at each reporting date, whereas other financial instruments are measured at amortized cost using the effective interest method.

The Company has made the following classifications:

- Cash and cash equivalents are classified as financial assets held for trading and are measured at fair value.
- Receivables are classified as loans and receivables and are measured at amortized cost.
- Portfolio investment was classified as available for sale, and was carried at fair value.
- Other assets that meet the definition of a financial asset are classified as loans and receivables and are initially measured at fair value and subsequently at amortized cost.
- Bank loans, accounts payable and accrued liabilities, other liabilities and long-term debt are classified as other liabilities and are measured at amortized cost, with the exception of the liability related to deferred share units which is measured at the fair value of shares on the balance sheet dates as defined in IFRS 2, Share-based Payment.
- Derivative financial instruments are measured at fair value with any changes recorded in the consolidated statements of earnings.

All financial instruments measured at fair value are categorized into one of three hierarchy levels, described below, for disclosure purposes.

Each level reflects the inputs used to measure the fair values of assets and liabilities:

Level 1 – Inputs are unadjusted quoted prices of identical instruments in active markets.
Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3 – One or more significant inputs used in a valuation technique are not based on observable market data in determining fair values of the instruments.

Determination of fair value and the resulting hierarchy requires the use of observable market data whenever available. The classification of a financial instrument in the hierarchy is based upon the lowest level of input that is significant to the measurement of fair value.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

USE OF ESTIMATES AND JUDGEMENTS IN THE APPLICATION OF ACCOUNTING POLICIES

The preparation of the Company's financial statements requires Management to make certain judgements and estimates about transactions and carrying values that are fulfilled at a future date. Judgements and estimates are subject to fluctuations due to changes in internal and/or external factors and are continuously monitored by Management. A discussion of the judgements and estimates that could have a material effect on the financial statements is provided below.

SIGNIFICANT ESTIMATES AND JUDGEMENTS

Allowance for Doubtful Accounts

Management reviews its accounts receivable at the end of each reporting period and estimates balances which may be deemed to be uncollectible in the future. This review requires the use of assumptions and takes into consideration certain factors, such as historical collection trends and past due amounts for each customer balance. In the event that future collections differ from estimated provisions, future earnings will be affected.

Income Taxes

The Company is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the consolidated provision for income taxes. During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters differs from the amounts that were initially recorded, such differences will impact the results for the reporting period and the respective current income tax and deferred income tax provisions in the reporting period in which such determination is made.

Deferred Income Taxes

The Company follows the liability method of accounting for deferred income taxes. Deferred income tax assets and liabilities are measured using enacted or substantively enacted income tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. As a result, a projection of taxable income is required for those years, as well as an assumption of the ultimate recovery or settlement period for temporary differences. The projection of future taxable income is based on Management's best estimates and may vary from actual taxable income. On an annual basis, the Company assesses its need to establish a valuation allowance for its deferred income tax assets. Canadian, US and international tax rules and regulations are subject to interpretation and require judgement on the part of the Company that may be challenged by taxation authorities. The Company believes that it has adequately provided for deferred tax obligations that may result from current facts and circumstances. Temporary differences and income tax rates could change due to fiscal budget changes and/or changes in income tax laws.

Goodwill, Trademarks and Other Intangibles and Business Combinations

Goodwill, trademarks and other intangibles have principally arisen as a result of business combinations. The acquisition method, which also requires significant estimates and judgements, is used to account for these business combinations. As part of the allocation process in a business combination, estimated fair values are assigned to the net assets acquired, including trademarks and other intangibles. These estimates are based on forecasts of future cash flows, estimates of economic fluctuations and an estimated discount rate. The excess of the purchase price over the estimated fair value of the net assets acquired is then assigned to goodwill. In the event that actual net assets fair values are different from estimates, the amounts allocated to the net assets, and specifically to trademarks and other intangibles, could differ from what is currently reported. This would then have a pervasive impact on the carrying value of goodwill. Differences in estimated fair values would also have an impact on the amortization of definite life intangibles.

Property, Plant and Equipment

Critical judgement is necessary in the selection and application of accounting policies and useful lives as well as the determination of which components are significant and how they are allocated. Management has determined that the use of the straight-line method of amortization is the most appropriate as its facilities are operating at a similar output potential on a year to year basis, which indicates that production is constant (please refer to the estimated useful lives table for further details on the useful lives of productive assets). It is Management's best estimate that the lives and policies adopted adequately reflect the flow of resources and the economic benefits required and derived in the use and servicing of these long-lived productive assets.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Impairment of Assets
Significant estimates and judgements are required in testing goodwill, trademarks and other intangibles and other long-lived assets for impairment. Management uses estimates or exercises judgement in assessing indicators of impairment, defining a CGU, forecasting future cash flows and in determining other key assumptions such as discount rates and earnings multipliers used for assessing fair value (less selling costs) or value in use. Estimates made for goodwill, trademarks and other intangibles can be found in Note 8. Other long-lived assets are tested only when indicators of impairment are present.

Employee Future Benefits
The Company is the sponsor to both defined benefit and defined contribution plans, which provide pension and other post-employment benefits to its employees. Several estimates and assumptions are required with regards to the determination of the defined benefit expense and its related obligation, such as the expected return on assets available to fund the obligation, the discount rate used in determining the carrying value of the obligation, the expected health care cost trend rate, the expected mortality rate, etc. Actual results will normally differ from expectations. These gains or losses are presented in the consolidated statements of comprehensive income.

EFFECT OF NEW ACCOUNTING STANDARDS NOT YET IMPLEMENTED
The IASB made several revisions as part of its continuing improvements project. Below are a summary of the relevant standards affected and a discussion of the amendments. The Company has not yet determined the impact on the financial statements of the adoption of the revised accounting standards described below.

IFRS 7, Financial Instruments Disclosures and IAS 32 Financial Instruments Presentation
The IASB issued amendments to IFRS 7 and IAS 32 in December 2011 which clarifies the requirements for offsetting financial assets and financial liabilities including revised disclosure requirements for financial assets and liabilities that are offset. The amendments to IFRS 7 and IAS 32 are effective for annual reporting periods beginning on or after January 1, 2013 and January 1, 2014 respectively.

IFRS 9, Financial Instruments
The IASB issued IFRS 9 in November 2009 with the long-term goal of replacing IAS 39 Financial Instruments: Recognition and Measurement, and is effective for annual reporting periods beginning on or after January 1, 2015. The issuance of this IFRS represents the first phase of the long-term project and provides guidance on the classification and measurement of financial assets and liabilities.

IFRS 10, Consolidated Financial Statements
The IASB issued IFRS 10 in May 2011 which replaces portions of IAS 27 Consolidated and Separate Financial Statements. This new standard will be effective for annual reporting periods on or after January 1, 2013 and must be applied retroactively. IFRS 10 establishes principles for the preparation and presentation of consolidated financial statements and specifically establishes the criteria for the inclusion of another entity into the set of consolidated financial statements.

IFRS 12, Disclosure of Interests in Other Entities
The IASB issued IFRS 12 in May 2011 and is effective for annual reporting periods on or after January 1, 2013. This new standard requires an entity to disclose information that enables users of its financial statements to evaluate the nature of, and risks associated with, its interests in other entities along with the effects of those interests on its financial position, financial performance and cash flows.

IFRS 13, Fair Value Measurement
The IASB issued IFRS 13 in May 2011 and is effective for annual reporting periods beginning on or after January 1, 2013. This IFRS defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures regarding fair value measurements.

IAS 1, Presentation of Financial Statements
The IASB amended IAS 1 in June 2011 incorporating revisions to reflect new requirements for the presentation of earnings and other comprehensive income within their respective statements. IAS 1 now requires items within other comprehensive income be classified separately within that statement where they will be subsequently reclassified to the statement of earnings. These revisions are effective for annual periods beginning on or after July 1, 2012.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

IAS 19 (Revised), Employee Benefits

The IASB amended IAS 19 in June 2011 in order to eliminate the option of deferring the recognition of gains and losses, to improve disclosure of risks that are assumed by a company that offers a defined benefit plan to its employees and to improve the presentation of changes in assets and liabilities resulting from defined benefit plans including requiring remeasurements to be presented in other comprehensive income. These revisions are effective for fiscal years beginning on or after January 1, 2013.

NOTE 4 INVENTORIES

		March 31, 2012		March 31, 2011		April 1, 2010
Finished goods	**$**	**467,578**	$	451,959	$	374,482
Raw materials, work in progress and supplies		**249,098**		213,235		194,381
Inventory write-down		**(3,791)**		(3,000)		(2,109)
	$	**712,885**	$	662,194	$	566,754

The amount of inventories recognized as an expense in operating costs for the year ended March 31, 2012 is $5,523,298,000 ($4,674,319,000 for the year ended March 31, 2011).

The write-down of $3,791,000 ($3,000,000 at March 31, 2011 and $2,109,000 at April 1, 2010) has been included as an expense in "Operating costs excluding depreciation and amortization" under the caption "Changes in inventories of finished goods and work in process" in Note 5.

NOTE 5 OPERATING COSTS EXCLUDING DEPRECIATION AND AMORTIZATION

		2012		2011
Changes in inventories of finished goods and work in process	**$**	**(28,895)**	$	(74,288)
Raw materials and consumables used		**4,947,166**		4,154,290
Foreign exchange (gain) loss		**(1,549)**		999
Employee benefits expense		**666,400**		632,134
Selling costs		**247,565**		233,345
Other general and administrative costs		**268,752**		268,171
Total operating costs	**$**	**6,099,439**	$	5,214,651

NOTE 6 PORTFOLIO INVESTMENT

The Company held a 21% interest in Dare Holdings Ltd. ("Dare"), which was recorded as a portfolio investment as at March 31, 2011 and April 1, 2010. On June 30, 2010, the Company exercised its option requiring that the shares it held in Dare be repurchased at their fair market value pursuant to the terms and conditions of the shareholders' agreement entered into between the parties. The valuator issued its report with respect to the fair market value of the shares in May 2011 and the Company's shares were repurchased for $27,720,000 on June 17, 2011 on a without prejudice basis. In 2011, the Company commenced legal proceedings to contest the value at which its shares were repurchased, which remain ongoing.

