



## Management Proxy Circular

June 5, 2014

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## VOTING INFORMATION

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### SOLICITATION OF PROXIES

This Circular is furnished in connection with the solicitation by the management (the "Management") of SAPUTO INC. (the "Company") of proxies which will be used to vote at the Annual Meeting (the "Meeting") of the holders of common shares of the Company (the "Common Shares") to be held on August 5, 2014, at the time and place and for the purposes set forth in the foregoing Notice and at any adjournment thereof.

The solicitation of proxies will be made primarily by mail. However, the Management of the Company (through employees or agents) may solicit proxies at a nominal and customary cost by telephone, email or by personal interview.

This Circular and related proxy materials are being sent to both registered shareholders and beneficial holders. The Company does not send proxy-related materials directly to beneficial holders and is not relying on the notice-and-access provisions of securities laws for delivery to either registered shareholders or beneficial holders. The Company will deliver proxy-related materials to nominees, custodians and fiduciaries and they will be asked to promptly forward them to beneficial holders.

The Company has elected to pay for the delivery of its proxy-related materials to objecting beneficial holders and will reimburse brokers and other persons holding Common Shares for others for their reasonable expenses for sending proxy material to beneficial holders in order to obtain voting instructions. The Company will bear all expenses in connection with the solicitation of proxies.

### APPOINTMENT OF PROXY HOLDERS

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

### VOTING BY PROXY

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

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

In order to be voted at the Meeting, a proxy must be received by the Secretary of the Company no later than 9:30 a.m. (EST) on August 1, 2014, or if the Meeting is adjourned, at least 48 hours (excluding weekends and holidays) before the Meeting is resumed.

## **REVOCATION OF PROXIES**

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

## **VOTING REQUIREMENT**

A simple majority of the votes cast, in person or by proxy, will constitute approval of the matters to be adopted at the Meeting.

## **NON-REGISTERED SHAREHOLDERS**

**Shareholders who do not hold their shares in their own name, also known as non-registered holders or beneficial holders (the “Beneficial Holders”), should note that only registered holders or the persons they appoint as their proxies are authorized to attend and vote at the Meeting or any adjournment thereof.**

If the Common Shares appear in an account statement sent to a shareholder by an intermediary, such as, among others, brokers, banks, trust companies and trustees or administrators of self administered RRSPs, RRIFFs, RESPs and similar plans, or are registered in the name of a clearing agency of which the intermediary is a participant, such Common Shares are most probably not registered in the name of the shareholder. **As a result, each Beneficial Holder must ensure that their voting instructions are communicated to the appropriate person well before the Meeting or any adjournment thereof.**

Pursuant to National Instrument 54-101— “Communication with Beneficial Owners of Securities of a Reporting Issuer” — brokers and other intermediaries are required to request voting instructions from Beneficial Holders prior to shareholders’ meetings. Brokers and other intermediaries have their own procedures for sending materials and their own guidelines for the return of documents; Beneficial Holders should follow these instructions carefully if the voting rights carried by their Common Shares are to be cast at the Meeting. In Canada, brokers often use service companies, such as Broadridge Financial Solutions Inc. (“Broadridge”) or Computershare Investor Services (“Computershare”) to forward meeting materials to non-registered holders and to obtain their clients’ instructions. Beneficial Holders who receive a voting instruction form from Broadridge or Computershare may not use the said form to vote directly at the Meeting. If you have questions on how to exercise voting rights carried by Common Shares held through a broker or other intermediary, please contact the broker or intermediary directly.

Although a Beneficial Holder will not be recognized at the Meeting for the purpose of directly exercising the voting rights carried by the Common Shares registered in the name of his broker (or a representative thereof), he or she may attend the Meeting as proxy for the registered holder and,

in such capacity, exercise the voting rights carried by such Common Shares by following the instructions to such effect provided by the broker or intermediary.

**Unless otherwise indicated in this Circular, the form of proxy and the notice of Meeting attached hereto, shareholders shall mean registered holders.**

## VOTING SHARES AND PRINCIPAL HOLDERS OF VOTING SHARES

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The Common Shares are the only securities of the share capital of the Company which carry voting rights. As of May 23, 2014, the Company had 195,305,729 Common Shares outstanding. Each Common Share entitles its holder to one vote.

Only holders of Common Shares of record at 5:00 p.m. on June 13, 2014, will be entitled to receive the Notice and to exercise the voting rights attached to the Common Shares in respect of which they are so registered at the Meeting, or any adjournment thereof, if present or represented by proxy.

To the knowledge of the Company's directors and executive officers, on May 23, 2014, the only person or company who or which owned of record or beneficially, or exercised control or direction over, directly or indirectly, 10% or more of the issued and outstanding Common Shares was the following:

Name	Type of Ownership	Number of Common Shares	Percentage of Class
Jolina Capital Inc. <sup>(1)</sup>	of record	66,779,924	34%

(1) Jolina Capital Inc. is a holding company controlled by Mr. Emanuele (Lino) Saputo.

## ELECTION OF DIRECTORS

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For fiscal 2015, the Board of Directors (the "Board") proposes that the 11 current members of the Board be re-elected as directors at the Meeting. **Except where the authority to vote in favour of the directors is withheld, the persons whose names are printed on the form of proxy intend to vote FOR the election of the 11 nominees whose names are set forth in the following table.** The vote for each director will be conducted on an individual basis. All nominees have established their eligibility and willingness to serve as directors if elected to office. Each director elected will hold office until the next annual meeting or until that director's successor is duly elected, unless the office is vacated earlier in accordance with the relevant provisions of applicable laws.

The following table sets forth, for each person nominated by Management for election as a director, his or her name, age, place of residence, the year in which he or she first became a director, his or her principal occupation, his or her independence with respect to the Company, his or her biography, his or her presence on the Board of Directors of other public companies, the committees of the Board of the Company on which he or she serves, if any, the number of Common Shares beneficially owned, or over which control or direction is exercised, directly or indirectly, the number of Deferred Share Units ("DSUs") owned, and the value of Common Shares and DSUs owned, the whole as of May 23, 2014.



**EMANUELE (LINO) SAPUTO, C.M., O.Q., Dr h.c.**  
**Chairman of the Board of the Company**  
Québec, Canada  
Age: 76

Director since 1992  
Non-independent  
Holdings: 66,779,924 Common Shares  
Value (\$) <sup>(1)</sup>: 3,718,973,968

Emanuele (Lino) Saputo founded the Company with his parents in 1954. He became Chairman of the Board and President of the Company in 1969. In 1997, following the initial public offering of the Company, he was named Chairman of the Board and Chief Executive Officer, and remained in this position until March 2004, following which he remained Chairman of the Board.



**LINO A. SAPUTO, JR.**  
**Chief Executive Officer**  
**and Vice Chairman of the Board of the Company**  
Québec, Canada  
Age: 47

Director since 2001  
Non-independent  
Holdings: 68,349 Common Shares  
Value (\$) <sup>(1)</sup>: 3,806,356

Lino A. Saputo, Jr. joined the Company in 1988 as Administrative Assistant. In 1993, he became Vice President, Operations and, in 1998, Executive Vice President, Operations. From July 2001 to January 2004, he was President and Chief Operating Officer of the Company's Dairy Products Division (USA). In March 2004, he was appointed to the position of President and Chief Executive Officer and, since 2011, he also holds the position of Vice Chairman of the Board. Mr. Saputo, Jr. serves on the Board of Directors of Transcontinental Inc. and National Bank of Canada.

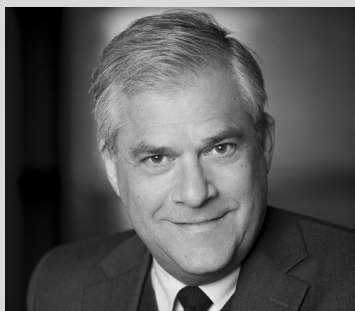


**LUCIEN BOUCHARD**  
**Senior Partner, Davies Ward Phillips & Vineberg LLP**  
Québec, Canada  
Age: 75

Director since 2004  
Independent  
Holdings: 43,542 DSUs <sup>(2)</sup>  
Value (\$) <sup>(1)</sup>: 2,424,854

Member of the Corporate Governance and Human Resources Committee

Lucien Bouchard was Premier of the Province of Québec from January 1996 to March 2001. Prior to that, Mr. Bouchard was Canada's Ambassador to France, successively Secretary of State, Minister of the Environment under the Federal Government, Leader of the Official Opposition in the House of Commons, and practiced law for 22 years. Since April 6, 2001, he has been a Senior Partner with Davies Ward Phillips & Vineberg LLP. Mr. Bouchard serves on the Board of Directors of BMTC Group Inc., Transcontinental Inc. and Transforce Inc.



**PIERRE BOURGIE**

**President and Chief Executive Officer, Société Financière Bourgie (1996) Inc.** (a diversified investment company)

Québec, Canada

Age: 57

Director since 1997

Independent

Holdings: 667,910 Common Shares and 22,457 DSUs<sup>(2)</sup>

Value (\$) <sup>(1)</sup>: 38,446,538

Lead Director of the Board and Chairman of the Corporate Governance and Human Resources Committee

Pierre Bourgie has been, since 1996, President and Chief Executive Officer of Société Financière Bourgie (1996) Inc. and President of Ipso Facto, a real estate financing limited partnership. Mr. Bourgie also serves on the Board of Directors of Quincaillerie Richelieu Inc.



**HENRY E. DEMONE**

**Chief Executive Officer, High Liner Foods Incorporated** (a processor and marketer of prepared frozen seafood)

Nova Scotia, Canada

Age: 60

Director since 2012

Independent

Holdings: 1,650 Common Shares and 5,947 DSUs<sup>(2)</sup>

Value (\$) <sup>(1)</sup>: 423,077

Member of the Corporate Governance and Human Resources Committee

Henry E. Demone has been the Chief Executive Officer of High Liner Foods Incorporated since 2013, its President and Chief Executive Officer from 1992 to 2013 and its President from 1989 to 1992. Mr. Demone also serves on the Board of Directors of High Liner Foods Incorporated.



**ANTHONY M. FATA**<sup>(3)</sup>

**President, Sager Food Products Inc.** (a food products manufacturing and distribution company)

Québec, Canada

Age: 47

Director since 2008

Independent

Holdings: 6,000 Common Shares and 21,721 DSUs<sup>(2)</sup>

Value (\$) <sup>(1)</sup>: 1,543,782

Member of the Audit Committee

Anthony M. Fata was, until 1999, Executive Director of Investment Banking for a wholly-owned subsidiary of a Canadian Chartered Bank. In this position, he was actively involved in various equity and debt issues, as well as numerous merger and acquisition transactions. In 1999, he became Vice-President of sales and marketing of Sager Food Products Inc. He was appointed President of this company in November 2004. Mr. Fata is a member of the Quebec Bar.





**ANNALISA KING**

**Senior Vice President and CFO, Best Buy Canada Ltd.** (a retailer and e-tailer of consumer electronics, computers and entertainment products)  
British Columbia, Canada

Age: 47

Director since 2012

Independent

Holdings: 6,076 DSUs<sup>(2)</sup>

Value (\$)<sup>(1)</sup>: 338,372

Member of the Audit Committee

Annalisa King has been Senior Vice President and Chief Financial Officer of Best Buy Canada Ltd. since 2008. Ms. King is also responsible for overseeing the information and ecommerce technology, legal and real estate functions of Best Buy Canada Ltd. Prior to her current position, Ms. King was Senior Vice President of Business Transformation for Maple Leaf Foods Inc.



**TONY METI**

**President, G.D.N.P. Consulting Services, Inc.** (a consulting company)  
Québec, Canada

Age 59

Director since 2008

Independent

Holdings: 10,400 Common Shares and 25,790 DSUs<sup>(2)</sup>

Value (\$)<sup>(1)</sup>: 2,015,421

Chairman of the Audit Committee

Tony Meti held various executive positions within Canadian Chartered Banks over the past 30 years, including Senior Vice-President, Commercial Banking and International from 2002 to 2007, and Senior Vice-President, Commercial, North America, from 2000 to 2002. Since 2007, he has been President of G.D.N.P. Consulting Services, Inc. Mr. Meti serves on the Board of Directors of ADF Group Inc.



**CATERINA MONTICCILOLO, CPA, CA**

**President of Julvest Capital Inc.** (a holding company)  
Québec, Canada

Age: 46

Director since 1997

Independent

Holdings: 238,000 Common Shares and 26,674 DSUs<sup>(2)</sup>

Value (\$)<sup>(1)</sup>: 14,739,695

Caterina Monticciolo is a chartered accountant and President of Julvest Capital Inc. From January 1995 to October 1996, she served as Manager for Administrative Services for Saputo Inc. From 1990 to 1994, she served as an auditor and tax consultant for Samson Bélair Deloitte & Touche.



**PATRICIA SAPUTO, CPA, CA, ICD.D**

**Chief Financial Officer of Placements Italcen Inc.** (a diversified investment company)

Québec, Canada

Age: 47

Director since 1999

Independent

Holdings: 2,000 Common Shares and 25,448 DSUs<sup>(2)</sup>

Value (\$)<sup>(1)</sup>: 1,528,579

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



**ANNETTE VERSCHUREN, O.C.**

**Chairman and Chief Executive Officer, NRstor Inc.** (a commercial energy storage project developer)

Ontario, Canada

Age: 57

Director since 2013

Independent

Holdings: 2,500 Common Shares and 2,218 DSUs<sup>(2)</sup>

Value (\$)<sup>(1)</sup>: 262,745

Member of the Audit Committee

Annette Verschuren has been the Chairman and Chief Executive Officer of NRstor Inc. since March 2012. Prior to her current position, Ms. Verschuren was President of The Home Depot from 1996 to 2011. She also serves as Chancellor of Cape Breton University. Ms. Verschuren serves on the Board of Directors of Air Canada, Liberty Mutual Insurance Group and the North West Company.

- (1) This value corresponds to the number of Common Shares and/or DSUs held by each director multiplied by the closing price of the Common Shares on the TSX on March 31, 2014 (\$55.69).
- (2) The DSUs shown in the table represent the aggregate of (i) the annual grants of DSUs, (ii) the DSUs granted with respect to the director's compensation and (iii) the DSUs accumulated as notional equivalents of cash dividends declared on Common Shares.
- (3) Mr. Anthony M. Fata was a director of Verona Foods Inc., an importer of specialty foods, until August 3, 2012. Verona Foods Inc. commenced proposal proceedings under the *Bankruptcy and Insolvency Act* (Canada) on October 3, 2012 by filing a notice of intent to make a proposal. On January 29, 2013, Verona Foods Inc. made a voluntary assignment into bankruptcy pursuant to the *Bankruptcy and Insolvency Act* (Canada).

During the last five years, all of the above-listed nominees have been engaged in their present principal occupations or in other executive capacities with the companies indicated opposite their name, or with related or affiliated companies, except for Ms. Annette Verschuren who was President of The Home Depot from 1996 to 2011.

Information as to Common Shares and DSUs beneficially owned by each nominee, or over which each nominee exercised control or direction, as at May 23, 2014, has been provided by the nominees individually.

## COMPENSATION OF DIRECTORS

The Company's compensation policy for non-employee directors aims to attract and retain qualified individuals, taking into consideration the risks and responsibilities as directors. The Corporate Governance and Human Resources Committee (the "Corporate Governance and HR Committee") is responsible for reviewing annually the compensation policy regarding directors of the Company. For fiscal 2014, the Corporate Governance and HR Committee decided not to conduct a new detailed compensation review and compared its director compensation practices to a comparative group used in prior years, which was established in 2008 (the "Director Comparative Group"), composed of companies based in Canada and comprising 11 companies operating in the agri-food, distribution and retail sectors, and 12 other manufacturing companies.

Director Comparative Group	
Agrium Inc.	Martinrea International Inc.
Alimentation Couche-Tard Inc.	Metro Inc.
Canada Bread Company, Limited	Molson Coors Brewing Company
Canadian Tire Corporation, Limited	Potash Corporation of Saskatchewan Inc.
Cascades Inc.	Research in Motion (RIM) Limited
Cott Corporation	RONA Inc.
Domtar Corporation	Russel Metals Inc.
Enbridge Inc.	Tim Hortons Inc.
Finning International Inc.	Toromont Industries Ltd.
Gerdau Ameristeel Corporation	Transcontinental Inc.
Linamar Corporation	Viterra Inc.
Maple Leaf Foods Inc.	

Based on this annual review, the compensation of directors was determined to be competitive with the third quartile of the compensation offered to directors of the companies forming part of the Director Comparative Group. The Corporate Governance and HR Committee therefore recommended to the Board that no change be made to the compensation offered to the Company's directors for fiscal 2014. The Corporate Governance and HR Committee decided that a complete review of the Director Comparative Group and director compensation would be conducted for fiscal 2015.

The following table sets out the fees paid to directors in fiscal 2014, in cash or in the form of DSUs, as per the compensation policy and the DSU Plan:

<b>Annual fee</b>	
Chairman of the Board	\$ 500,000
Lead Director	\$ 80,000
Other directors	\$ 55,000
<b>Additional annual fee for committee participation</b>	
Corporate Governance and HR Committee – Chairman	\$ 7,500
Corporate Governance and HR Committee – other members	\$ 3,000
Audit Committee – Chairman	\$ 10,000
Audit Committee – other members	\$ 4,500
<b>Attendance fees (per meeting)</b>	
Board meetings	\$ 1,500
Corporate Governance and HR Committee meetings	\$ 1,500
Audit Committee meetings	\$ 1,500

Directors also receive an annual DSU grant, the details of which are set out below for fiscal 2014:

<b>Annual DSU grant</b>	
Lead Director	3,000 DSUs
Chairman of the Audit Committee	3,000 DSUs
Other directors	2,000 DSUs

#### *Deferred Share Unit Plan for Directors*

The Company has a DSU plan (the “DSU Plan”) for its directors. A DSU is a fully-vested phantom share of the Company with the same value as one Common Share, but does not qualify as a share of the Company and, therefore, does not confer rights normally granted to shareholders. The DSU Plan provides that additional DSUs are accumulated as notional equivalents of dividends declared on Common Shares. Each DSU vests upon award and entitles directors to receive a cash payment for the value of the DSUs they hold on the last business day of the calendar year, following the calendar year in which they cease to be members of the Board, unless they choose an earlier date upon ceasing to be members of the Board. The DSU Plan provides directors with an ongoing stake in the Company in line with the value of the Common Shares for the duration of their mandate.

#### *Share Ownership Policy for Directors*

Pursuant to the ownership policy adopted by the Board, all directors of the Company shall, at all times while directors, own a number of Common Shares and/or DSUs having a total market value of at least \$150,000. Each director is required to comply with this policy within three years following his/her appointment as a director of the Company, and throughout his/her term as director.

Pursuant to the DSU Plan, each director who does not meet the minimum value of \$150,000 must receive his or her entire compensation in DSUs. As of March 31, 2014, all directors complied with the minimum ownership requirement. The information set out below is as at March 31, 2014.

Director <sup>(1)</sup>	Common Shares	DSUs	Total Common Shares and DSUs	Total Market Value of Common Shares and/or DSUs (\$) <sup>(2)</sup>	Minimum Required (\$)	Meets the Company's Share Ownership Requirements for Directors
Emanuele (Lino) Saputo	66,779,924	–	66,779,924	3,718,973,968	150,000	Yes
Lucien Bouchard	–	43,542	43,542	2,424,854	150,000	Yes
Pierre Bourgie	667,910	22,457	690,367	38,446,538	150,000	Yes
Henry E. Demone	1,650	5,947	7,597	423,077	150,000	Yes
Anthony M. Fata	6,000	21,721	27,721	1,543,782	150,000	Yes
Annalisa King	–	6,076	6,076	338,372	150,000	Yes
Tony Meti	10,400	25,790	36,190	2,015,421	150,000	Yes
Caterina Monticciolo	238,000	26,674	264,674	14,739,695	150,000	Yes
Patricia Saputo	2,000	25,448	27,448	1,528,579	150,000	Yes
Annette Verschuren	2,500	2,218	4,718	262,745	150,000	Yes

(1) Mr. Lino A. Saputo, Jr. is an executive officer of the Company, does not receive any compensation for his services as a director, and is subject to the Company's share ownership policy for executive officers (see "Share Ownership Policy For Executive Officers").

(2) This value corresponds to the number of Common Shares and/or DSUs held by each director multiplied by the closing price of the Common Shares on the TSX on March 31, 2014 (\$55.69).

### *Director Summary Compensation Table*

The following table provides a summary of compensation earned by each of the directors during the fiscal year ended March 31, 2014, as fees, share-based and option-based awards or otherwise:

Name <sup>(1)</sup>	Fees Earned <sup>(2)</sup> (\$)	Share-Based Awards <sup>(3)</sup> (\$)	Option-Based Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Pension Value (\$)	All Other Compensation (\$)	Total (\$)
Emanuele (Lino) Saputo <sup>(4)</sup>	500,000	–	–	–	–	–	500,000
Lucien Bouchard	78,881 <sup>(7)</sup>	137,769	–	–	–	–	216,650
Pierre Bourgie	108,500	169,121	–	–	–	–	277,621
Henry E. Demone	75,863 <sup>(7)</sup>	103,879	–	–	–	–	179,742
Frank A. Dottori <sup>(5)</sup>	29,588 <sup>(7)</sup>	70,943	–	–	–	–	100,531
Anthony M. Fata	78,905 <sup>(7)</sup>	118,075	–	–	–	–	196,980

Name <sup>(1)</sup>	Fees Earned <sup>(2)</sup> (\$)	Share-Based Awards <sup>(3)</sup> (\$)	Option-Based Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Pension Value (\$)	All Other Compensation (\$)	Total (\$)
Annalisa King	78,905 <sup>(7)</sup>	103,967	–	–	–	–	182,872
Tony Meti	84,400 <sup>(7)</sup>	171,309	–	–	–	–	255,709
Caterina Monticciolo	64,000	123,316	–	–	–	–	187,316
Patricia Saputo	64,000	122,208	–	–	–	–	186,208
Annette Verschuren <sup>(6)</sup>	46,460 <sup>(7)</sup>	67,350	–	–	–	–	113,810
Total	1,209,501	1,187,936	–	–	–	–	2,397,437

- (1) Mr. Lino A. Saputo, Jr. is an executive officer of the Company and does not receive any compensation for his services as a director. His compensation as Chief Executive Officer is disclosed in the “NEO Summary Compensation Table”.
- (2) Fees earned are paid on a quarterly basis, in cash or in the form of DSUs, as per the compensation policy and the DSU Plan.
- (3) Amounts reflect the fair value of DSUs granted per quarter as part of the annual DSU grant, calculated based on the closing price of the Common Shares on the TSX on the last trading day of each quarter. Additional DSUs are accumulated as notional equivalents of dividends declared on Common Shares. DSUs are vested upon award, but directors are only entitled to receive a cash payment after they cease to be members of the Board (see “Deferred Share Unit Plan for Directors”).
- (4) Mr. Emanuele (Lino) Saputo receives a \$500,000 annual fee as compensation for his services as executive Chairman but does not receive attendance fees, nor an annual DSU grant.
- (5) Ceased to be a director of the Company on August 6, 2013.
- (6) Became a director of the Company on August 6, 2013.
- (7) Paid in the form of DSUs, as per the compensation policy and the DSU Plan.