NOTE 7 PROPERTY, PLANT AND EQUIPMENT

						For the year ended March 31, 2012
	Land	**Buildings**	**Furniture, machinery and equipment**	**Rolling stock**	**Held for sale**	**Total**
Cost						
As at March 31, 2011	**$ 35,543**	**$ 394,883**	**$ 1,295,769**	**$ 7,538**	**$ 11,917**	**$ 1,745,650**
Additions	**-**	**23,208**	**94,775**	**604**	**-**	**$ 118,587**
Disposals	**(1)**	**(15)**	**(8,986)**	**(848)**	**(11,917)**	**$ (21,767)**
Foreign currency adjustments	**299**	**4,746**	**15,822**	**(16)**	**-**	**$ 20,851**
As at March 31, 2012	**$ 35,841**	**$ 422,822**	**$ 1,397,380**	**$ 7,278**	**$ -**	**$ 1,863,321**
Accumulated depreciation						
As at March 31, 2011	**-**	**125,405**	**535,187**	**3,603**	**2,372**	**666,567**
Depreciation	**-**	**15,837**	**80,205**	**800**	**-**	**96,842**
Disposals	**-**	**(3)**	**(8,986)**	**(848)**	**(2,372)**	**(12,209)**
Foreign currency adjustments	**-**	**1,338**	**5,583**	**(5)**	**-**	**6,916**
As at March 31, 2012	**$ -**	**$ 142,577**	**$ 611,989**	**$ 3,550**	**$ -**	**$ 758,116**
Net book value at March 31, 2012	**$ 35,841**	**$ 280,245**	**$ 785,391**	**$ 3,728**	**$ -**	**$ 1,105,205**

						For the year ended March 31, 2011
	Land	Buildings	Furniture, machinery and equipment	Rolling stock	Held for sale	Total
Cost						
As at April 1, 2010	$ 38,920	$ 382,480	$ 1,242,504	$ 13,117	$ 6,008	$ 1,683,029
Business acquisition (Note 17)	-	4,620	6,180	-	-	10,800
Additions	-	12,891	99,000	209	-	112,100
Disposals	-	-	(13,081)	(5,682)	(6,008)	(24,771)
Transfers	(2,887)	(9,030)	-	-	11,917	-
Foreign currency adjustments	(490)	3,922	(38,834)	(106)	-	(35,508)
As at March 31, 2011	$ 35,543	$ 394,883	$ 1,295,769	$ 7,538	$ 11,917	$ 1,745,650
Accumulated depreciation						
As at April 1, 2010	-	111,145	469,777	8,412	-	589,334
Depreciation	-	15,064	84,917	877	-	100,858
Disposals	-	-	(13,035)	(5,654)	-	(18,689)
Transfers	-	(2,372)	-	-	2,372	-
Foreign currency adjustments	-	1,568	(6,472)	(32)	-	(4,936)
As at March 31, 2011	$ -	$ 125,405	$ 535,187	$ 3,603	$ 2,372	$ 666,567
Net book value at March 31, 2011	$ 35,543	$ 269,478	$ 760,582	$ 3,935	$ 9,545	$ 1,079,083

The net book value of property, plant and equipment under construction amounts to $62,386,000 as at March 31, 2012 ($38,056,000 as at March 31, 2011 and $46,271,000 as at April 1, 2010), and consists mainly of machinery and equipment.

The assets held for sale relate mainly to land and buildings in Canada as a result of the closure of certain facilities.

NOTE 8 GOODWILL, TRADEMARKS AND OTHER INTANGIBLES

	2012			2011		
	Dairy Products Sector	**Grocery Products Sector**	**Total**	Dairy Products Sector	Grocery Products Sector	Total
Goodwill						
Balance, beginning of year	**$ 674,432**	**$ 169,430**	**$ 843,862**	$ 547,265	$ 169,430	$ 716,695
Foreign currency translation adjustment	**11,868**	**-**	**11,868**	(14,234)	-	(14,234)
Business acquisition (Note 17)	**2,797**	**-**	**2,797**	141,401	-	141,401
Impairment	**-**	**(125,000)**	**(125,000)**	-	-	-
Total Goodwill	**$ 689,097**	**$ 44,430**	**$ 733,527**	$ 674,432	$ 169,430	$ 843,862
Trademarks						
Balance, beginning of year	**$ 261,229**	**$ 2,000**	**$ 263,229**	$ 251,052	$ 2,000	$ 253,052
Foreign currency translation adjustment	**970**	**-**	**970**	(1,056)	-	(1,056)
Business acquisition (Note 17)	**-**	**-**	**-**	11,233	-	11,233
Balance, end of year	**$ 262,199**	**$ 2,000**	**$ 264,199**	$ 261,229	$ 2,000	$ 263,229
Other intangibles						
Balance, beginning of year	**$ 75,809**	**$ -**	**$ 75,809**	$ 63,561	$ -	$ 63,561
Foreign currency translation adjustment	**545**	**-**	**545**	(299)	-	(299)
Business acquisition (Note 17)	**-**	**-**	**-**	17,670	-	17,670
Amortization	**(5,101)**	**-**	**(5,101)**	(5,123)	-	(5,123)
Balance, end of year	**$ 71,253**	**$ -**	**$ 71,253**	$ 75,809	$ -	$ 75,809
Total trademarks and other intangibles	**$ 333,452**	**$ 2,000**	**$ 335,452**	$ 337,038	$ 2,000	$ 339,038

As at March 31, 2012, the gross carrying amount of other intangibles is $89,342,000 ($88,701,000 as at March 31, 2011 and $71,479,000 as at April 1, 2010) and the accumulated amortization is $18,089,000 ($12,892,000 as at March 31, 2011 and $7,918,000 as at April 1, 2010).

IMPAIRMENT TESTING OF CASH-GENERATING UNITS

Goodwill

In determining whether goodwill is impaired, the Company is required to estimate the recoverable amount of CGUs or groups of CGUs to which goodwill is allocated. Management considers the sectors below to be CGUs or groups of CGUs as they represent the lowest levels at which goodwill is monitored for internal management purposes. Accordingly, goodwill has been allocated to each CGU or group of CGUs as follows:

Allocation of goodwill	**March 31, 2012**	March 31, 2011	April 1, 2010
CEA Dairy Products [1]	**$ 269,410**	$ 269,422	$ 269,429
USA Dairy Products	**419,687**	405,010	277,836
Grocery Products	**44,430**	169,430	169,430
	$ 733,527	$ 843,862	$ 716,695

[1] Canada, Europe and Argentina

The recoverable amounts for the CEA Dairy Products Sector and USA Dairy Products Sector have been estimated using an earnings multiplier valuation model (fair value less costs to sell). The key assumptions used in this model include earnings multipliers of market comparables applied to the Company's most recent results. For the Grocery Products operating sector, the recoverable amount has been estimated using a discounted cash flow model (value in use) which includes key assumptions of forecasted cash flows (over a five-year period), estimated terminal growth rates, pre-tax discount rates and income tax rates.

NOTE 8 GOODWILL, TRADEMARKS AND OTHER INTANGIBLES (CONT'D)

The Company performed its annual goodwill impairment test at the CGU or group of CGUs level for CEA Dairy Products, USA Dairy Products and the Grocery Products on March 31, 2012. For CEA Dairy Products and USA Dairy Products, the recoverable amounts exceeded their respective carrying values including goodwill and therefore, no impairment was present. There are no reasonably possible changes in key assumptions within either impairment model that could lead to future impairment of goodwill.

The goodwill impairment test performed on the Grocery Products operating sector resulted in the Sector's carrying value including goodwill exceeding its recoverable amount. Accordingly, an impairment loss of $125,000,000 was recorded in net earnings and as a reduction to goodwill. The impairment loss reflects stagnating growth in market wide snack-cake sales. The impairment loss is calculated using a discounted cash flow model which requires estimation of several key assumptions such as forecasted cash flows, terminal growth rates, pre-tax discount rates and income tax rates. Any negative change within these forecasted variables would result in further impairment.

The impairment discussed above represents a non-cash charge that does not affect the Company's liquidity, cash flow position or its ongoing operations.

Trademarks and Other Intangibles

Trademarks and other intangibles are included in the following CGU or group of CGUs:

Allocation of trademarks and other intangibles		**March 31, 2012**		March 31, 2011		April 1, 2010
CEA Dairy Products [1]	**$**	**283,223**	$	287,465	$	291,671
USA Dairy Products		**50,229**		49,573		22,942
Grocery Products		**2,000**		2,000		2,000
	$	**335,452**	$	339,038	$	316,613

[1] Canada, Europe and Argentina

For purposes of trademarks and other intangibles impairment testing (for those items not subject to amortization), recoverable amounts of the CGU or group of CGUs to which they belong have been estimated using discounted cash flows (value in use) based on the following key assumptions:

- **Cash flows:** Cash flow forecasts for a given trademark are based on earnings before interest, income taxes, depreciation and amortization and are adjusted for a terminal growth rate and income tax rates. The cash flow forecast does not exceed a period of five years with a terminal value calculated as a perpetuity in the final year.
- **Terminal growth rate**: Management uses a terminal growth rate to adjust its forecasted cash flows based on expected increases in inflation and revenue for the products under trademark.
- **Discount rate:** Cash flows are discounted using pre-tax discount rates.

The Company tested its trademarks and other intangibles for impairment on March 31, 2012 using value in use (discounted cash flows) to establish recoverable amounts. The recoverable amounts for each trademark and other intangibles not subject to amortization were then compared to their carrying values. In all circumstances, the recoverable amounts exceeded carrying values and therefore no impairment losses were present. For definite life intangibles subject to amortization, no indicators of impairment were present for fiscal 2012.