### Outstanding Share-Based and Option-Based Awards

The following table presents, for each director, all the share-based and option-based awards outstanding at the end of fiscal year 2014. As at March 31, 2014, there were no option-based awards outstanding.

Outstanding Share-Based Awards and Option-Based Awards								
Name <sup>(1)</sup>	Option-Based Awards					Share-Based Awards		
	Award Date	Number of Common Shares Underlying Unexercised Options (#)	Option Exercise Price (\$/Share)	Option Expiry Date	Value of Unexercised In-The-Money Options (\$)	Number of Common Shares or Units that Have Not Vested (#)	Market or Payout Value of Share-Based Awards that Have Not Vested (\$)	Market or Payout Value of Vested Share-Based Awards not Paid Out or Distributed (\$) <sup>(2)</sup>
Emanuele (Lino) Saputo	-	-	-	-	-	-	-	-
Lucien Bouchard	-	-	-	-	-	-	-	2,424,854
Pierre Bourgie	-	-	-	-	-	-	-	1,250,630
Frank A. Dottori	-	-	-	-	-	-	-	2,330,348
Henry E. Demone	-	-	-	-	-	-	-	331,188
Anthony M. Fata	-	-	-	-	-	-	-	1,209,642
Annalisa King	-	-	-	-	-	-	-	338,372
Tony Meti	-	-	-	-	-	-	-	1,436,245
Caterina Monticciolo	-	-	-	-	-	-	-	1,485,475
Patricia Saputo	-	-	-	-	-	-	-	1,417,199
Annette Verschuren	-	-	-	-	-	-	-	123,520

(1) Mr. Lino A. Saputo, Jr. is an executive officer of the Company and does not receive any compensation for his services as a director. Outstanding share-based and option-based awards for Mr. Saputo, Jr. are disclosed in the table "Outstanding Share-Based Awards and Option-Based Awards" for named executive officers.

(2) This value corresponds to the number of DSUs held by each director multiplied by the closing price of the Common Shares on the TSX on March 31, 2014 (\$55.69). DSUs are vested upon award, but directors are only entitled to receive a cash payment after they cease to be members of the Board (see "Deferred Share Unit Plan for Directors").

## ATTENDANCE AT BOARD OF DIRECTORS AND COMMITTEE MEETINGS

The following table provides the number of meetings of the Board and its committees held during the fiscal year ended March 31, 2014, and the attendance record. During the year, there were six meetings of the Board, seven meetings of the Audit Committee and eight meetings of the Corporate Governance and HR Committee. There was a 97% attendance rate for the Board meetings, a 96% attendance rate for the Audit Committee meetings and a 96% attendance rate for the Corporate Governance and HR Committee meetings.

Summary of Attendance of Directors			
Director	Board	Audit Committee	Corporate Governance and HR Committee
Emanuele (Lino) Saputo	6 of 6	–	–
Lino A. Saputo, Jr.	6 of 6	–	–
Lucien Bouchard	6 of 6	–	8 of 8
Pierre Bourgie	6 of 6	–	8 of 8
Henry E. Demone	5 of 6		7 of 8
Frank A. Dottori <sup>(1)</sup>	3 of 3	3 of 3	–
Anthony M. Fata	6 of 6	7 of 7	–
Annalisa King	6 of 6	7 of 7	–
Tony Meti	6 of 6	7 of 7	–
Caterina Monticciolo	6 of 6	–	–
Patricia Saputo	6 of 6	–	–
Annette Verschuren <sup>(2)</sup>	2 of 3	3 of 4	–

(1) Ceased to be a director on August 6, 2013.

(2) Became a director and member of the Audit Committee on August 6, 2013.

## REPORT ON CORPORATE GOVERNANCE PRACTICES

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

The Company's principal shareholder is its founder, and holds in the aggregate, or exercises control or direction over, directly or indirectly, shares representing 34% of the Common Shares outstanding on May 23, 2014, as disclosed previously in this Circular. The Board believes that the value of the principal shareholder's equity stake in the Company ensures that his interests are aligned with those of the other shareholders of the Company. The Board believes that the Company's existing corporate governance practices are appropriate to its circumstances and effective, and that there are appropriate structures, procedures and practices in place to ensure board efficiency, board independence from Management and fair representation of the investment of minority shareholders of the Company.

The Company discloses below its corporate governance practices by addressing the governance practices of National Instrument 58-101—“Disclosure of Corporate Governance Practices”—adopted by the Canada Securities Administrators. The Company follows the evolution of corporate governance practices and guidelines in Canada. The Corporate Governance and HR Committee and the Board will pursue their review of the Company's corporate governance practices and, if appropriate, will implement changes to improve them.



## CORPORATE GOVERNANCE INITIATIVES

Amongst its various corporate governance initiatives, the Company has adopted: (i) a *Code of Ethics* for directors, officers and employees; (ii) position descriptions for the Chief Executive Officer, the Chairman, the committee Chairs and the Lead Director; (iii) a selection process for new directors; (iv) a whistleblowing policy; (v) an assessment process for the Chief Executive Officer, the Board, the committees and the directors, individually; (vi) a continuing education program for the directors; (vii) minimum ownership requirements for directors and executive officers; (viii) a DSU Plan for the directors who are not employees of the Company; (ix) a majority voting policy for the election of directors; and (x) a procedure on Directors' Employment and Other Directorships.

## BOARD OF DIRECTORS

The Board is legally responsible for overseeing the stewardship of the Company's affairs to ensure that its resources are managed so as to create economic wealth.

## BOARD MANDATE

The mandate of the Board is to supervise the management of the business and affairs of the Company. In order to better fulfil its mandate, the Board has formally acknowledged its responsibility for, among other matters, (i) reviewing, at least once per year, the Company's strategic orientation and the plans established with respect thereto; (ii) identifying, with Management, the principal risks of the Company's business and the systems put in place to manage these risks; (iii) to the extent feasible, satisfying itself as to the integrity of the Chief Executive Officer of the Company and other senior officers, and to create a culture of integrity throughout the Company; (iv) ensuring proper Management succession planning, including appointing, training and monitoring senior Management; (v) maintaining a proper communication policy with shareholders, institutional investors and participants in the financial market; (vi) overseeing the integrity of internal control and management information systems; and (vii) developing the Company's approach to corporate governance, including developing a set of corporate governance principles and guidelines specifically applicable to the Company. The Board has taken, when necessary, specific measures in this respect. Some of these duties were delegated to the Corporate Governance and HR Committee and to the Audit Committee. A copy of the mandate of the Board is reproduced in Schedule "A" of this Circular.

At the beginning of every fiscal year, the Board meets with Management in order to discuss the strategic plan prepared by Management. The Board reviews the fiscal year then ended and the budgets for the upcoming fiscal year, including required capital expenditures, in order to achieve growth and the objectives set by Management. It also reviews the competitive and regulatory environment in which the Company operates in order to identify risks and opportunities. The Board then reviews, on a quarterly basis, the Company's results and accomplishments against the objectives set in the strategic plan.

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

## COMPOSITION AND INDEPENDENCE OF THE BOARD

The Board is currently made up of 11 directors, nine of whom have no participation, relationship or business ties with the Company, its subsidiaries or principal shareholder, which would affect the status of such member as an independent member under the definition of National Instrument 52-110—“Audit Committees”, the whole as disclosed hereafter. In determining the status of independent directors, the Corporate Governance and HR Committee has — based, among other things, on information provided by the directors by way of a questionnaire — identified those directors who have no direct or indirect relationship with the Company or any of its subsidiaries that could, in the view of the Corporate Governance and HR Committee, reasonably be expected to interfere with the exercise of a director’s independent judgment, the whole as defined in National Instrument 58-101—“Disclosure of Corporate Governance Practices” — and National Instrument 52-110—“Audit Committees”. These determinations as to independence of the directors are reviewed and approved by the Board. The Company is of the opinion that the presence of nine independent directors more than adequately reflects the investment of minority shareholders in the Company.

- As the executive Chairman of the Board of the Company, Mr. Emanuele (Lino) Saputo is not an independent director.
- As Chief Executive Officer of the Company, Mr. Lino A. Saputo, Jr. is not an independent director.
- Mr. Lucien Bouchard is an independent director.
- Mr. Pierre Bourgie is an independent director.
- Mr. Henry E. Demone is an independent director.
- Mr. Anthony M. Fata is an independent director.
- Ms. Annalisa King is an independent director.
- Mr. Tony Meti is an independent director.
- Mrs. Caterina Monticciolo is an independent director.
- Mrs. Patricia Saputo is an independent director.
- Ms. Annette Verschuren is an independent director.

The independent directors have the opportunity to meet without Management and without the Chairman of the Board following each Board meeting.

## BOARD INTERLOCKS

On an annual basis, the Corporate Governance and HR Committee reviews the common memberships on boards of directors of public companies among directors, and, if any, new director nominees. The sole interlock between directors is set out below.

Corporation	Directors	Committees
Transcontinental Inc.	Mr. Lucien Bouchard	Corporate Governance Committee
	Mr. Lino A. Saputo, Jr.	Human Resources and Compensation Committee

## INDEPENDENT DIRECTORS' MEETINGS

The independent members of the Board have an opportunity to meet *in camera* with the Lead Director and without Management and the non-independent directors after each Board meeting and committee meeting. During fiscal 2014, five such meetings were held. The Corporate Governance and HR Committee and the Audit Committee are composed solely of independent members and each held seven meetings without Management during fiscal 2014. For fiscal 2015, the Board adopted a policy of holding *in camera* meetings after each meeting of the Board, Corporate Governance and HR Committee and Audit Committee.

## CHAIR AND LEAD DIRECTOR

The Corporate Governance and HR Committee has been delegated by the Board the authority to administer all procedures required so that the Board functions independently of Management.

The positions of Chairman of the Board and Chief Executive Officer are separate. The principal shareholder of the Company and its founder, Mr. Emanuele (Lino) Saputo, holds the position of Chairman of the Board. Mr. Lino A. Saputo, Jr. holds the positions of Chief Executive Officer and Vice Chairman of the Board. The experience and expertise of Mr. Emanuele (Lino) Saputo in the sectors in which the Company is engaged benefit all members of Management and the Board. However, as the position of Chairman of the Board is held by a member who is not independent, the Board appointed the Chairman of the Corporate Governance and HR Committee, Mr. Pierre Bourgie, as Lead Director. The responsibilities of the Lead Director include: ensuring that the Board is able to function independently of Management, setting Board agendas with the Chairman of the Board, overseeing the quality of the information sent to directors, calling and chairing the meetings of independent directors, and reviewing any comments or requests made by an independent director. The Lead Director is elected annually by a vote of the directors who qualify as independent directors.

## COMMITTEES

The Board has two committees: the Corporate Governance and HR Committee, and the Audit Committee, both of which are composed exclusively of independent directors.

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

## POSITION DESCRIPTIONS

As described above, the mandate of the Board defines the roles and responsibilities of the Board and Management. In addition, the Board has developed written position descriptions for the Chief Executive Officer, the Chairman, the committee Chairs and the Lead Director.

The committee Chair position description sets out the responsibilities and duties of the Chair in guiding each committee in the fulfillment of its duties.

The position description for the Chief Executive Officer is developed with input from the Chief Executive Officer and the Corporate Governance and HR Committee, and is approved by the Board. The description provides that the Chief Executive Officer plans and oversees development of short-term and long-term organizational goals, fosters development and maintenance of the organizational culture with a view to maximizing the Company's performance, and assumes the entire responsibility for the Company's business pursuant to existing strategic plans, business goals, budgets and policies.

In addition, the Corporate Governance and HR Committee reviews and approves corporate goals and objectives that the Chief Executive Officer is responsible for meeting each year. The Corporate Governance and HR Committee also conducts an annual assessment of the Chief Executive Officer's performance in relation to those objectives and reports the results of the assessment to the Board.