NOTE 9 OTHER ASSETS

		2012		2011		2010
Taxes receivable	**$**	**10,180**	$	12,148	$	15,893
Other		**7,851**		6,933		9,928
	$	**18,031**	$	19,081	$	25,821

NOTE 10 BANK LOANS

The Company has available bank credit facilities providing for unsecured bank loans as follows:

		Available for use			Amount drawn					
Credit Facilities	Maturity	Canadian Currency Equivalent	Base Currency			**2012**		2011		2010
North America-US Currency	December 2012[1]	149,625	150,000	USD	**$**	**-**	$	9,015	$	-
North America-CDN Currency	December 2012[1]	369,075	370,000	USD		**149,000**		135,000		30,000
Argentina	Yearly[2]	109,536	480,000	ARS		**16,958**		23,270		28,213
Germany	Yearly[3]	6,661	5,000	EUR		**673**		3,304		-
United Kingdom	Yearly[3]	11,179	7,000	GPB		**-**		-		3,359
		646,076			**$**	**166,631**	$	170,589	$	61,572

[1] Bear monthly interest at rates ranging from lender's prime rates plus a maximum of 0.25% or LIBOR or banker's acceptance rate plus 0.50% up to a maximum of 1.125%, depending on a financial ratio of the Company.
[2] Bear monthly interest at local rate and can be drawn in ARS or USD.
[3] Bear monthly interest at base rate plus 1.50% or LIBOR-EURIBOR plus 1.50%.

NOTE 11 LONG-TERM DEBT

		2012		2011		2010
Unsecured senior notes[1]						
8.41%, issued in November 1999 and due in November 2014 (US$50,000,000)	**$**	**49,875**	$	48,480	$	50,790
5.34%, issued in June 2009 and due in June 2014		**110,000**		110,000		110,000
5.82%, issued in June 2009 and due in June 2016		**220,000**		220,000		220,000
	$	**379,875**	$	378,480	$	380,790

Principal repayments are as follows:

		2012		2011		2010
Less than 1 year	**$**	**-**	$	-	$	-
1-2 years		**-**		-		-
2-3 years		**159,875**		-		-
3-4 years		**-**		158,480		-
4-5 years		**220,000**		-		160,790
More than 5 years		**-**		220,000		220,000
	$	**379,875**	$	378,480	$	380,790

[1] Interest payments are semi-annual.

NOTE 12 OTHER LIABILITIES

		2012		2011		2010
Employee benefits (Note 18)	**$**	**51,777**	$	30,268	$	34,875
Other		**2,709**		2,459		517
	$	**54,486**	$	32,727	$	35,392

NOTE 13 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 issuance.

	March 31, 2012	March 31, 2011	April 1, 2010
ISSUED			
199,037,565 common shares (203,830,505 common shares in 2011 and 207,425,823 in 2010)	**$ 629,606**	$ 617,675	$ 584,749

1,268,760 common shares (2,280,457 in 2011 and 1,758,740 in 2010) were issued during the year ended March 31, 2012 for an amount of $25,266,000 ($40,375,000 in 2011 and $26,008,000 in 2010) pursuant to the share option plan. For options granted since April 1, 2002, the amount previously accounted for as an increase to stock-based compensation reserve was also transferred to share capital upon the exercise of these options. For the year ended March 31, 2012, the amount transferred from stock-based compensation reserve was $5,506,000 ($9,831,000 in 2011 and $7,075,000 in 2010).

Pursuant to the normal course issuer bid, which began on November 15, 2010, and expired on November 14, 2011, the Company was authorized to repurchase for cancellation up to 10,315,947 of its common shares. Under the new normal course issuer bid that became effective on November 15, 2011, and expiring on November 14, 2012, the Company is authorized to repurchase, for cancellation purposes, up to 10,030,630 of its common shares. During the year ended March 31, 2012, the Company repurchased 6,061,700 common shares, at prices ranging from $36.46 to $47.57 per share, relating to the normal course issuer bids. The excess of the purchase price over the carrying value of the shares in the amount of $227,937,000 was charged to retained earnings. During the year ended March 31, 2011, the Company repurchased 5,875,775 common shares, at prices ranging from $31.90 to $43.50 per share, relating to the normal course issuer bids. The excess of the purchase price over the carrying value of the shares in the amount of $200,616,000 was charged to retained earnings. As at March 31, 2012, 118,400 of the repurchased shares with a carrying value of $372,404 and a purchase value of $5,086,434 were held by the Company and cancelled subsequent to year-end.

SHARE OPTION PLAN

The Company has an equity settled share option plan to allow for the purchase of common shares by key employees and officers of the Company. The total number of common shares which may be issued pursuant to this plan cannot exceed 22,749,130 common shares. As at March 31, 2012, 12,995,846 common shares are issuable under this plan in addition to the 8,484,524 common shares underlying options outstanding. Options granted prior to July 31, 2007 may be exercised at a price equal to the closing quoted value of the shares on the day preceding the grant date. Options granted thereafter may be exercised at a price not less than the weighted average market price for the five trading days immediately preceding the date of grant. 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:

		March 31, 2012		March 31, 2011	
Granting period	Exercise price	**Number of options**	**Number of exercisable options**	Number of options	Number of exercisable options
2003	$ 15.18	**16,660**	**16,660**	155,836	155,836
2004	$ 11.25	**245,064**	**245,064**	347,719	347,719
2005	$ 16.53	**307,307**	**307,307**	429,057	429,057
2006	$ 18.08	**479,490**	**479,490**	562,285	562,285
2007	$ 16.35	**788,778**	**788,778**	995,661	627,321
2008	$ 23.09	**999,514**	**702,348**	1,194,394	586,770
2009	$ 27.81	**1,129,998**	**562,368**	1,293,413	420,660
2010	$ 21.40	**1,714,527**	**487,065**	1,964,091	254,057
2011	$ 29.32	**1,586,001**	**262,600**	1,731,782	-
2012	$ 43.22	**1,217,185**	**-**	-	-
		8,484,524	**3,851,680**	8,674,238	3,383,705

NOTE 13 SHARE CAPITAL (CONT'D)

Changes in the number of outstanding options are as follows:

	2012			2011		
	Number of options		Weighted average exercise price	Number of options		Weighted average exercise price
Balance, beginning of year	**8,674,238**	**$**	**22.62**	9,413,750	$	20.13
Options granted	**1,244,780**	**$**	**43.22**	1,753,233	$	29.32
Options exercised	**(1,268,760)**	**$**	**19.91**	(2,280,457)	$	17.70
Options cancelled	**(165,734)**	**$**	**28.62**	(212,288)	$	20.61
Balance, end of year	**8,484,524**	**$**	**25.92**	8,674,238	$	22.62

The exercise price of the options granted in fiscal 2012 is $43.22, which corresponds to the weighted average market price for the five trading days immediately preceding the date of grant ($29.32 in 2011).

The weighted average fair value of options granted in fiscal 2012 was estimated at $8.96 per option ($6.28 in 2011), using the Black Scholes option pricing model with the following assumptions:

	2012	2011
Weighted average:		
Risk-free interest rate	**2.65%**	2.70%
Expected life of options	**5 years**	5 years
Volatility	**21.66%**	23.96%
Dividend rate	**1.24%**	1.70%

A compensation expense of $9,288,000 ($8,235,000 net of taxes) relating to stock options was recorded in the statement of earnings for the year ended March 31, 2012 and $8,375,000 ($7,538,000 net of taxes) was recorded for the year ended March 31, 2011.

Options to purchase 1,884,991 common shares at a price of $42.96 per share were granted on April 1, 2012.

DEFERRED SHARE UNIT PLAN FOR DIRECTORS

In accordance with the deferred share unit plan, all eligible Directors of the Company are allocated annually a fixed amount of deferred share units which are granted on a quarterly basis. Additionally, Directors receive quarterly remuneration either in cash or deferred share units, at the choice of each Director. If a Director elects to receive deferred share units, the number of deferred share units varies as it is based on the market value of the Company's common shares. Following cessation of functions as Director of 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 in operating costs.

	2012			2011		
	Units		Liability	Units		Liability
Balance, beginning of year	**220,234**	**$**	**10,077**	181,398	$	5,623
Annual grant	**18,666**		**795**	20,000		744
Board compensation	**16,449**		**698**	18,836		688
Variation due to change in stock price	**-**		**(37)**	-		3,022
Balance, end of year	**255,349**	**$**	**11,533**	220,234	$	10,077

On February 23, 2012, the Company entered into an equity forward contract for 220,000 Saputo Inc. common shares with a notional value of $ 8,957,989 to mitigate the compensation costs associated with its deferred share unit plan. The Company recognized a gain of $374,946 reducing the expense associated with the deferred share unit plan upon the re-measurement of the equity forward contract at March 31, 2012.

NOTE 14 OTHER FINANCIAL CHARGES

	2012	2011
Finance costs	**$ 2,387**	$ 1,635
Finance income	**(246)**	(972)
Gain on a foreign currency denominated intercompany advance	**(572)**	-
	$ 1,569	$ 663

NOTE 15 INCOME TAXES

Income tax expense is comprised of the following:

	2012	2011
Current tax expense	**$ 187,601**	$ 143,759
Deferred tax expense	**10,897**	51,016
Income tax expense	**$ 198,498**	$ 194,775

RECONCILIATION OF THE EFFECTIVE TAX RATE

The effective income tax rate was 34.26% in 2012 (30.21% in 2011). The Company's income tax expense differs from the one calculated by applying Canadian statutory rates for the following reasons:

	2012	2011
Earnings before income taxes	**$ 579,338**	$ 644,826
Income taxes, calculated using Canadian statutory income tax rates of 26.00% (27.58% in 2011)	**150,635**	177,869
Adjustments resulting from the following:		
Effect of tax rates for foreign subsidiaries	**29,235**	21,872
Changes in tax laws and rates	**(293)**	(1,063)
Benefit arising from investment in subsidiaries	**(13,177)**	(12,908)
Manufacturing and processing deduction	**(3,968)**	(1,339)
Impairment of goodwill	**32,500**	-
Stock-based compensation	**1,868**	1,900
Tax losses for which no deferred income tax assets was recognized	**660**	858
Adjustment in respect of prior years	**3,325**	3,314
Other	**(2,287)**	4,272
Income tax expense	**$ 198,498**	$ 194,775

During the year, as a result of the reduction in the Canadian corporation tax rate, the statutory tax rate has decreased by 1.58%.