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

The Corporate Governance and HR Committee is composed of three members of the Board: Messrs. Pierre Bourgie, who is the Chairman of this committee, Lucien Bouchard and Henry E. Demone, all of whom are independent directors. Reference is made to the section entitled "Executive Compensation" under the heading "Role and Composition of the Corporate Governance and HR Committee" for more information on the skills and experience of the members of such committee and its responsibilities as a compensation committee.

The Corporate Governance and HR Committee has the mandate to (i) review and approve the executive compensation policy of the Company; (ii) review the Company's corporate governance practices and make recommendations to the Board with respect thereto; (iii) ensure proper Management succession planning for the Company and make recommendations to the Board with respect thereto; (iv) implement a process to assess, on an annual basis, the performance of the Chief Executive Officer, and periodically, the performance of the Board, its committees and the directors, individually; (v) review the compensation of the directors in their capacity as directors, including the review of the requirements regarding the minimal number of shares and/or DSUs each director must hold, and make recommendations to the Board with respect thereto; (vi) implement a uniform and transparent process for selecting nominees for election to the Board and recruiting new candidates for Board membership, and make recommendations to the Board with respect thereto; and (vii) present quarterly reports to the Board with respect to its achievements and current projects. During fiscal 2014, the Corporate Governance and HR Committee held eight meetings, seven of which were followed by a meeting where Management was not present.

## **AUDIT COMMITTEE**

The Audit Committee is composed of four members of the Board, Mses. Annalisa King and Annette Verschuren and Messrs. Anthony M. Fata and Tony Meti, who is the Chairman of this committee, all of whom are independent and financially literate. The Audit Committee has the mandate to (i) review the annual and quarterly financial statements of the Company and certain other public disclosure documents required by regulatory authorities; (ii) review and adopt the annual audit plan prepared by the external auditors and oversee their work, including the appropriateness of the accounting principles and practices used by the Company; (iii) monitor periodically the adequacy and the effectiveness of the internal control systems of the Company; (iv) approve all services not related to audit services which the external auditors may render to the Company and its subsidiaries, subject to the policy of the Company on services which may be provided by the Company's external auditors

and by other accounting firms; (v) oversee and control the internal audit function; (vi) review and approve the annual internal audit plan; (vii) oversee the application of the Company's procedure regarding complaints of an auditing or accounting nature; (viii) examine, approve and apply the Company's hiring policy with respect to employees and former employees of the current and former auditors of the Company; (ix) delineate any relationship the external auditors have with the Company which may affect the independence and objectivity of the external auditors; (x) review and evaluate the risk factors inherent to the Company's business and ensure that appropriate measures are in place to manage them effectively; and (xi) present quarterly reports to the Board with respect to its achievements and current projects. The Audit Committee's charter is published in the Annual Information Form of the Company under Appendix A. During fiscal 2014, the Audit Committee held seven meetings, all of which were followed by meetings where Management was not present.

Through its Audit Committee, the Board identifies the principal risks relating to the Company's business, ensures the implementation of appropriate systems to manage these risks and receives regular reports from Management on these matters. Product liability and environment are two risks that were identified as areas of exposure that have the potential to impact the Company's ability to meet its business objectives. The responsibility for the oversight program related to such risks is shared with two distinct senior management-level committees in order to ensure appropriate expertise, attention and diligence, with reporting to the Audit Committee on a quarterly basis. Other risks that may impact the Company are addressed through reports or presentations provided to the Audit Committee. Please refer to the section "Risks and Uncertainties" of the Management's Discussion and Analysis contained in the Annual Report for a discussion of the Company's risk oversight program and a list of the principal risks relating to the Company's business. The Audit Committee, which reports to the Board, is responsible for ensuring the adequacy and the effectiveness of the Company's internal control systems. The Audit Committee regularly meets with the Executive Vice President, Finance and Administration, and Secretary, the internal auditor and the external auditors in order to examine issues pertaining to the presentation of financial information, accounting practices, upcoming accounting norms, internal accounting systems, as well as financial controls and procedures, auditing procedures and programs. The Audit Committee also reviews and monitors the practices and procedures relating to the certifications by the Chief Executive Officer and the Chief Financial Officer with respect to financial disclosures, and internal controls and procedures over financial reporting, to ensure compliance with applicable securities legislation. In the exercise of its mandate, the Audit Committee meets quarterly with the internal auditor of the Company, with and without Management.

For additional information on the Audit Committee, reference is hereby made to the section "Audit Committee Information" of the Annual Information Form of the Company for the year ended March 31, 2014. Copy of this document can be found on SEDAR at [www.sedar.com](http://www.sedar.com) or by contacting the Secretary of the Company at its head office, 6869 Métropolitain Boulevard East, Saint-Léonard, Québec H1P 1X8, Telephone: 514-328-6662.

## **SUCCESSION PLANNING**

An important responsibility of the Corporate Governance and HR Committee is to ensure that a comprehensive succession plan for the Company's senior leaders is in place. To achieve this, the Corporate Governance and HR Committee meets annually with the Executive Vice President, Human Resources, to review and update the succession plan for executive officers, including the Chief Executive Officer position.

The plan identifies potential successors for executive officers in the short and medium term and highlights any areas of personal development proposed for each candidate to be better prepared to take on the relevant position. A summary of the succession plan for executive officers is presented by the Corporate Governance and HR Committee to the Board for discussion.

The executive succession plan is integrated with the Company's overall succession planning process, which aims to ensure that a strong pipeline of talent is being developed at all levels in the organization. In connection with succession planning, the Executive Vice President, Human Resources benefits from the involvement of the Chief Executive Officer, as well as other members of senior Management.

## **COMPENSATION**

The Corporate Governance and HR Committee evaluates annually, as per its mandate and in line with its work plan, the compensation of the directors and officers in their respective capacity in light of the practices of the market, as well as the risks and responsibilities associated with carrying out their duties. Reference is made to sections entitled "Executive Compensation" and "Compensation of Directors" for additional information on executive and director compensation, respectively.

## **ASSESSMENT OF THE BOARD OF DIRECTORS, COMMITTEES AND DIRECTORS**

Pursuant to the Company's formal periodic evaluation process, Board members complete an effectiveness survey as to the performance of the Board, its committees and the individual performance of each Board member. These surveys are submitted on a confidential basis and are reviewed by the Chairman of the Corporate Governance and HR Committee. The survey completed by the Chairman of the Corporate Governance and HR Committee is submitted to a member of this committee mandated by the other members. The Chairman of the Corporate Governance and HR Committee meets each Board member individually in order to discuss the surveys and also meets the member of the Corporate Governance and HR Committee responsible for his assessment.

A global evaluation of the performance of the Board, its committees and Board members is presented to the Board by the Chairman of the Corporate Governance and HR Committee. The evaluation of the Board and the committees takes into account their responsibilities as set forth in their respective mandates, and the evaluation of the directors for whom a position description has been established (see "Position Descriptions") takes into account their responsibilities as set forth therein. The evaluation also takes into consideration the competencies, qualifications, knowledge and experience present within the Board, and those that should be developed and/or acquired. At all times, Board members are free to discuss among themselves the performance of a fellow director, or submit such a matter to the Chairman of the Corporate Governance and HR Committee, who ensures the implementation of appropriate measures to deal with any concern regarding the effectiveness of the Board and its various committees. As Board members are elected annually, the Corporate Governance and HR Committee takes into account each director's performance when recommending to the Board nominees for election of Board members at the next annual general meeting of shareholders and when recommending the composition of the committees, as well as their Chairmen for approval by the Board.

## **ORIENTATION AND CONTINUING EDUCATION**

The Board considers that orienting and educating new directors, as well as maintaining and continuing the education of current directors, is an important element to ensure responsible corporate governance. The Corporate Governance and HR Committee is responsible for maintaining the orientation and continuing education program.

With respect to newly appointed directors, they are provided with background materials and the information necessary to fulfill their role as directors, such as the Company's continuous disclosure documents, copies of the mandate of the Board and its committees, minutes of previous meetings of the Board and copies of the policies and procedures adopted by the Board and its committees. In addition, new directors have the opportunity to meet individually with at least one member of Management to discuss these documents, the Company's sectors of activity, its competitive and regulated environment, as well as its business and operational strategies. New directors also have the opportunity to visit a Company facility as part of the orientation program.

With respect to current directors, the continuing education program was developed to assist them in maintaining their skills and abilities, as well as updating their knowledge and understanding of the Company and its industry. The Chairman of each committee of the Board presents, at the quarterly Board meetings, a summary of the achievements and current projects of his committee. Directors meet with members of Management to discuss the affairs of the Company, the continuous disclosure documents, sectors of activity of the Company, its competitive and regulated environment, as well as its business and operational strategies. Directors are also provided with the opportunity to meet with members of senior Management outside of formal Board meetings to discuss and better understand the business and remain current with industry trends. Written materials and briefings are used to ensure that directors' knowledge and understanding of the Company's affairs remain current. The background materials given to all directors upon appointment are continuously updated and made available. In addition, educational presentations are periodically given to the committees and the Board, as the case may be, on matters that are of interest to them or which relate to their role as directors or committee members. Presentations are also provided to the members of the Audit Committee by the Company's external auditors on new accounting standards, financial reporting and various matters of interest. Moreover, members of the Board are invited to attend the Company's meeting of shareholders. The Board has a policy of periodically conducting field visits of Company facilities. Board members also hold a strategic planning meeting annually with Management. Directors have complete access to Company records. Finally, each Board member is invited to address to the Corporate Governance and HR Committee any request he or she may have regarding additional information or education. The Corporate Governance and HR Committee reviews such requests and takes the measures it deems appropriate. Many of the Company's directors sit on one or more other boards of directors and are invited to share any best practices observed elsewhere with the Corporate Governance and HR Committee.

## **NOMINATION OF DIRECTORS**

The Corporate Governance and HR Committee, which is composed entirely of independent directors, is responsible for (i) the implementation of a uniform and transparent process for selecting nominees for election to the Board and the recruitment of new candidates for Board membership, and making recommendations to the Board with respect thereto; and (ii) the implementation and application of a process to assess periodically the effectiveness of the Board, its committees and the individual performance of each Board member.

The Company does not impose either a retirement age limit, or a term limit. For the selection of nominees for election to the Board of the Company, the Corporate Governance and HR Committee adopted a process which takes into consideration (i) what competencies and skills the Board, as a whole, should possess; (ii) what competencies and skills each existing director possesses; (iii) what competencies and skills the Board, as a whole, possesses; and (iv) the individual performance of each director. The Corporate Governance and HR Committee also assesses any concerns relating to potential conflict, independence or time commitment that each nominee may present. Refer to “Directors’ Employment and Other Directorships” for additional information. Based on this analysis, which is completed at least annually, the Corporate Governance and HR Committee recommends to the Board the candidates proposed for election to the Board at the next meeting of shareholders.

This assessment also allows the identification, *inter alia*, of competencies and skills that the Board should consider if and when a new director will be added to the Board.

### **MAJORITY VOTING POLICY**

The Board believes that each of its members should carry the confidence and support of the shareholders. Therefore, in addition to the individual voting process implemented several years ago, the Board also has a majority voting policy. Pursuant to this policy, any nominee for election as a director at a shareholders’ meeting for whom the number of votes withheld exceeds the number of votes in favour will be deemed not to have received the support of shareholders and will tender his or her resignation to the Chairman of the Board promptly following the meeting. The Corporate Governance and HR Committee shall consider whether or not the proposed resignation should be accepted and shall make a recommendation to the Board. In this regard, any director who tenders his or her resignation pursuant to this policy shall not participate in the deliberations of the Corporate Governance and HR Committee or in those of the Board. The Board will make its decision within 90 days following the shareholders’ meeting and shall promptly disclose, via press release, its decision whether or not to accept the director’s proposed resignation. Should the Board decline to accept such resignation, it should include in the press release the reasons for the decision. This policy applies only to uncontested elections, meaning elections where the number of nominees for director is equal to the number of directors to be elected as determined by the Board.