INCOME TAX RECOGNIZED IN OTHER COMPREHENSIVE INCOME

Income tax on items recognized in other comprehensive income in 2012 and 2011 were as follows:

	2012	2011
Deferred tax benefit on actuarial losses on employee benefit obligations	**$ 7,661**	$ 435
Total income tax recognized in other comprehensive income	**$ 7,661**	$ 435

NOTE 15 INCOME TAXES (CONT'D)

INCOME TAX RECOGNIZED IN EQUITY

Income tax on items recognized in equity in 2012 and 2011 were as follows:

	2012	2011
Excess tax benefit that results from the excess of the deductible amount over the compensation cost recognized	$ 1,670	$ 2,159
Total income tax recognized in equity	$ 1,670	$ 2,159

CURRENT TAX ASSETS AND LIABILITIES

	2012	2011
Current tax assets	$ 364	$ 12,623
Current tax liabilities	(163,996)	(198,638)
Current tax liabilities (net)	$ (163,632)	$ (186,015)

DEFERRED TAX BALANCES

	2012	2011
Deferred tax assets	$ 7,441	$ 5,469
Deferred tax liabilities	(156,632)	(151,483)
Deferred tax liabilities (net)	$ (149,191)	$ (146,014)

DEFERRED TAX ASSETS AND LIABILITIES

The movement of deferred tax assets and liabilities are shown below:

	Balance April 1, 2011	Charged/ Credited to net earnings	Charged/ Credited to other comprehensive income or equity	Translation and other	Balance March 31, 2012
Deferred tax asset					
Accounts payable and accrued liabilities	$ 15,144	$ 4,513	$ -	$ 296	$ 19,953
Income tax losses	21,425	(9,686)	-	471	12,210
Portfolio investment	(971)	887	-	(2)	(86)
Net assets of pension plans	7,167	(1,844)	7,661	33	13,017
	$ 42,765	$ (6,130)	$ 7,661	$ 798	$ 45,094
Deferred tax liabilities					
Inventories	$ 22,137	$ (17,426)	$ -	$ 388	$ 5,099
Property, plant and equipment	150,026	14,183	-	2,652	166,861
Other	14,116	8,010	-	(2,301)	19,825
Long-term debt	2,500	-	-	-	2,500
	$ 188,779	$ 4,767	$ -	$ 739	$ 194,285

NOTE 15 INCOME TAXES (CONT'D)

	Balance April 1, 2010	Charged/ Credited to net earnings	Charged/ Credited to other comprehensive income or equity	Acquisitions	Translation and other	Balance March 31, 2011
Deferred tax asset						
Accounts payable and accrued liabilities	$ 14,451	$ (458)	$ -	$ 1,875	$ (724)	$ 15,144
Income tax losses	230	2,517	-	19,554	(876)	21,425
Portfolio investment	743	(1,634)	-	(84)	4	(971)
Net assets of pension plans	8,691	(1,908)	435	-	(51)	7,167
	$ 24,115	$ (1,483)	$ 435	$ 21,345	$ (1,647)	$ 42,765
Deferred tax liabilities						
Inventories	$ 3,706	$ 21,522	$ -	$ (2,012)	$ (1,079)	$ 22,137
Property, plant and equipment	129,948	24,739	-	104	(4,765)	150,026
Other	27,356	3,272	-	(23,227)	6,715	14,116
Long-term debt	2,500	-	-	-	-	2,500
	$ 163,510	$ 49,533	$ -	$ (25,135)	$ 871	$ 188,779

Net deferred liability at April 1, 2010	139,395
Net deferred liability at March 31, 2011	146,014
Net deferred liability at March 31, 2012	149,191

No deferred tax liability is recognized on the unremitted earnings of foreign subsidiaries to the extent that the Company is able to control the timing of the reversal of the timing differences, and it is probable that the temporary differences will not reverse in the foreseeable future. The temporary difference in respect of the amount of undistributed earnings of foreign subsidiaries is approximately $821,000,000 as at March 31, 2012.

UNRECOGNIZED DEFERRED TAX ASSETS

	2012	2011	2010
Tax losses (Europe)	**$ 21,847**	$ 18,663	$ 17,457
Deductible temporary differences (Europe)	**1,493**	1,310	(64)
	$ 23,340	$ 19,973	$ 17,393

The tax losses can be carried forward indefinitely. Deferred tax assets have not been recognized in respect of these tax losses and deductible temporary differences as it is not considered probable that these deferred tax assets will be realized.

NOTE 16 EARNINGS PER SHARE

	2012	2011
Net earnings	**$ 380,840**	$ 450,051
Weighted average number of common shares outstanding	**201,614,933**	205,974,018
Dilutive options	**3,352,628**	3,052,491
Weighted average diluted number of common shares outstanding	**204,967,561**	209,026,509
Basic earnings per share	**$ 1.89**	$ 2.18
Diluted earnings per share	**$ 1.86**	$ 2.15

When calculating diluted earnings per share for the year ended March 31, 2012, 1,217,185 options (no options for the year ended March 31, 2011) were excluded from the calculation because their exercise price is higher than the average market value for the period.

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

NOTE 17 BUSINESS ACQUISITIONS

On March 25, 2011, the Company completed the acquisition of all outstanding shares of Fairmount Cheese Holdings, Inc., the parent company of DCI Cheese Company, Inc.

		March 31, 2011 DCI Cheese Company, Inc.
Assets acquired	Cash	$ 660
	Receivables	32,003
	Inventories	51,700
	Prepaid expenses	1,333
	Property, plant and equipment	10,800
	Goodwill	141,401
	Trademarks and other intangibles	28,903
	Deferred income taxes	46,480
Liabilities assumed	Accounts payable and accrued liabilities	37,523
	Other liabilities	2,557
Net assets acquired		$ 273,200
Consideration	Cash paid	$ 265,672
	Balance payable	7,528
	Total consideration	$ 273,200

An amount of $10,325,000 was paid during the year to finalize the purchase price of which $7,528,000 was a balance payable as at March 31, 2011, resulting in a $2,797,000 adjustment to goodwill in the current fiscal year.

NOTE 18 EMPLOYEE PENSION AND OTHER BENEFITS PLANS

The Company sponsors various post-employment benefit plans. These include pension plans, both defined contribution and defined benefit plans, and other post-employment benefits. In accordance with IAS 19, Employee Benefits, post-employment benefit plans are classified as either defined contribution plans or defined benefit plans.

Defined Contribution Plans

The Company offers and participates in defined contribution pension plans of which more than 90% of its active employees are members. The net pension expense under these types of plans is generally equal to the contributions made by the employer and constitutes an expense for the year in which they are due. For fiscal 2012, the defined contribution expenses for the Company amounted to $19,150,000 compared to $17,781,000 for fiscal 2011.

Defined Benefit Plans

The Company participates in defined benefit pension plans in which the remaining active employees are members. 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.

The cost of these pension benefits earned by employees is actuarially determined using the projected benefits method prorated on services and using a discount rate based on high quality corporate bonds and Management's assumptions bearing on, among other things, the expected return on plan assets, rates of compensation increase and retirement age of employees. All of these estimates and assessments are formulated with the help of external consultants. The plan assets and benefit obligations were valued as at March 31 with the assistance of the Company's external actuaries. The Company also offers complementary retirement benefits programs, such as health insurance, life insurance and dental plans to eligible employees and retired employees. The Company expects to contribute approximately $15,611,000 to its defined benefit plans in 2013. The Company's net liability for post-employment benefit plans comprises the following:

	Pension	**Other**	**March 31, 2012**	Pension	Other	March 31, 2011	Pension	Other	April 1, 2010
Present value of funded obligation	**$ 229,619**	**$ -**	**$ 229,619**	$ 206,304	$ -	$ 206,304	$ 203,108	$ -	$ 203,108
Fair value of assets	**193,221**	**-**	**193,221**	196,719	-	196,719	185,446	-	185,446
Present value of net obligations for funded plans	**36,398**	**-**	**36,398**	9,585	-	9,585	17,662	-	17,662
Present value of unfunded obligations	**4,170**	**10,666**	**14,836**	3,568	10,293	13,861	2,988	9,940	12,928
Present value of net obligations	**40,568**	**10,666**	**51,234**	13,153	10,293	23,446	20,650	9,940	30,590
Asset ceilling test	**283**	**-**	**283**	747	-	747	278	-	278
Impact of minimum funding requirement	**260**	**-**	**260**	6,075	-	6,075	4,007	-	4,007
Accrued pension/benefit cost as at March 31	**$ 41,111**	**$ 10,666**	**$ 51,777**	$ 19,975	$ 10,293	$ 30,268	$ 24,935	$ 9,940	$ 34,875
Employee benefit amounts on the balance sheet:									
Liabilities	**$ 41,111**	**$ 10,666**	**$ 51,777**	$ 19,975	$ 10,293	$ 30,268	$ 24,935	$ 9,940	$ 34,875
Assets	**-**	**-**	**-**	-	-	-	-	-	-
Net Liability	**$ 41,111**	**$ 10,666**	**$ 51,777**	$ 19,975	$ 10,293	$ 30,268	$ 24,935	$ 9,940	$ 34,875

The changes in the present value of the defined benefit obligations are as follows:

	Pension	**Other**	**March 31, 2012**	Pension	Other	March 31, 2011
Defined benefit obligation, beginning of year	**$ 209,873**	**$ 10,292**	**$ 220,165**	$ 206,096	$ 9,940	$ 216,036
Current service costs	**4,075**	**19**	**4,094**	4,409	33	4,442
Contribution by plan participants	**776**	**-**	**776**	988	-	988
Interest cost	**11,234**	**547**	**11,781**	11,544	551	12,095
Actuarial losses	**23,745**	**449**	**24,194**	3,270	491	3,761
Exchange differences	**98**	**10**	**108**	(195)	(21)	(216)
Benefits paid	**(16,012)**	**(651)**	**(16,663)**	(16,239)	(702)	(16,941)
Defined benefit obligation, end of year	**$ 233,789**	**$ 10,666**	**$ 244,455**	$ 209,873	$ 10,292	$ 220,165

NOTE 18 EMPLOYEE PENSION AND OTHER BENEFITS PLANS (CONT'D)

The changes in the fair value of plan assets are as follows:

	Pension	Other	March 31, 2012	Pension	Other	March 31, 2011
Fair value of plan assets, beginning of year	$ 196,719	$ -	$ 196,719	$ 185,446	$ -	$ 185,446
Expected return	13,092	-	13,092	12,340	-	12,340
Actuarial (losses) / gains	(10,991)	-	(10,991)	4,544	-	4,544
Contributions by employer	9,569	651	10,220	9,774	702	10,476
Contributions by participants	776	-	776	988	-	988
Exchange differences	68	-	68	(135)	-	(135)
Benefits paid	(16,012)	(651)	(16,663)	(16,238)	(702)	(16,940)
Fair value of plan assets, end of year	$ 193,221	$ -	$ 193,221	$ 196,719	$ -	$ 196,719

Actual return on plans assets amounted to a gain of $2,101,000 in fiscal year 2012 compared to a gain of $16,884,000 in fiscal year 2011.

The fair value of plan assets, which do not include assets of the Company, consist of the following:

	March 31, 2012	March 31, 2011	April 1, 2010
Bonds	46%	47%	47%
Equity instruments	52%	51%	51%
Cash and short–term investments	2%	2%	2%
	100%	100%	100%

The expenses recognized below are included in "Operating costs excluding depreciation and amortization" within employee benefits expense (refer to Note 5) and are detailed as follows:

	Pension	Other	March 31, 2012	Pension	Other	March 31, 2011
Employer service cost	$ 4,075	$ 19	$ 4,094	$ 4,409	$ 33	$ 4,442
Interest cost	11,234	547	11,781	11,544	551	12,095
Expected return on plan assets	(13,092)	-	(13,092)	(12,340)	-	(12,340)
Defined benefits plans expense	$ 2,217	$ 566	$ 2,783	$ 3,613	$ 584	$ 4,197

The Company elected to recognize actuarial gains and losses in the period in which they occur, outside profit or loss, for all its defined benefit plans. These actuarial gains and losses are recognized in other comprehensive income and are presented below:

	Pension	Other	March 31, 2012	Pension	Other	March 31, 2011
Net (losses)/gains during the year	$ (34,736)	$ (449)	$ (35,185)	$ 1,275	$ (491)	$ 784
Effect of the asset ceiling test	462	-	462	(469)	-	(469)
Effect of impact of additional liability arising from the minimum funding requirement	5,814	-	5,814	(2,068)	-	(2,068)
Amount recognized in other comprehensive income	$ (28,460)	$ (449)	$ (28,909)	$ (1,262)	$ (491)	$ (1,753)
Cumulative amount beginning of year	1,275	(491)	784	-	-	-
Net (losses)/gains during the year	$ (34,736)	$ (449)	$ (35,185)	$ 1,275	$ (491)	$ 784
Cumulative amount at end of year	$ (33,461)	$ (940)	$ (34,401)	$ 1,275	$ (491)	$ 784

Weighted average assumptions used in computing the benefit obligations at the balance sheet date are as follows:

	March 31, 2012	March 31, 2011
Discount rate	4.74%	5.49%
Future salary increases	3.00%	3.00%

Weighted average assumptions used in computing the net periodic pension cost for the year are as follows:

	March 31, 2012	March 31, 2011
Discount rate	5.49%	6.00%
Expected return on plan assets	6.75%	6.75%
Future salary increases	3.00%	3.50%

For measurement purposes, a 4.87% to 10.00% annual rate of increase was used for health, life insurance and dental plan costs for the year and this rate is assumed to decrease gradually to 4.87% in 2017. In comparison, during the previous year, a 4.16% to 11.00% annual rate was used for the year and that rate was assumed to decrease gradually to 4.74% in 2016.

NOTE 18 EMPLOYEE PENSION AND OTHER BENEFITS PLANS (CONT'D)

Several factors are considered in developing the estimate for long-term expected return on plan assets. For the defined benefit plans, these include historical rates of return of broad equity and bond indices and projected long-term rates of return from pension investment consultants.

Assumed medical cost trend rates have an effect on the amounts recognized in profit or loss. A one percentage point change in the assumed medical cost trend rates would have marginal impact on cost and obligations.

The history of the present value of the defined benefit obligations, the fair value of the plan assets, the deficit in the plans and any experience adjustments are the following:

	Pension	**Other**	**March 31, 2012**	Pension	Other	March 31, 2011	Pension	Other	April 1, 2010
Present value of the defined benefit obligations	**$ (233,789)**	**$ (10,666)**	**$ (244,455)**	$ (209,873)	$ (10,292)	$ (220,165)	$ (206,095)	$ (9,940)	$ (216,035)
Fair value of plan assets	**193,221**	**-**	**193,221**	196,719	-	196,719	185,446	-	185,446
Deficit	**$ (40,568)**	**$ (10,666)**	**$ (51,234)**	$ (13,154)	$ (10,292)	$ (23,446)	$ (20,649)	$ (9,940)	$ (30,589)
Experience adjustments: (increase)/decrease plan liabilities	**$ (3,148)**	**$ 211**	**$ (2,937)**	$ (76)	$ (283)	$ (359)	$ -	$ -	$ -
Experience adjustments: increase/(decrease) plan assets	**$ (10,991)**	**$ -**	**$ (10,991)**	$ 4,544	$ -	$ 4,544	$ -	$ -	$ -

NOTE 19 COMMITMENTS AND CONTINGENCIES

LEASES

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

Less than 1 year	**$ 17,332**
1-2 years	**14,598**
2-3 years	**11,465**
3-4 years	**9,447**
4-5 years	**5,746**
More than 5 years	**18,775**
	$ 77,363

The Company guarantees to certain lessors a portion of the residual value of certain leased assets with respect to operations which mature until 2017. 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 lessors, 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.

CLAIMS

The Company is defendant to certain claims arising from the normal course of its business. The Company is also defendant in certain claims and/or assessments from tax authorities in various jurisdictions. The Company believes that the final resolution of these claims and/or assessments will not have a material adverse effect on its earnings or financial position.

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, 2012, 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, 2012, March 31, 2011 and April 1, 2010, the Company has not recorded a liability associated with these indemnifications.

NOTE 20 RELATED PARTY TRANSACTIONS

The Company receives and provides goods and services which consist of rent, travel, transport, lodging and management services from and to companies subject to control or significant influence through ownership by its principal shareholder. These transactions, which are not significant to the Company's financial position or financial results, are made in the normal course of business and have been recorded at the fair value, consistent with market value for similar transactions.

Transactions with key management personnel (salaries, bonuses, options and payments under the deferred share unit plan) are also considered related party transactions. Management defines key management personnel as named executive officers: the CEO, CFO and the three most highly compensated executive officers of the Company whom are among those persons having responsibility and authority for controlling, overseeing and planning the activities of the Company, as well as the Company's Directors.

Transactions with related parties are as follows:

	2012	2011
Entities subject to control or significant influence through ownership by its principal shareholder	**$ 2,587**	$ 3,161
Key management personnel		
Directors	**2,293**	2,214
Named Executive Officers	**10,043**	9,451
	$ 14,923	$ 14,826

Dairy products and other services provided by the Company were the following:

	2012	2011
Entities subject to control or significant influence through ownership by its principal shareholder	**$ 405**	$ 382

Outstanding receivable and accounts payable and accrued liabilities for the transactions above are the following:

	Receivable			**Accounts payable and accrued liabilities**		
	March 31, 2012	March 31, 2011	April 1, 2010	**March 31, 2012**	March 31, 2011	April 1, 2010
Entities subject to control or significant influence through ownership by its principal shareholder	**$ 29**	$ 42	$ 48	**$ 33**	$ 28	$ 38
Key management personnel						
Directors	**-**	-	-	**11,534**	10,078	5,623
Named executive officers	**-**	-	-	**7,359**	6,289	4,912
	$ 29	$ 42	$ 48	**$ 18,926**	$ 16,395	$ 10,573

The amounts payable to the Directors consist entirely of balances payable under the Company's deferred share unit plan. Refer to Note 13 for further details. The amounts payable to named executive officers consist of short-term employee benefits and post-retirement benefits.

The following information summarizes the significant related parties under the control of Saputo Inc. either directly or through other related parties under the Company's control:

Related Party	**Percentage Owned**	**Related Party**	**Percentage Owned**
La Fromagerie 1860 Du Village Inc.	100%	Spezialitäten - Käserei Saputo GmbH	100%
La Maison Alexis de Portneuf Inc.	100%	Saputo Cheese (U.K.) Limited	100%
Saputo Cheese USA Inc.	100%	Saputo Bakery Inc.	100%
Saputo Dairy Products Canada G.P.	100%	Molfino Hermanos S.A.	100%
DCI Cheese Company Inc.	100%		

NOTE 20 RELATED PARTY TRANSACTIONS (CONT'D)

KEY MANAGEMENT PERSONNEL COMPENSATION

The compensation expense for transactions with the Company's key management personnel consists of the following:

		2012		2011
Directors				
Cash-settled payments	**$**	**800**	$	781
Share-based awards		**1,493**		1,433
	$	**2,293**	$	2,214
Named executive officers				
Short-term employee benefits		**7,928**		7,635
Post-employment benefits		**1,001**		571
Share-based awards		**1,114**		1,245
	$	**10,043**	$	9,451
Total compensation	**$**	**12,336**	$	11,665

NOTE 21 FINANCIAL INSTRUMENTS

In the normal course of business, the Company uses various financial instruments which by their nature involve risk, including credit risk, liquidity risk and market risk. Market risk consists of price risk (including commodity price risk), foreign exchange risk and interest rate risk. These financial instruments are subject to normal credit conditions, financial controls, risk management as well as monitoring procedures.

CREDIT RISK

Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash equivalents and receivables.

The cash equivalents consist mainly of short-term deposits. None of the cash equivalents are in asset backed commercial paper products. The Company has deposited the cash equivalents with reputable financial institutions.

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.

Due to its large and diverse customer base and its geographic diversity, the Company has low exposure to credit risk concentration with respect to customer's receivables. There are no receivables from any individual customer that exceeded 10% of the total balance of receivables as at March 31, 2012, March 31, 2011 and April 1, 2010.

Allowance for doubtful accounts and past due receivables are reviewed by Management at each balance sheet date. The Company updates its estimate of the allowance for doubtful accounts based on the evaluation of the recoverability of receivable balances from each customer taking into account historic collection trends of past due accounts. Receivables are written off once determined not to be collectible.

On average, the Company will generally have 10% of receivables that are due beyond normal terms, but are not impaired. The carrying amount of receivables is reduced by an allowance account and the amount of the loss is recognized in the statement of earnings within operating costs. Subsequent recoveries of amounts previously written off are credited against operating costs in the statement of earnings. However, Management does not believe that these allowances are significant.