The director nominee election results from the August 6, 2013 annual meeting are set out below:

Name	Voted For*	Withheld from Voting*	% For*	% Withheld*
Emanuele (Lino) Saputo	141,434,057	1,315,130	99.08%	0.92%
Lino A. Saputo, Jr.	142,473,763	275,426	99.81%	0.19%
Lucien Bouchard	141,153,539	1,595,650	98.88%	1.12%
Pierre Bourgie	140,887,187	1,862,002	98.70%	1.30%
Henry E. Demone	140,819,176	1,930,013	98.65%	1.35%
Anthony M. Fata	137,367,141	5,382,048	96.23%	3.77%
Annalisa King	137,369,209	5,379,980	96.23%	3.77%
Tony Meti	137,262,515	5,486,674	96.16%	3.84%
Caterina Monticciolo	142,256,140	493,049	99.65%	0.35%
Patricia Saputo	142,253,508	495,681	99.65%	0.35%
Annette Verschuren	142,271,510	477,679	99.67%	0.33%

\* As the vote for each motion was taken by a show of hands, the number of votes disclosed reflects only the proxies received by Management in advance of the annual meeting.

## BOARD SIZE

After reviewing its size, the Board determined that a board of nine to 11 directors is appropriate for decision-making purposes.

## ETHICAL BUSINESS CONDUCT

The Company has a *Code of Ethics* that governs the conduct of its directors, officers and employees. The *Code of Ethics* can be obtained on SEDAR at [www.sedar.com](http://www.sedar.com). The Corporate Governance and HR Committee is responsible for the compliance process relating to the *Code of Ethics* and for the reporting process to the Board with respect thereto. The Company's Executive Vice President, Human Resources, has overall responsibility for the oversight of the *Code of Ethics*. In addition, pursuant to the process implemented, Management is required to report to the Corporate Governance and HR Committee, on an annual basis, any non-compliance by managers of the Company, except for any non-compliance by executive officers, which is required to be reported promptly to the Corporate Governance and HR Committee.

The *Code of Ethics* specifies that officers and managers have elevated responsibilities to lead by example and that they are responsible for promoting a culture of compliance and integrity. The *Code of Ethics* includes provisions on compliance with laws, including anti-bribery and antitrust laws. It also includes a section on gifts and other advantages, as well as on conflicts of interest, and a statement must be completed and signed by all employees, including senior executives, as well as all directors, requiring any potential, apparent or real conflict of interest involving the employee or director to be reported.

In accordance with applicable law, when a conflict of interest involving a director arises, the director has the obligation to disclose such conflict of interest and abstain from voting on the matter. The Corporate Governance and HR Committee rules on questions concerning conflicts of interest.

The Board has also adopted whistleblowing procedures, which allow officers and employees who have any complaint or concern regarding accounting, internal accounting controls or auditing matters to be reported on a confidential and anonymous basis. Complaints can be made via e-mail, telephone or mail to the Chairman of the Audit Committee, who is responsible for overseeing the whistleblowing procedures.

## **COMMUNICATION POLICY**

The Audit Committee is responsible for the review of the annual and quarterly financial statements of the Company and all other continuous disclosure documents required by regulatory authorities, all of which are approved by the Board before mailing. The Board is responsible for maintaining a proper communication policy with shareholders, institutional investors and participants in the financial market. In order to maintain high standards regarding disclosure issues, the Board maintains a disclosure policy. The purpose of the disclosure policy is to ensure that communications to the investing public are timely, consistent and accurate, and that the information is disseminated in compliance with all applicable requirements of the TSX and securities regulatory authorities.

## **DIRECTORS' EMPLOYMENT AND OTHER DIRECTORSHIPS**

Directors must inform senior Management before accepting an invitation to serve on another board, or with respect to any employment relationship. Senior Management assesses whether the director would be involved in a real, apparent or potential conflict of interest and whether the director's ability to discharge his or her responsibilities as a director of the Company is likely to be affected.

The Board believes that the fact that a director of the Company serves on the board of directors of another company does not necessarily interfere with his or her ability to exercise his or her independent judgement and to act in the best interest of the Company. The Board does not limit the number or boards of directors on which directors may serve, but it regularly reviews this information to verify each director's ability to properly fulfill his or her role at the Company.

The Company maintains an up-to-date list of all the directorships and other employment of its directors.

## **EXECUTIVE COMPENSATION**

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### **COMPENSATION DISCUSSION AND ANALYSIS**

#### *Role and Composition of the Corporate Governance and HR Committee*

The Corporate Governance and HR Committee is composed of three independent directors, Messrs. Pierre Bourgie, who is the Chairman of the committee, Lucien Bouchard and Henry E. Demone. Each member has direct experience that is relevant to his responsibilities in executive compensation. More specifically, Messrs. Bourgie and Demone have held executive management positions as Chief Executive Officers of organizations with oversight over human resources functions. Mr. Bouchard has practiced labour law, and has experience in negotiating and establishing compensation packages. All members also have experience as members of human resources and compensation committees of other public companies. In connection with their responsibilities, all members have implemented, managed and/or provided advice on compensation policies and practices. As a result, the members of the Corporate Governance and HR Committee

collectively have the relevant skills and experience necessary to enable the Committee to make decisions as to the suitability of the Company's compensation policies and practices. Reference is made to the members' biographies contained in the section entitled "Election of Directors" for more information.

As stated above under the section entitled "Corporate Governance and Human Resources Committee", part of the Committee's functions is to act as a compensation committee. As such, the Committee is responsible for (i) reviewing and approving the executive compensation policy; (ii) establishing the annual performance targets used in relation with the annual incentive (bonus); (iii) determining long-term incentive grants under the Company's compensation plans and establishing their terms, including, where applicable, performance criteria; and (iv) assessing the risks associated with the Company's compensation policies and practices.

The Corporate Governance and HR Committee reviewed the Company's compensation policies and practices for fiscal 2014, taking into account risks associated therewith. The Committee has not identified any risks associated with the Company's compensation policies and practices that are reasonably likely to have a material adverse effect on the Company. The significant risks and uncertainties which could affect the Company are disclosed in the Management Discussion and Analysis accompanying the Company's financial statements. None of these risks relates to compensation policies and practices. See "Additional Information".

In the context of assessing risks related to compensation practices and policies, the Corporate Governance and HR Committee considered or adopted, as applicable, the following practices and policies, among others, which contribute to the philosophy of refraining from taking inappropriate or excessive risks: (i) the compensation structure includes a fixed portion (base salary) which is competitive and provides a regular income stream unrelated to the share price; (ii) the variable portion is composed of both a short-term incentive (bonus) and long-term incentives (options and performance share units ("PSUs")); (iii) payments under the short-term incentive (bonus), based on the achievement and overachievement of financial performance targets of the Company, are capped; (iv) the options portion of the long-term incentive vests over five years; (v) the performance criteria for the PSU portion of the long-term incentive is set at the beginning of the relevant three-year performance cycle and the PSUs vest at the end of the cycle provided the performance criteria is met; (vi) a share ownership policy provides that executives must hold a minimum number of Common Shares; and (vii) rules of conduct prohibit insiders, including directors and named executive officers ("NEOs"), from selling short, or buying any put or call options with respect to the securities of the Company, and also prohibit the purchase of financial instruments designed to hedge or offset a decrease in market value of the Company's securities.

#### *Share Ownership Policy for Executive Officers*

Pursuant to the ownership policy for executive officers adopted by the Board, each executive, including NEOs, shall own a number of shares having a total market value of at least one time his or her annual base salary. Each executive is required to comply with this policy within five years following his or her appointment as an executive officer of the Company.

Management guidelines relating to achievement of intermediate thresholds, specify that executives may not exercise options for Common Shares, unless the Common Shares received as a result of the exercise of the options are retained for the purposes of meeting the intermediate thresholds.

As at March 31, 2014, all NEOs complied with the minimum ownership requirement. The information set out below is as at March 31, 2014.

Name	Common Shares	Total Market Value of Common Shares (\$) <sup>(1)</sup>	Minimum Required (\$) <sup>(2)</sup>	Meets the Company's Share Ownership Requirements for Executives
Lino A. Saputo, Jr.	68,349	3,806,356	1,100,000	Yes
Louis-Philippe Carrière	22,505	1,253,303	675,000	Yes
Dino Dello Sbarba	30,653	1,707,066	875,000	Yes
Terry Brockman	20,910	1,164,478	635,000	Yes
Lorenzo Spinelli	1,033	57,528	525,000	n/a <sup>(3)</sup>

(1) This value corresponds to the number of Common Shares held by each NEO multiplied by the closing price of the Common Shares on the TSX on March 31, 2014 (\$55.69).

(2) This value corresponds to one time annual base salary for fiscal 2014, as disclosed in the "NEO Summary Compensation Table".

(3) Mr. Spinelli was named President and Chief Operating Officer of the Dairy Division (Canada) on April 1, 2012 and is within the five-year grace period after appointment to meet the minimum ownership requirement.

#### *Executive Compensation Policy Objective*

The Company's executive compensation policy aims to attract and retain competent individuals and motivate them to optimize value for the Company's shareholders. The compensation policy is designed to be competitive, to stimulate profitable return on investments and long-term growth.

The Corporate Governance and HR Committee is responsible for reviewing and monitoring the executive compensation policy, including determining the compensation elements and the compensation mix to balance the executives' focus on short-term and long-term objectives. The Company's compensation policies and practices are designed to adequately reward executive officers for their services, and to encourage them to establish short-term and long-term strategies aimed at increasing share value and creating economic wealth. The Company's compensation strategy therefore places the emphasis on compensation elements linked to performance, including share value through option and PSU grants.

Reference is made to the section entitled "Elements of Executive Compensation" for additional information on the components of executive compensation and the relative weight of fixed and variable compensation elements.

### *Decision Making Process and Compensation Consulting Services*

PCI-Perrault Consulting Inc. ("PCI"), an independent compensation consulting firm, has been retained by the Corporate Governance and HR Committee for over the past ten years for advice relating to the competitiveness and appropriateness of the compensation programs of the Company's executives and directors.

The services include advice on compensation policies and practices, including base salaries, and short and long-term incentive programs. In providing such advice, PCI also assists the Committee in the selection of the comparative groups, provides information on the benchmarking of executive and director compensation with the comparative groups and provides observations and recommendations with respect to the composition and design of the compensation elements.

For fiscal 2014, PCI was retained to provide assistance with a review of executive compensation and limited services with respect to the compensation of directors. The table below sets forth the fees incurred by the Company in connection with services provided by PCI in fiscal 2013 and fiscal 2014. During such years, PCI was not retained to perform other work for the Company. No mandate is given to PCI unless approved by the Corporate Governance and HR Committee.

<b>Executive Compensation-Related Fees</b>		
<b>Fiscal Year</b>	<b>Executive Compensation-Related Fees</b>	<b>All Other Fees</b>
2014	\$97,996	N/A
2013	\$33,011	N/A

For fiscal 2014, the Committee met with the Executive Vice President, Human Resources, to discuss compensation matters and conducted a review of executive compensation. The Committee considered, among other things, market compensation and trend data provided by PCI regarding the compensation levels for executive officers with similar responsibilities in the comparative groups, and also considered recommendations provided by PCI for executive compensation for fiscal 2014, taking into account the performance and experience of the executive officers. Following discussions with the Executive Vice President, Human Resources, the Committee approved, in March 2013, the fiscal 2014 compensation packages for the executives, and provided a report to the Board at its next meeting.

In connection with executive compensation, the Committee also benefits from the involvement of the Executive Vice President, Finance and Administration, and Secretary, and other executive officers who are involved in the preparation of the financial budgets which are recommended to the Board for approval and form the basis for the financial performance targets on which the bonuses are established. The Executive Vice President, Finance and Administration, and Secretary also oversees the financial, accounting, legal and regulatory aspects of the Equity Compensation Plan and the performance share unit plan (the "PSU Plan") including maintaining a record of the options and PSUs granted, vested, exercised, paid-out, and cancelled, as the case may be, and filing insider reports and other reports with the regulatory authorities. The Executive Vice President, Human Resources also assists in the administration of the Equity Compensation Plan and the PSU Plan. Any proposed modifications to the annual incentive (bonus) plan, the Equity Compensation Plan and the PSU Plan are discussed with the Chief Executive Officer, and then with the Corporate Governance and HR

Committee. Amendments to the Equity Compensation Plan are submitted for approval to the Board and, when required, to the shareholders. Amendments to the PSU Plan are submitted to the Committee for approval.

### *Comparative Groups*

The Corporate Governance and HR Committee has used the comparative groups set forth below to determine all aspects of executive compensation for fiscal 2014. The comparative groups were established for fiscal 2013 considering the size, financial performance and market capitalization of the companies, as well as their sectors of activity, as part of a complete review of executive compensation by the Committee. The comparative groups reflect the size of the Company, geographic markets in which it operated and the responsibilities of its executive officers at that time.

The Canadian Comparative Group (the “CDN Comparative Group”) is composed of seven companies in the agri-food sector and three companies in the retail distribution and sales sector of the food industry, and the US Comparative Group is composed of ten companies in the food industry.

<b>CDN Comparative Group</b>	<b>US Comparative Group</b>
Agrium Inc.	Campbell Soup Company
Alimentation Couche-Tard Inc.	Ingredion Incorporated
Canada Bread Company, Limited	Dr. Pepper Snapple Group, Inc.
Cott Corporation	Hillshire Brands Company
George Weston Limited	H.J. Heinz Company
Maple Leaf Foods Inc.	Hormel Foods Corporation
Metro Inc.	The J.M. Smuckers Company
Molson Coors Brewing Company	Ralcorp Holdings, Inc.
Tim Hortons Inc.	The Hershey Company
Viterra Inc.	United Natural Foods, Inc.

For fiscal 2014, the same combined group as for fiscal 2013 (the “Combined Group”) using a weighting of 60% / 40% between the CDN Comparative Group and the US Comparative Group, respectively, was used to benchmark the compensation of executives with corporate-wide functions. The CDN Comparative Group and the US Comparative Group were each used for positions in their respective markets, such as divisional presidents.

For fiscal 2014 and further to the acquisition of the Company’s Dairy Foods Division (USA) (formerly known as Morningstar Foods, LLC) on January 3, 2013, the Corporate Governance and HR Committee considered whether a modified US comparator group with larger median revenues (the “Modified US Group”) would be appropriate to reflect the increase in the Company’s annual revenues. The market positioning of the Company’s executives with corporate-wide functions was tested with the Modified US Group. After review, the Corporate Governance and HR Committee decided to maintain the comparative groups used for fiscal 2013, until the Dairy Foods Division (USA)’s operations were fully integrated, and decided to postpone the review of the comparative groups to fiscal 2015.

The following chart identifies the NEOs for fiscal 2014 and the comparative group used to benchmark their fiscal 2014 compensation.

Name	Position	Comparative Group Used for Base Salary and Total Compensation	Comparative Group Used for Annual and Long-Term Incentive Opportunities
Lino A. Saputo, Jr.	Chief Executive Officer	Combined Group	Combined Group
Louis-Philippe Carrière	Executive Vice President, Finance and Administration, and Secretary	Combined Group	Combined Group
Dino Dello Sbarba	President and Chief Operating Officer	Combined Group	Combined Group
Terry Brockman	President and Chief Operating Officer Cheese Division (USA)	US Comparative Group	Combined Group
Lorenzo Spinelli	President and Chief Operating Officer Dairy Division (Canada)	CDN Comparative Group	Combined Group

## ELEMENTS OF EXECUTIVE COMPENSATION

For fiscal 2014, the compensation for the executive officers of the Company, including the NEOs, consisted of the following:

- Base salary;
- Annual incentive (bonus);
- Long-term incentive plans (options and PSUs); and
- Retirement benefits (discussed under the section “Defined Benefit Pension Plan” of this Circular).

Executives also benefit from the Company’s group insurance plans on the same basis as all other employees. None of the NEOs have a written employment contract with the Company.

The following table presents the key components of executive compensation, whether such components represent fixed or variable compensation, their form and performance period:

Executive Compensation			
Component	Type	Form	Performance Period
Base salary	Fixed	Cash	One year
Annual incentive (bonus)	Variable	Cash	One year
Long-term incentive (options)	Variable	Stock options	Vesting over five years, ten-year term
Long-term incentive (PSUs)	Variable	PSUs	Performance cycle of three years

When establishing executive compensation, the Corporate Governance and HR Committee's objective is to target the third quartile of the compensation offered by the companies forming part of the relevant comparative group.

The Committee's objective is also to provide adequate balance between components representing fixed and variable compensation in order to place the emphasis on compensation elements linked to performance and achieve the compensation policy's objective (see "Executive Compensation Policy Objective" above). The following table presents, for fiscal 2014, the components of executive compensation and, for each NEO, the approximate relative weight of fixed and variable compensation elements:

Position	Fixed Compensation	Variable Compensation		
	Base Salary	Annual Incentive (bonus) <sup>(1)</sup>	Long-Term Incentive (options) <sup>(2)</sup>	Long-Term Incentive (PSUs) <sup>(3)</sup>
Chief Executive Officer	33%	67%	–	–
Executive Vice President Finance and Administration, and Secretary	30%	27%	28%	15%
President and Chief Operating Officer	30%	27%	28%	15%
President and Chief Operating Officer Cheese Division (USA)	32%	24%	28%	16%
President and Chief Operating Officer Dairy Division (Canada)	32%	24%	28%	16%

(1) Annual incentive at target.

(2) Based on the estimated grant date fair value of option-based awards.

(3) Based on the estimated grant date fair value of the Common Shares underlying PSU awards.

### *Base Salary*

The base salary component of executive compensation aims to reflect salaries offered for positions involving similar responsibilities and complexity, internal equity comparisons, as well as the ability and experience of the Company's executive officers. Competitive salaries enable the Company to attract and retain talented individuals who can ensure its current and long-term success.

For NEOs, individual performance is measured based on the achievement of objectives determined annually by the executive together with the Chief Executive Officer and, with respect to the Chief Executive Officer, with the Corporate Governance and HR Committee. Reference is made to the section entitled "Position Descriptions" for a description of the annual review process of the Chief Executive Officer's performance.



No significant changes were made to the base salary of NEOs in fiscal 2014, except as outlined below, as base salary was generally in line with the compensation policy objective of being competitive with the third quartile of salaries paid by the companies forming part of the relevant comparative group. Mr. Spinelli's base salary for fiscal 2013 was competitive with the median of salaries paid and reflective of his recent appointment to the position of President and Chief Operating Officer, Dairy Division (Canada) on April 1, 2012. For fiscal 2014, his base salary was adjusted to move closer to the third quartile of salaries paid by companies in the CDN Comparative Group.

#### *Annual Incentive (Bonus)*

The annual incentive (bonus) plan aims to encourage the achievement of financial performance targets and reward the executive officers based on the Company's success. The annual bonus of the executive officers is based solely on the financial performance of the Company or, if applicable, on a combination of the financial performance of the Company and of the relevant division, as the Corporate Governance and HR Committee considers that such performance is closely related to and reflects the officers' individual performance. Each year, the Committee determines the financial performance targets which are used for the calculation and payment of bonuses, and the bonus amount that would be paid to each executive officer for achieving such performance, as well as the maximum bonus amount that would be paid to each executive officer should the targets be exceeded.

For fiscal 2014, as in previous years, financial performance was based on the level of achievement of the earnings before interest, income taxes, depreciation, amortization, acquisition, restructuring and other costs ("Adjusted EBITDA") realized after adjustments described below ("Market-Adjusted EBITDA") when compared to the EBITDA set forth in the fiscal 2014 budget approved by the Board ("Budgeted EBITDA"). When determining the budgets, Management establishes assumptions with respect to market factors that have an impact on the Company's results. These include the average block market per pound of cheese, the spread (being the relationship between the average block market per pound of cheese and the cost of milk as raw material), as well as the whey market price. Such market factors and their impact on the Company's results are discussed in the Management's Discussion and Analysis accompanying the Company's financial statements.

In order to determine the level of achievement of Adjusted EBITDA realized by the Company compared to the Budgeted EBITDA for purposes of the bonus calculation, the Company reconciles Adjusted EBITDA realized to take into consideration the assumptions used when preparing the Budgeted EBITDA. The Market-Adjusted EBITDA therefore excludes the impact of market factors that have an effect on EBITDA, but on which the executive officers have no control. Bonuses are therefore paid based on the level of achievement of Market-Adjusted EBITDA when compared to Budgeted EBITDA.

Under the annual incentive (bonus) plan, a bonus can only be paid if at least 85% of the Budgeted EBITDA is met by the Company, or the relevant division, depending on the executive officer. Similarly, the maximum bonus amount can only be earned if the Company, or the relevant division, meets or exceeds 105% of Budgeted EBITDA. Bonus payments are made proportionately to the level actually achieved above 85% of Budgeted EBITDA until the maximum of 105% of Budgeted EBITDA. In connection with its responsibilities as compensation committee, the Corporate Governance and HR Committee has discretion to either award compensation absent the achievement of the performance goals established or to reduce or increase the size of any payout. Such discretion was not exercised during fiscal 2014 with respect to NEOs.

For fiscal 2014, payout percentages established for the bonuses to be awarded to NEOs for threshold (85% of the financial performance target), target (100% of the financial performance target) and superior performance (105% of the financial performance target or more) remained the same as the thresholds used for fiscal 2013 and are set out below.

Name	% of Base Salary		
	Threshold (85% financial performance target)	Target (100% financial performance target)	Maximum (105% financial performance target or more)
Lino A. Saputo, Jr.	150%	200%	250%
Louis-Philippe Carrière	70%	90%	120%
Dino Dello Sbarba	70%	90%	120%
Terry Brockman	55%	75%	100%
Lorenzo Spinelli	55%	75%	100%

For the Executive Vice President, Finance and Administration, and Secretary, and the President and Chief Operating Officer, the annual incentive (bonus) opportunity for target performance for fiscal 2014 was in line with the third quartile of the Combined Group. For the other NEOs, the annual incentive (bonus) opportunity for target performance is between the median and the third quartile of bonus opportunities offered by the companies forming part of the Combined Group, except for the Chief Executive Officer, for whom the opportunity, identical to that for fiscal 2013, is slightly above the third quartile, but whose total compensation remains around the first quartile, due to the fact that he does not receive long-term incentive grants, as further detailed below.

#### *Long-Term Incentive Plans*

The Company's long-term incentives are comprised of options and PSUs.

#### **Equity Compensation Plan**

Option grants are a key component of the compensation mix and serve to align executive compensation with the Company's shareholders' interests. Options are granted by the Corporate Governance and HR Committee to executive officers and other key executives pursuant to the terms of the Equity Compensation Plan and the guidelines established by the Committee. For participants who receive their compensation in US dollars, grants of options are established as per the same guidelines as for participants who receive their compensation in Canadian dollars. These option grant guidelines are established by the Committee as part of its annual review of the compensation policy, taking into account the competitiveness of total compensation and compensation practices within the Combined Group, market trends, as well as the Company's pay-for-performance philosophy. Refer to the section entitled "Decision Making Process and Compensation Consulting Services" for a discussion on the involvement of executive officers in the Equity Compensation Plan.