LIQUIDITY RISK

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure and financial leverage, as outlined in Note 22 relating to capital disclosures. It also manages liquidity risk by continuously monitoring actual and projected cash flows. The Board of Directors reviews and approves the Company's operating and capital budgets, as well as any material transactions out of the normal course of business.

NOTE 21 FINANCIAL INSTRUMENTS (CONT'D)

INTEREST RATE RISK

The Company is exposed to interest rate risks through its financial obligations bearing variable interest rates.

The bank loans bear interest at fluctuating rates. The senior notes are at a fixed rate therefore no interest rate risk exists.

For the fiscal year ended March 31, 2012, the interest expense on long-term debt totalled $23,081,000 ($23,211,000 in March 31, 2011). The interest accrued to March 31, 2012 was an amount of $6,683,000 ($6,588,000 at March 31, 2011).

As at March 31, 2012, the net amount exposed to short-term rates fluctuations was approximately $166,631,000. Based on this exposure, an assumed 1 percentage point increase in interest rate would have an unfavourable impact of approximately $1,095,000 on net earnings with an equal but opposite effect for an assumed 1 percentage point decrease.

FOREIGN EXCHANGE RISK

The Company operates internationally and is exposed to foreign exchange risk resulting from various foreign currency transactions. Foreign exchange transaction risk arises primarily from future commercial transactions that are denominated in a currency that is not the functional currency of the Company's business unit that is party to the transaction. The Company had outstanding foreign currency contracts as at the balance sheet date for the purchase of 5,500,000 US dollars (600,000 euros in 2011).

The Company is mainly exposed to US dollar fluctuations. The following table details the Company's sensitivity to a 1% weakening of the Canadian dollar against the US dollar on net earnings and comprehensive income. For a 1% appreciation of the Canadian dollar against the US dollar, there would be an equal and opposite impact on net earnings and comprehensive income.

		2012		2011
Change in net earnings	**$**	**1,485**	$	1,241
Change in comprehensive income	**$**	**12,817**	$	11,331

COMMODITY PRICE RISK

The Company occasionally enters into contracts to hedge against fluctuations in the price of commodities. Outstanding contracts as at the balance sheet date had a negative fair value of approximately $782,000 (positive fair value of approximately $2,631,000 at March 31, 2011 and negative fair value of $1,119,000 at April 1, 2010). The Company does not use hedge accounting for these transactions.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company has determined that the fair value of its financial assets and financial liabilities with short-term maturities approximates their carrying value. These financial instruments include cash and cash equivalents, receivables, bank loans, accounts payable and accrued liabilities. The table below shows the fair value and the carrying value of other financial instruments as at March 31, 2012, March 31, 2011 and April 1, 2010. Since estimates are used to determine fair value, they must not be interpreted as being realizable in the event of a settlement of the instruments.

	March 31, 2012		March 31, 2011		April 1, 2010	
	Fair value	**Carrying value**	Fair value	Carrying value	Fair value	Carrying value
Other assets that meet the definition of a financial asset	**$ 1,550**	**$ 1,620**	$ 1,443	$ 1,469	$ 1,516	$ 1,538
Long-term debt	**427,428**	**379,875**	416,304	378,480	420,922	380,790
Interest rate swaps	**-**	**-**	-	-	(372)	(372)
Currency forwards	**-**	**-**	(5)	(5)	(247)	(247)

The following table summarizes the financial instruments measured at fair value in the consolidated balance sheet as at March 31, 2012, classified using the fair value hierarchy described in Note 3.

	Level 1	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents	**$ 144,137**	**$ -**	**$ -**	**$ 144,137**
Forward contract - Saputo Inc. shares	**-**	**375**	**-**	**375**
	$ 144,137	**$ 375**	**$ -**	**$ 144,512**

NOTE 21 FINANCIAL INSTRUMENTS (CONT'D)

Fair values of other assets, long-term debt and derivative financial instruments are determined using discounted cash flow models based on market inputs prevailing at the balance sheet date and are also obtained from financial institutions. Where applicable, these models use market-based observable inputs including interest-rate-yield curves, volatility of certain prices or rates and credit spreads. If market based observable inputs are not available, judgement is used to develop assumptions used to determine fair values. The Company does not use unobservable inputs that are significant to the fair value measurements in their entirety. The fair value estimates are significantly affected by assumptions including the amount and timing of estimated future cash flows and discount rates. The Company's derivatives transactions are accounted for on a fair value basis.

NOTE 22 CAPITAL DISCLOSURES

The Company's objective in managing capital is to ensure sufficient liquidity to pursue its growth strategy and undertake selective acquisitions, while at the same time taking a conservative approach towards financial leverage and management of financial risk. An additional objective is to provide an adequate return to its shareholders. Furthermore, the Company believes that the purchases of its own shares may, under appropriate circumstances, be a responsible use of its capital.

The Company's capital is composed of net debt and shareholders' equity. Net debt consists of long-term debt and bank loans, net of cash and cash equivalents. The Company's primary use of capital is to finance acquisitions.

The primary measure used by the Company to monitor its financial leverage is its ratio of net debt to shareholders' equity. The net debt-to-equity ratios as at March 31, 2012 and March 31, 2011 are as follows:

		2012		2011
Bank loans	**$**	**166,631**	$	170,589
Long-term debt		**379,875**		378,480
Cash and cash equivalents		**(144,137)**		(77,491)
Net debt	**$**	**402,369**	$	471,578
Shareholders' equity	**$**	**2,105,686**	$	2,072,635
Net debt-to-equity		**0.19:1**		0.23:1

The Company has existing credit facilities which require a quarterly review of financial ratios and the Company is not in violation of any such ratios as at March 31, 2012.

The Company is not subject to capital requirements imposed by a regulator.

NOTE 23 SEGMENTED INFORMATION

The Company has two operating sectors: Dairy Products and Grocery Products.

The Dairy Products Sector principally includes the production and distribution of cheeses, fluid milk and dairy ingredients. The activities of this Sector are carried out in Canada, Europe and Argentina (CEA) and in the United States (USA).

The Grocery Products Sector consists of the production and distribution mainly of snack-cakes.

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 3 relating to significant accounting policies. The Company does not have any intersector sales.

NOTE 23 SEGMENTED INFORMATION (CONT'D)

Information on operating sectors

	2012			2011		
	CEA	**USA**	**Total**	CEA	USA	Total
Revenues[1]						
Dairy products	**$ 4,054,516**	**$ 2,741,813**	**$ 6,796,329**	$ 3,837,188	$ 2,024,455	$ 5,861,643
Grocery products	**134,041**	**-**	**134,041**	141,289	-	141,289
	$ 4,188,557	**$ 2,741,813**	**$ 6,930,370**	$ 3,978,477	$ 2,024,455	$ 6,002,932
Earnings before interest, depreciation, amortization, impairment and income taxes						
Dairy products	**$ 514,786**	**$ 303,405**	**$ 818,191**	$ 493,842	$ 281,888	$ 775,730
Grocery products	**12,740**	**-**	**12,740**	12,551	-	12,551
	$ 527,526	**$ 303,405**	**$ 830,931**	$ 506,393	$ 281,888	$ 788,281
Depreciation and amortization						
Dairy products	**$ 52,574**	**$ 43,670**	**$ 96,244**	$ 51,870	$ 48,318	$ 100,188
Grocery products	**5,699**	**-**	**5,699**	5,793	-	5,793
	$ 58,273	**$ 43,670**	**$ 101,943**	$ 57,663	$ 48,318	$ 105,981
Operating income						
Dairy products	**$ 462,212**	**$ 259,735**	**$ 721,947**	$ 441,972	$ 233,570	$ 675,542
Grocery products	**7,041**	**-**	**7,041**	6,758	-	6,758
	$ 469,253	**$ 259,735**	**$ 728,988**	$ 448,730	$ 233,570	$ 682,300
Impairment of goodwill			**125,000**			-
Impairment of portfolio investment			**-**			13,600
Financial charges, net			**24,650**			23,874
Earnings before income taxes			**579,338**			644,826
Income taxes			**198,498**			194,775
Net earnings			**$ 380,840**			$ 450,051

[1] Revenues are attributable to countries based upon manufacturing origin.

NOTE 23 SEGMENTED INFORMATION (CONT'D)

Geographic information

	2012				2011			
	Canada	**Argentina & Europe**	**United States**	**Total**	Canada	Argentina & Europe	United States	Total
Revenues[1]								
Dairy products	**$ 3,547,218**	**$ 507,298**	**$ 2,741,813**	**$ 6,796,329**	$ 3,440,326	$ 396,862	$ 2,024,455	$ 5,861,643
Grocery products	**134,041**	**-**	**-**	**134,041**	141,289	-	-	141,289
	$ 3,681,259	**$ 507,298**	**$ 2,741,813**	**$ 6,930,370**	$ 3,581,615	$ 396,862	$ 2,024,455	$ 6,002,932
Changes to non-current assets								
Dairy products	**$ 1,068**	**$ 5,259**	**$ 26,710**	**$ 33,037**	$ 12,151	$ (16,576)	$ 132,945	$ 128,520
Grocery products	**(119,914)**	**-**	**-**	**(119,914)**	(37,262)	-	-	(37,262)
	$ (118,846)	**$ 5,259**	**$ 26,710**	**$ (86,877)**	$ (25,111)	$ (16,576)	$ 132,945	$ 91,258

[1] Revenues are attributable to countries based upon manufacturing origin.