The Equity Compensation Plan's objective is to attract and retain quality executive officers while promoting long-term profitability and maximizing shareholder value. Option grants made from time to time by the Corporate Governance and HR Committee pursuant to the Equity Compensation Plan are expressed as a percentage of a participant's base salary, which percentage is determined based on the participant's position, without taking into account the number of options already held by such participant. On April 1, 2014, the Corporate Governance and HR Committee granted options to plan participants based on the guidelines established by the Committee. Refer to the section "Securities Authorized for Issuance under Equity Compensation Plans" for a discussion of the terms and conditions relating to the options, including exercise price and vesting conditions.

#### Performance Share Unit Plan

In March 2012, the Corporate Governance and HR Committee established the PSU Plan for senior managers of the Company and its subsidiaries. The PSU Plan is non-dilutive and is settled in cash only. The purpose of the PSU Plan is to attract and retain quality senior managers while promoting long-term profitability and maximizing shareholder value.

PSU grants are an additional component of the compensation mix, together with the options, which serve to align executive compensation with the Company's shareholders' interests. Refer to the section entitled "Decision Making Process and Compensation Consulting Services" for a discussion on the involvement of executive officers in the PSU Plan.

PSU grants made from time to time by the Corporate Governance and HR Committee pursuant to the PSU Plan are expressed as a percentage of a participant's base salary, which percentage is determined based on the participant's position, without taking into account the number of PSUs already held by such participant. On April 1, 2014, the Corporate Governance and HR Committee granted PSUs to plan participants based on the guidelines established by the Committee as part of its annual review of the compensation policy. The guidelines are similar to the ones used for the options, and thus take into account the competitiveness of total compensation and compensation practices within the Combined Group, market trends, as well as the Company's pay-for-performance philosophy.

Under the PSU Plan, each performance cycle shall consist of three financial years of the Company (a "Performance Cycle"). At the time of grant, the Committee determines the vesting criteria (the "Vesting Criteria") which must be met by the Company. Such Vesting Criteria may include (i) a performance criteria for each financial year ("Annual Objectives") during a Performance Cycle and (ii) a performance criteria for a complete Performance Cycle (the "Cycle Objectives"). Following completion of a Performance Cycle, the PSUs for which the Vesting Criteria have been achieved will vest and be paid-out to the participants. The Corporate Governance and HR Committee has discretion to award compensation absent the achievement of the Vesting Criteria established. Such discretion was not exercised during fiscal 2014.

The value that will be paid-out at the end of a Performance Cycle will be the price of the Common Shares at such time, multiplied by the number of PSUs for which the Vesting Criteria have been achieved. Participants will be entitled to receive a payment in cash only. The determination with respect to the achievement of the Vesting Criteria, the calculation of the value to which the participants will be entitled and the payment thereof will be made after the release of the annual financial results of the Company which follow the end of each Performance Cycle.

The PSU Plan provides certain rules, subject to the discretion of the Corporate Governance and HR Committee, for the vesting and/or cancellation of PSUs in the case of termination of employment for cause or for a serious reason, by reason of death, injury or disability, by reason of retirement and other circumstances of termination.

The PSU Plan further provides that in the event of a change of control, the Board has discretion with respect to the treatment of PSUs which is similar to that conferred to the Board under the Equity Compensation Plan. A change of control pursuant to the PSU Plan is defined in the same manner as in the Equity Compensation Plan. See “Securities Authorized for Issuance under Equity Compensation Plans”.

#### Long-Term Incentive Component for Fiscal 2014

For fiscal 2014, the long-term incentive component for NEOs was benchmarked against the Combined Group. The estimated fair value of the long-term incentive component which had been set at 125% of the NEO’s base salary in fiscal 2013, was raised to 150%, which represents around the median of the Combined Group. Maintaining the long-term incentive component composed of a combination of 70% options and 30% PSUs for fiscal 2014 translated to NEOs receiving nominal value grants equivalent to 400% of their base salary in options and 50% of their base salary in PSUs. The Chief Executive Officer does not receive any long-term incentives as his interest in the principal shareholder constitutes a sufficient long-term incentive.

#### *Total Direct Compensation*

Total direct compensation of the NEOs, other than the Chief Executive Officer, represents the sum of salary, target annual bonus, pension value and estimated fair value of the long-term incentive grants, and is competitive with the median to third quartile of the relevant comparative group. The total direct compensation of the Chief Executive Officer, who does not receive any long-term incentives, is competitive with the first quartile of the Combined Group.

#### *Group Insurance Benefits*

The Company’s intention is to protect its employees and their families against adverse effects resulting from health-related complications. Consequently, as part of their total compensation, the NEOs participate in the Company’s group health, medical, accidental death and dismemberment, short-term and long-term disability, and life insurance plans on the same basis as all of the Company’s employees.

#### *NEOs’ Salary and Incentive Awards for Fiscal 2014*

For fiscal 2014, the NEOs’ base salaries were increased to reflect market salary adjustments and the NEOs’ respective experience in their current position, the evolution of their skills and their performance against expectations (see “Base Salary” above).

The table below sets forth, for each NEO for fiscal 2014, the level of achievement reached by the Company or the relevant division with respect to the financial performance objectives established, and the bonus earned. As discussed above under “Annual Incentive (bonus)”, bonuses depend on the Market-Adjusted EBITDA realized by the Company, or the relevant division, compared to the applicable Budgeted EBITDA. Reference is made to the section entitled “Annual Incentive (bonus)” for a discussion of the payout percentages established for bonuses to be awarded, the financial

performance target used for the determination of the bonuses, the process to establish the Market-Adjusted EBITDA and Budgeted EBITDA, and the description of adjustments made to take into consideration the impact of market factors on which the NEOs have no control.

Name	Financial Performance Target Used	Level of Achievement	Fiscal 2014 Bonus Earned as a % of Base Salary
Lino A. Saputo, Jr.	Consolidated Budgeted EBITDA	98.9%	196.1%
Louis-Philippe Carrière	Consolidated Budgeted EBITDA	98.9%	88.5%
Dino Dello Sbarba	Consolidated Budgeted EBITDA	98.9%	88.5%
Terry Brockman	US Budgeted EBITDA (75% weighting) Consolidated Budgeted EBITDA (25% weighting)	90.8% 98.9%	65.4%
Lorenzo Spinelli	Canada Budgeted EBITDA (75% weighting) Consolidated Budgeted EBITDA (25% weighting)	93.6% 98.9%	68.2%

On April 1, 2013, the Corporate Governance and HR Committee granted options to all the NEOs, with the exception of the Chief Executive Officer, pursuant to the Equity Compensation Plan and the option grant guidelines established for fiscal 2014. The number of options granted represented 400% of their base salary divided by the options' exercise price of \$51.10 per Common Share. No options were granted to the Chief Executive Officer, as his interest in the principal shareholder constitutes a sufficient long-term incentive. All options granted on April 1, 2013 vest at a rate of 20% per year, on each of the first five anniversaries of the date of grant. See "Long-Term Incentive Plans" above.

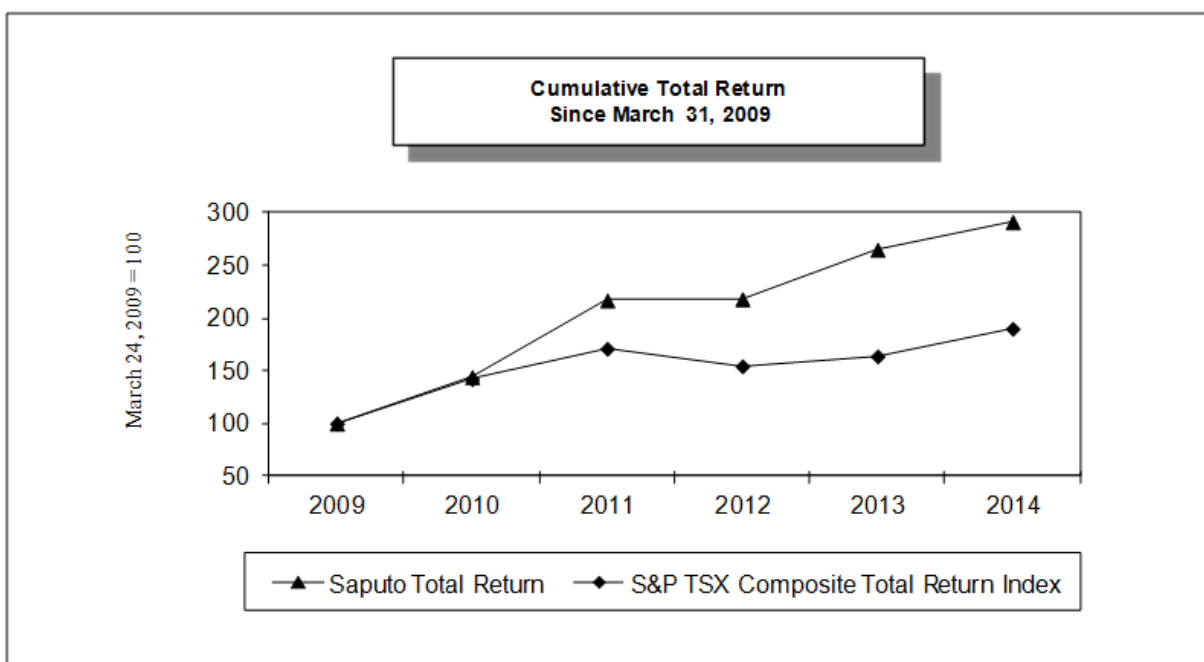
On April 1, 2013, the Corporate Governance and HR Committee granted PSUs to all the NEOs, with the exception of the Chief Executive Officer, pursuant to the PSU Plan and the PSU grant guidelines established for fiscal 2014. The number of PSUs granted represented 50% of their base salary divided by the PSU value of \$51.10 per PSU as of the grant date. The PSUs were granted for a cycle of three years ending March 31, 2016 and will vest and be paid-out to the participants at the end of the three-year cycle if the following Vesting Criteria is met:

- (i) 33 1/3% of the number of PSUs granted for each fiscal year of the cycle for which the return on average shareholders' equity of Saputo Inc.  $\geq$  18% (the Annual Objective);
- (ii) it being understood that 100% of the PSUs granted will vest if the cumulative return on average shareholders' equity of Saputo Inc. for the cycle  $\geq$  54% (the Cycle Objective).

The Corporate Governance and HR Committee has selected the return on average shareholders' equity as Vesting Criteria since it is in line with the Company's pay for performance philosophy and aims to encourage executive officers to establish strategies aimed at increasing share value and creating economic wealth.

### Performance Graph

The following graph compares, on a yearly basis, the total cumulative shareholder return of \$100 invested in Common Shares with the cumulative return on the S&P/TSX Composite Total Return Index of the TSX during the five fiscal years ending March 31, 2014 (assuming all dividends are reinvested).



	3/31/09	3/31/10	3/31/11	3/31/12	3/31/13	3/31/14
SAPUTO TOTAL RETURN	100	144	217	218	265	291
S&P TSX COMPOSITE TOTAL RETURN INDEX	100	142	171	154	164	190

The NEOs' compensation is determined in accordance with the principles set forth above and is not specifically based on the performance of the Company's Common Shares on the TSX due to the fact that the price of the Common Shares is affected by external factors beyond the Company's and the NEOs' control. Consequently, the Company cannot establish a direct relation between the evolution of the total compensation of the NEOs and the evolution of the price of the Common Shares since 2009. During the period covered by the graph, NEOs' salaries have been adjusted to reflect their respective scope of responsibilities, experience and contribution to the Company's success, as well as the evolution in comparative groups used and the progression in compensation practices of the relevant comparative groups. Annual variable compensation and PSUs are linked to the Company's annual operational financial performance during the period. However, option awards, being dependent on the price of the Common Shares, link the NEOs' potential rewards with the Common Shares' price performance during and beyond this period. The award date value of option and PSU awards included in NEOs' total annual compensation does not reflect their final payout value. NEOs'

final total rewards are contingent upon the Company's operational, financial and Common Share price performance during and beyond this period.