	March 31, 2012				March 31, 2011				April 1, 2010			
	Canada	**Argentina & Europe**	**United States**	**Total**	Canada	Argentina & Europe	United States	Total	Canada	Argentina & Europe	United States	Total
Total assets												
Dairy products	**$ 1,721,018**	**$ 255,647**	**$ 1,494,602**	**$ 3,471,267**	$ 1,661,917	$ 219,580	$ 1,444,644	$ 3,326,141	$ 1,597,543	$ 190,868	$ 1,186,914	$ 2,975,325
Grocery products	**127,853**	**-**	**-**	**127,853**	252,190	-	-	252,190	244,026	-	-	244,026
	$ 1,848,871	**$ 255,647**	**$ 1,494,602**	**$ 3,599,120**	$ 1,914,107	$ 219,580	$ 1,444,644	$ 3,578,331	$ 1,841,569	$ 190,868	$ 1,186,914	$ 3,219,351
Net book value of property, plant and equipment												
Dairy products	**$ 437,192**	**$ 74,037**	**$ 534,507**	**$ 1,045,736**	$ 433,893	$ 69,668	$ 521,096	$ 1,024,657	$ 424,491	$ 76,460	$ 542,435	$ 1,043,386
Grocery products	**59,469**	**-**	**-**	**59,469**	54,426	-	-	54,426	50,309	-	-	50,309
	$ 496,661	**$ 74,037**	**$ 534,507**	**$ 1,105,205**	$ 488,319	$ 69,668	$ 521,096	$ 1,079,083	$ 474,800	$ 76,460	$ 542,435	$ 1,093,695
Total liabilities												
Dairy products	**$ 1,131,368**	**$ 106,467**	**$ 208,405**	**$ 1,446,240**	$ 1,057,869	$ 101,534	$ 307,857	$ 1,467,260	$ 873,271	$ 248,712	$ 76,314	$ 1,198,297
Grocery products	**47,194**	**-**	**-**	**47,194**	38,436	-	-	38,436	40,443	-	-	40,443
	$ 1,178,562	**$ 106,467**	**$ 208,405**	**$ 1,493,434**	$ 1,096,305	$ 101,534	$ 307,857	$ 1,505,696	$ 913,714	$ 248,712	$ 76,314	$ 1,238,740
Goodwill												
Dairy products	**$ 269,064**	**$ 346**	**$ 419,687**	**$ 689,097**	$ 269,064	$ 358	$ 405,010	$ 674,432	$ 269,064	$ 365	$ 277,836	$ 547,265
Grocery products	**44,430**	**-**	**-**	**44,430**	169,430	-	-	169,430	169,430	-	-	169,430
	$ 313,494	**$ 346**	**$ 419,687**	**$ 733,527**	$ 438,494	$ 358	$ 405,010	$ 843,862	$ 438,494	$ 365	$ 277,836	$ 716,695

NOTE 24 DIVIDENDS

During the year ended March 31, 2012, the Company paid dividends totalling $147,052,820, or $0.76 per share ($128,928,709, or $0.64 per share for the year ended March 31, 2011).

NOTE 25 TRANSITION TO IFRS

The Company's financial statements for the year ended March 31, 2012 represent the first annual financial statements prepared under IFRS, applying the requirements of IFRS 1, First Time Adoption of Financial Reporting Standards. The accounting policies described in Note 3 have been applied consistently to both current and prior periods, except for the obligatory exceptions and exemptions as discussed below. It should be noted that an entity is not permitted to retroactively adjust estimates with knowledge of the outcome of past events on the transition date. As such, estimates previously made under CGAAP have not been revised for IFRS purposes. Additionally, certain exemptions are available to an entity adopting IFRS for the first time and have been utilized by the Company as described below.

IFRS 1 EXEMPTIONS

Business Combinations - IFRS 1 allows an entity to apply IFRS 3, Business Combinations either retrospectively to all combinations, retrospectively from a certain point forward or prospectively to acquisitions occurring after the Company's transition date (April 1, 2010). The Company has elected to apply IFRS 3 prospectively. Accordingly, no accounting adjustments have been made to business combinations prior to the date of transition resulting in no restatement of pre-transition goodwill or intangibles.

Share-based Payment Transactions - IFRS 1 allows an entity to apply IFRS 2, Share-based Payment, to equity instruments that were granted on or before November 7, 2002. IFRS 1 also permits an entity to apply IFRS 2 to equity instruments that were granted after November 7, 2002 and vested before the later of (a) the date of transition to IFRS and (b) January 1, 2005. The Company has elected to apply this exemption and apply IFRS 2 to equity instruments that were granted after November 7, 2002 and not fully vested at the date of transition to IFRS.

Property, Plant and Equipment - IFRS 1 allows an entity to fair value its property, plant and equipment on the date of transition and subsequently use that value as deemed cost. The Company has not elected to fair value its property, plant and equipment on transition.

Employee Benefits - In accordance with IAS 19, Employee Benefits, an entity may elect to use a "corridor" approach that leaves some actuarial gains and losses unrecognized. Retrospective application of this approach requires an entity to split the cumulative actuarial gains and losses from the inception of the plan until the date of transition to IFRS into a recognized portion and an unrecognized portion. However, a first-time adopter may elect to recognize all cumulative actuarial gains and losses at the date of transition to IFRS, even if it uses the corridor approach for later actuarial gains and losses. If a first-time adopter uses this election, it shall apply it to all plans. The Company has elected to reverse its actuarial losses to retained earnings on transition.

The Effects of Changes on Foreign Exchange Rates - IFRS 1 allows an entity to recognize all cumulative translation adjustments of foreign operations in retained earnings, effectively zeroing out the pre-transition balance. In using this exemption, any foreign exchange currency losses accumulated up to the date of transition are accounted for directly in retained earnings without recognition in the statement of earnings. The Company has elected to reset its cumulative foreign currency translation account to nil on transition.

Borrowing Costs - IFRS 1 allows an entity to apply IAS 23, Borrowing Costs, prospectively where it represents a new accounting policy. The Company has elected to apply this standard prospectively for property, plant and equipment, as it represents a new policy for that category. Accordingly, no interest has been capitalized to property, plant and equipment that were constructed prior to April 1, 2010.

RECONCILIATION OF CGAAP TO IFRS

IFRS 1 requires an entity to explain the impact of the transition from CGAAP to IFRS on the entity's balance sheet, financial performance and cash flows. Accordingly, the Company is required to provide reconciliations for April 1, 2010 and March 31, 2011 for its consolidated statement of shareholders' equity and to provide a reconciliation for its March 31, 2011 consolidated comprehensive income. The following information provides a reconciliation of CGAAP to IFRS for the required balances and periods:

NOTE 25 TRANSITION TO IFRS (CONT'D)

Reconciliation of Consolidated Statements of Shareholders' Equity

	Ref.	March 31, 2011	April 1, 2010
Shareholders' equity - CGAAP		$ 2,125,641	$ 2,028,598
Employee benefit adjustment	1	(89,649)	(90,149)
Deferred income tax expense	2	4,344	3,599
25% permanent difference on intangibles	2	(16,376)	(16,376)
Property, plant and equipment - componentization	3	53,790	54,939
Currency translation adjustment	5	(958)	-
Expensing of acquisition costs	6	(4,157)	-
Shareholders' equity - IFRS		$ 2,072,635	$ 1,980,611

Reconciliation of Consolidated Statements of Earnings and Comprehensive Income

	For the year ended March 31, 2011			
	CGAAP	Ref.	Adjustment	IFRS
Revenues	$ 6,002,932		$ -	$ 6,002,932
Operating costs excluding depreciation and amortization	5,212,792	7	1,859	5,214,651
Earnings before interest, depreciation, amortization, impairment and income taxes	790,140		(1,859)	788,281
Depreciation and amortization	104,832	3	1,149	105,981
Operating income	685,308		(3,008)	682,300
Impairment of portfolio investment	13,600		-	13,600
Interest on long-term debt	23,211		-	23,211
Other financial charges	663		-	663
Earnings before income taxes	647,834		(3,008)	644,826
Income taxes	196,715	8	(1,940)	194,775
Net earnings	$ 451,119		$ (1,068)	$ 450,051
Other comprehensive income (loss):				
Exchange differences arising from foreign currency translation	(58,159)	5	(2,771)	(60,930)
Actuarial losses	-	1	(1,181)	(1,181)
Total other comprehensive income (loss)	(58,159)		(3,952)	(62,111)
Comprehensive income	$ 392,960		$ (5,020)	$ 387,940

NOTE 25 TRANSITION TO IFRS (CONT'D)

RECONCILING NOTES

1. Employee Benefit Adjustment
The Company sponsors both defined benefit pension plans and other benefit plans, in both Canada and the US. At the time of transition, IFRS requires certain adjustments to the Company's balance sheet resulting from divergences with CGAAP as follows:

- **Unamortized Transitional Asset / (Liability)** - CGAAP permitted an entity to carry an unamortized transitional asset (or liability), as a result of the first-time adoption of Section 3461, Employee Future Benefits. There is no concept of unamortized transitional assets under IFRS, resulting in a write-down of any remaining unamortized asset (or liability).

- **Unamortized Past Service Cost** - CGAAP permitted an entity to carry unamortized past service costs resulting from improvements for which the costs were amortized in future years. IFRS requires that vested past service costs be fully recognized on the balance sheet through the income statement at the time the improvement was granted. As a result, and in accordance with IFRS, the existing vested past service unamortized balance was fully recognized on the Company's balance sheet at the transition date.

- **Actuarial Gains and Losses** - IFRS 1 permits an entity to recognize all unamortized actuarial gains and losses at the date of transition to IFRS in retained earnings. The Company has elected to apply this transitional option. An entity must then determine whether to account for future actuarial gains or losses either:

  1. Entirely in expense;
  2. Partially recognized in expense based on the corridor approach which results in only a portion of actuarial gains or losses recognized in income (current method used by the Company);
  3. Fully recognized in Other Comprehensive Income (Loss) without subsequent recycling to expense, an option not permitted under CGAAP.

  The Company has elected as an accounting policy to fully recognize future actuarial gains or losses in other comprehensive income upon transition to IFRS.

- **IFRIC 14** - The IFRIC issued an interpretation in 2008 to IAS 19, which requires an entity to include in its determination of the defined benefit pension liability, the present value of the plan's minimum funding requirements including letters of credit and clauses not permitting a right of refund on surplus contributions. CGAAP however, was not clear on the amount to include in the minimum fund requirement.

Accordingly, on April 1, 2010, the Company decreased pension assets by $64,451,000 that are not recognized by IFRS, increased its liabilities by $25,698,000 according to IFRS requirements, and decreased retained earnings by $90,149,000 representing the entire impact of the adoption of IAS 19, Employee Benefits on the Company's opening balance sheet. The decrease of $90,149,000 detailed in the table below is the result of the derecognition of $80,580,000 of unamortized balances explained in the "IFRS 1 Exemptions" of this note, as well as an adjustment for the valuation allowance and differences resulting from the adoption of IFRIC 14 and the change in the measurement date from December 31 to March 31.

	Defined Benefit Plans	Other	Total
Derecognition of			
unamortized actuarial losses	$ 83,889	$ 608	$ 84,497
unamortized past service costs	645	139	784
unamortized transitional asset	(5,282)	581	(4,701)
	$ 79,252	$ 1,328	$ 80,580
Other adjustments			
valuation allowance	$ (295)	$ -	$ (295)
impact of adoption of IFRIC 14	4,364	-	4,364
measurement date and market rate	6,144	(644)	5,500
Total adjustment	$ 89,465	$ 684	$ 90,149

NOTE 25 TRANSITION TO IFRS (CONT'D)

For the year ended March 31, 2011, the Company's employee benefits expense decreased by $2,117,000 ($1,584,000 net of income taxes) as a result of a $500,000 decrease due to the differences in calculations between CGAAP and IFRS discussed above and the reclassification of $1,617,000 ($1,181,000 net of income taxes) of actuarial losses in other comprehensive income (loss) due to the Company having elected to record all actuarial gains or losses directly in other comprehensive income (loss) without subsequent recycling to net earnings.

The adjustments to retained earnings as a result of the pension divergences on April 1, 2010 and the year ended March 31, 2011 can be summarized as follows:

		Adjustments
IFRS Adjustments on April 1, 2010 to reduce retained earnings	$	90,149
Pension expense savings for the period ended March 31, 2011 resulting from differing IFRS calculation requirements		(500)
Adjustments to March 31, 2011 CGAAP reported balances	$	89,649

2. Deferred Income Taxes

Though no conceptual differences exist in the calculation of deferred income taxes under CGAAP and IFRS, the adjustments found under this caption are the result of differences in the carrying values in other reconciling divergences.

The net deferred income tax liability in the April 1, 2010 opening IFRS balance sheet has been adjusted to decrease the balance by $24,317,000 to reflect differences between the accounting and tax cost basis for the adjustment noted in the employee benefits adjustment (reconciling note 1) and the stock-based compensation adjustment (reconciling note 9). The net deferred income tax liability has also been adjusted to increase the balance by $20,718,000 to reflect the increase to property, plant and equipment resulting from componentization (as described in reconciling note 5). The resulting impact of this divergence on retained earnings is an increase of $3,599,000.

The net deferred income tax liability on March 31, 2011 has been decreased by $24,176,000 to reflect the adjustments made to the employee benefits expense and stock-based compensation as discussed above. The net deferred income tax liability on March 31, 2011 has also been increased by $19,129,000 to reflect the adjustments made to depreciation as a result of componentization as discussed in reconciling note 3 below.

Furthermore, under Canadian Income Tax Act requirements, an entity includes 75% of the cost of an intangible asset in the cumulative eligible capital account. Under CGAAP the tax basis for eligible capital expenditures represents the balance in the cumulative eligible capital account plus 25% of the carrying amount. Under IFRS, the tax basis is not increased by 25% of the carrying amount. As a result of this difference in calculation of the tax basis of these assets, the Company has increased deferred income tax liabilities and decreased retained earnings by $16,376,000 each to account for these taxable temporary differences as at April 1, 2010.

The adjustments to the net deferred income tax liability for the year ended March 31, 2011 and at April 1, 2010 can be summarized as follows:

Deferred income tax liability

(Increase) decrease	Ref.		March 31, 2011		April 1, 2010
Pension adjustments	1	$	23,772	$	23,894
Stock-based compensation	9		404		423
Intangible assets	2		(16,376)		(16,376)
Componentization	3		(19,129)		(20,718)
Total adjustment		$	(11,329)	$	(12,777)

NOTE 25 TRANSITION TO IFRS (CONT'D)

3. Property, Plant and Equipment Componentization

Under IFRS, an entity is required to "componentize" individual items of property, plant and equipment into its various significant parts for purposes of separate depreciation of each significant component using useful lives and amortization methods that are more closely reflective of their respective service potential. Practice under CGAAP, however, has been to depreciate property, plant and equipment according to category only.

As a result of the analysis performed by Management, an IFRS componentization adjustment to increase property, plant and equipment and increase retained earnings by $54,939,000 has been made on April 1, 2010 which consists of an increase of $74,779,000 to furniture, machinery and equipment reflecting the requirement under IFRS to categorize assets within component classes (which resulted in the allocation of assets into component classes with longer useful lives than those previously reported under CGAAP) and a decrease of $19,840,000 to buildings resulting from the categorization of assets within component classes with shorter useful lives (from 20-40 years under CGAAP to 15-40 years under IFRS).

For the year ended March 31, 2011, the revised componentization calculation led to an overall increase in depreciation expense of $1,149,000 ($309,000 after taxes).

As a result of the April 1, 2010 opening balance sheet componentization adjustment in the Dairy Products Division (USA), the Company increased its foreign currency translation reserve by $2,038,000 at March 31, 2011. As a result of the $1,149,000 adjustment to depreciation explained above for the year ended March 31, 2011, the Company recorded a gain of $181,000 on foreign currency translation. The net impact of the CTA resulting from the componentization adjustments on property, plant and equipment for March 31, 2011 is $1,857,000.

The adjustments to property, plant and equipment for March 31, 2011 and April 1, 2010 can be summarized as follows:

		March 31, 2011		April 1, 2010
Opening balance sheet adjustments	$	54,939	$	54,939
Depreciation adjustments for the period		(1,149)		-
Subtotal - componentization adjustments		53,790		54,939
CTA adjustments for the period		(1,857)		-
Adjustments to CGAAP balances	$	51,933	$	54,939

4. Presentation of Deferred Income Taxes

CGAAP required an entity to present deferred income tax balances into a current and long-term portion. IFRS requires deferred income taxes be presented as long-term and in certain instances permits netting between deferred income tax assets and liabilities. Accordingly, the Company has reclassified all deferred income tax assets and liabilities as long-term.

5. Foreign Currency Translation Adjustment (CTA)

IFRS 1 allows an entity the option of resetting their CTA on transition (April 1, 2010). The Company has exercised this option and an adjustment was therefore made to the April 1, 2010 reported CTA under CGAAP to reset the account to nil. This resulted in a decrease to retained earnings of $188,045,000.

As a result of the April 1, 2010 componentization adjustment in the Dairy Products Division (USA) discussed above, an additional CTA loss of $2,038,000 at March 31, 2011 was recorded. Furthermore, as a result of the restatement of certain other balances during the year relating to the adjustments discussed above, the Company recorded a foreign currency loss of $1,436,000 in CTA on March 31, 2011.

Additionally, the deferred income tax adjustment calculated in reconciling note 2 has resulted in a CTA gain of $703,000 for the period ended March 31, 2011.

NOTE 25 TRANSITION TO IFRS (CONT'D)

The adjustments that have impacted CTA can be summarized as follows:

		March 31, 2011
Componentization - US opening balance sheet adjustments	$	2,038
Fiscal year 2011 foreign currency adjustments		1,436
CTA - deferred income taxes on US adjustments		(703)
Total CTA loss	$	2,771

The fiscal year 2011 foreign currency adjustments on March 31, 2011 included an adjustment of $1,813,000 that pertains to a reclassification of shareholders' equity accounts that has no impact on the reconciliation of consolidated statement of shareholders' equity.

6. Acquisition Costs

As part of the acquisition of all of the outstanding shares of Fairmount Cheese Holdings, Inc., the parent company of DCI Cheese Company, Inc., on March 25, 2011, the Company capitalized certain acquisition costs to goodwill as permissible under CGAAP. The acquisition costs reflect legal, accounting fees and other transaction costs that cannot be capitalized under IFRS and must be expensed immediately in the period incurred. Accordingly, the Company decreased goodwill and retained earnings on March 31, 2011 by $5,789,000 ($4,157,000 net of taxes).

7. Operating Costs

The "Operating costs excluding depreciation and amortization" caption replaces CGAAP's caption of "cost of sales, selling and administrative expenses" and has been adjusted as a result of the divergences discussed above as follows:

	Ref.		March 31, 2011
Decrease to pension expense	1	$	(2,117)
CTA on certain fiscal 2011 adjustments	5		(1,813)
Acquisition costs	6		5,789
Total increase to operating costs		$	1,859

8. Income Taxes

As a result of the IFRS adjustments discussed above, the tax savings for the year ended March 31, 2011 can be summarized as follows:

	Ref.		March 31, 2011
Tax expense on pension adjustments	1	$	532
Tax recovery on componentization adjustments	3		(840)
Tax recovery on acquisition costs	6		(1,632)
Total tax recovery relating to operating costs		$	(1,940)

9. Stock-based Compensation

For share options that vest in instalments, IFRS requires the use of the graded vesting method which requires that each instalment be treated as a separate grant with its own separate fair value and amortized over its corresponding vesting period. CGAAP, however, allows an entity the option of either using the graded vesting method or the straight-line method which uses a single pool approach and recognizes expenses equally, over the expected vesting period. Under CGAAP, the Company was using the straight-line method for its grants that vest over a five-year period.

On transition however, the Company was required to decrease its opening retained earnings and increase stock-based compensation reserve by $4,160,000 to reflect the adoption of the graded vesting model which results in an accelerated expensing of stock-based compensation costs in the initial two years of a grant and less in the remaining three.

For the year ended March 31, 2011, the graded vesting method did not result in a material discrepancy with the stock-based compensation expense recorded in the March 31, 2011 financial results prepared under CGAAP and therefore prior reported balances have not been adjusted.

NOTE 25 TRANSITION TO IFRS (CONT'D)

The previously reported number of dilutive options used in the calculation of the diluted earnings per share for the year ended March 31, 2011 was adjusted from 2,821,608 under CGAAP to 3,052,491 under IFRS. Consequently, the diluted earnings per share for the year ended March 31, 2011 decreased from $2.16 to $2.15.

10. Reconciliation of Statement of Cash Flows

Under CGAAP, interest paid and income taxes paid were disclosed as supplemental information in the consolidated statement of cash flows. IFRS, however, requires an entity to present these items separately within the cash flow statement as their own separate line items. Accordingly, the Company has separately presented interest paid and income taxes paid in operating cash flows. The Company derecognized $4,157,000 of acquisition costs previously included in goodwill under CGAAP that did not meet the capitalization guidance under IFRS. The Company has therefore reclassified $4,157,000 ($1,665,000 net of deferred income taxes and other working capital adjustments) out of investing cash outflows included in the business acquisition caption and included those outflows in operating activities.

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