*NEO Summary Compensation Table*

The following table provides a summary of compensation earned during the fiscal years ended March 31, 2014, 2013 and 2012, as salary, bonus, long-term incentives, pension or otherwise, by the NEOs, being the CEO, CFO and the three most highly compensated executive officers of the Company. Certain aspects of this compensation are dealt with in greater detail in the following tables.

Name and Principal Position	Year	Salary (\$)	Share-Based Awards (\$) <sup>(1)</sup>	Option-Based Awards (\$) <sup>(2)</sup>	Non-Equity Incentive Plan Compensation (\$)		Pension Value (\$) <sup>(4)</sup>	All Other Compensation (\$) <sup>(5)</sup>	Total Compensation (\$)
					Annual Incentive Plans <sup>(3)</sup>	Long-Term Incentive Plans			
Lino A. Saputo, Jr. Chief Executive Officer	2014	1,100,000	–	–	2,157,980	–	–	–	3,257,980
	2013	1,100,000	–	–	2,185,700	–	–	–	3,285,700
	2012	1,100,000	–	–	2,750,000	–	–	–	3,850,000
Louis-Philippe Carrière Executive Vice President Finance and Administration, and Secretary	2014	675,000	337,516	609,222	597,233	–	1,900,100	–	4,119,071
	2013	650,000	247,020	543,329	581,666	–	169,400	–	2,191,415
	2012	625,000	–	323,922	625,000	–	288,400	–	1,862,322
Dino Dello Sbarba President and Chief Operating Officer <sup>(6)</sup>	2014	875,000	437,518	789,724	774,191	–	3,571,300	–	6,447,733
	2013	800,000	303,985	668,716	715,896	–	428,700	–	2,917,297
	2012	675,000	–	349,834	552,081 <sup>(7)</sup>	–	522,200	–	2,099,115
Terry Brockman President and Chief Operating Officer Cheese Division (USA) <sup>(8)</sup>	2014	635,000	312,477	564,094	415,326	–	707,100	–	2,633,997
	2013	603,004	229,879	505,715	452,253	–	107,000	–	1,897,851
	2012	555,579	–	295,420	555,579	–	135,000	–	1,541,578
Lorenzo Spinelli, President and Chief Operating Officer Dairy Division (Canada) <sup>(9)</sup>	2014	525,000	262,501	473,837	358,086	–	341,500	–	1,960,924
	2013	425,000	161,487	355,253	307,403	–	103,000	–	1,352,143
	2012	359,000	–	111,642	179,500	–	7,739	–	657,881

(1) This amount corresponds to the fair value of the PSU award on the grant date and equals the number of PSUs granted on April 1, 2013 and April 1, 2012 multiplied by the volume weighted average trading price for the common shares on the TSX during the five trading days prior to the grant date.

- (2) This amount equals the number of options granted on April 1, 2013 multiplied by \$11.53 (\$10.26 for April 1, 2012 and \$8.96 for April 1, 2011), which corresponds to the fair value of the option awards on the grant date as determined under the Black-Scholes model, an established methodology, consistent with the valuation method used for accounting purposes, using the weighted average assumptions indicated below.

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Risk-free interest rate:	1.34%	1.63%	2.65%
Expected life of options:	5.5 years	5.5 years	5 years
Volatility:	26.96%	28.28%	21.66%
Dividend rate:	1.66%	1.76%	1.24%

- (3) See section "Annual Incentive (Bonus)". All amounts earned are paid quarterly by the Company in cash, concurrently with the approval by the Board of the relevant quarterly financial statements.
- (4) The Pension Value includes the current service cost for the year ended March 31, 2014, the impact of changes in the earnings during the year ended March 31, 2014 on the defined benefit obligation, as well as the past service cost resulting from modifications to the supplementary retirement pension plans for executives. See section "Defined Benefit Pension Plan" for additional information.
- (5) Excluded from All Other Compensation are perquisites and other personal benefits, which, in the aggregate, do not exceed the lesser of \$50,000 and ten percent of the total annual salary of the NEO for the fiscal year.
- (6) Mr. Dello Sbarba acted as President and Chief Operating Officer, Dairy Products Division (Canada) and by interim (Europe and Argentina) until March 31, 2012.
- (7) Includes a fixed bonus of \$100,000 to compensate Mr. Dello Sbarba for his additional responsibilities in fiscal 2012 as interim President and Chief Operating Officer, Dairy Products Division (Europe and Argentina).
- (8) The compensation awarded to Mr. Brockman was in US dollars. The translation rates used for this disclosure were 0.9747, 0.9967 and 1.016 which correspond to the closing exchange rate of the Bank of Canada for \$1 on March 29, 2011, March 29, 2012 and March 28, 2013 respectively.
- (9) Mr. Spinelli was appointed President and Chief Operating Officer, Dairy Products Division (Canada), on April 1, 2012. Prior to such date, he was Senior Vice President & General Director, Dairy Products Divisions (Europe & Argentina).



## Incentive Plan Awards

The following table presents, for each NEO, all of the option-based and share-based grants outstanding at the end of fiscal year 2014. The Company made its first share-based awards to NEOs on April 1, 2012, with the inception of the PSU Plan.

Outstanding Share-Based Awards and Option-Based Awards								
Name	Award Date	Option-Based Awards				Share-Based Awards		
		Number of Common Shares Underlying Unexercised Options (#)	Option Exercise Price (\$/Share)	Option Expiry Date	Value of Unexercised In-The-Money Options <sup>(1)</sup> (\$)	Number of Common Shares or Units that Have Not Vested (#)	Market or Payout Value of Share-Based Awards that Have Not Vested <sup>(2)</sup> (\$)	Market or Payout Value of Vested Share-Based Awards not Paid Out or Distributed (\$)
Lino A. Saputo, Jr.	–	–	–	–		–		
Louis-Philippe Carrière	04/01/2009	12,968	21.400	04/01/2019		–		
	04/01/2010	39,580	29.320	04/01/2020		–		
	04/01/2011	36,152	43.220	04/01/2021		–		
	04/01/2012	52,956	42.960	04/01/2022		5,750		
	04/01/2013	52,838	51.100	04/01/2023	2,855,869	6,605	688,050	–
Dino Dello Sbarba	04/01/2009	73,598	21.400	04/01/2019		–		
	04/01/2010	55,423	29.320	04/01/2020		–		
	04/01/2011	39,044	43.220	04/01/2021		–		
	04/01/2012	65,177	42.960	04/01/2022		7,076		
	04/01/2013	68,493	51.100	04/01/2023	5,616,145	8,562	870,880	–
Terry Brockman	04/01/2005	12,200	18.075	04/01/2015		–		
	04/01/2006	33,640	16.350	04/01/2016		–		
	04/01/2007	37,896	23.090	04/01/2017		–		
	04/01/2008	40,453	27.810	04/01/2018		–		
	04/01/2009	52,570	21.400	04/01/2019		–		
	04/01/2010	44,765	29.320	04/01/2020		–		
	04/01/2011	32,971	43.220	04/01/2021		–		
	04/01/2012	49,290	42.960	04/01/2022		5,351		
	04/01/2013	48,924	51.100	04/01/2023	8,391,789	6,115	638,541	–
Lorenzo Spinelli	04/01/2007	7,510	23.090	04/01/2017		–		
	04/01/2008	10,939	27.810	04/01/2018		–		
	04/01/2009	18,954	21.400	04/01/2019		–		
	04/01/2010	17,804	29.320	04/01/2020		–		
	04/01/2011	12,460	43.220	04/01/2021		–		
	04/01/2012	34,625	42.960	04/01/2022		3,759		
	04/01/2013	41,096	51.100	04/01/2023	2,454,013	5,137	495,419	–

(1) This value corresponds to the difference between the closing price of the Common Shares on March 31, 2014, on the TSX (\$55.69) and the exercise price. This value has not been, and may never be, realized. The actual gain, if any, will depend on the value of the Common Shares on the dates the options are exercised relative to the exercise price (see "Long-Term Incentive Plans").

- (2) This value corresponds to the number of PSUs granted on April 1, 2012 and April 1, 2013 multiplied by the closing price of the Common Shares on March 31, 2014, on the TSX (\$55.69). This value has not been, and may never be, realized. The actual gain, if any, will depend on the attainment of the Vesting Criteria and the value of the Common Shares on the date the vested PSUs will be paid out (see “Long-Term Incentive Plans”).

The following table presents, for each NEO, the value of incentive plan awards that have become vested during fiscal year 2014 and the amount of bonus earned with respect to the performance achieved during fiscal year 2014:

<b>Incentive Plan Awards – Value Vested or Earned During the Year</b>			
<b>Name</b>	<b>Option-Based Awards – Value Vested During the Year <sup>(1)</sup> (\$)</b>	<b>Share-Based Awards – Value Vested During the Year <sup>(2)</sup> (\$)</b>	<b>Non-Equity Incentive Plan Compensation – Value Earned During the Year <sup>(3)</sup> (\$)</b>
Lino A. Saputo, Jr.	–	–	2,157,980
Louis-Philippe Carrière	951,004	–	597,233
Dino Dello Sbarba	1,083,371	–	774,191
Terry Brockman	807,662	–	415,326
Lorenzo Spinelli	369,395	–	358,086

- (1) The options automatically vest at a rate of 20% per year, on each of the first five anniversaries of their date of grant. This value corresponds to the difference between the closing price of the Common Shares on the TSX (\$50.64) on April 1, 2013, which is the vesting date, and the exercise price. This value has not been, and may never be, realized. The actual gain, if any, will depend on the value of the Common Shares on the dates the options are exercised (see “Long-Term Incentive Plans”).
- (2) Pursuant to the PSU Plan, PSUs vest at the end of a Performance Cycle. The first grant under the PSU Plan was made on April 1, 2012 and will only vest after the end of the Performance Cycle ending March 31, 2015, subject to achieving the Vesting Criteria. The grant under the PSU Plan made on April 1, 2013 will vest after the end of the Performance Cycle ending March 31, 2016, subject to achieving the Vesting Criteria. See “Long-Term Incentive Plans — Performance Share Unit Plan”.
- (3) Corresponds to the same amount as disclosed in the “NEO Summary Compensation Table”.

#### *Defined Benefit Pension Plan*

All NEOs, except the Chief Executive Officer, participate in the Company’s registered and supplementary retirement plans (together the “Pension Plans”). The registered retirement plan in which Messrs. Louis-Philippe Carrière, Dino Dello Sbarba and Lorenzo Spinelli participate is a Non-Contributory Canadian Registered Defined Benefit Pension Plan and the registered retirement plan in which Mr. Terry Brockman participates is a Contributory 401(K) pension plan registered in the US. The supplementary retirement plan for each eligible NEO is either a Canadian or a US non-registered Executive Supplementary Retirement Pension Plan providing pension benefits in excess of the benefits provided under the applicable registered retirement plan.

Under the Pensions Plans, the participants are entitled to retirement benefits as of their respective normal retirement age ("NRA") equal to 2% of their respective final average earnings multiplied by their respective years of credited service. Final average earnings are equal to the base salary earned for the 36 consecutive months within the 10-year period preceding the retirement date during which the average is at its highest. The credited years of service correspond to the service period following January 1, 2004. However, each participant who adhered to the supplementary retirement plan on January 1, 2004, is accruing a pension equal to 3% of their respective final average earnings multiplied by their respective years of credited service. The NEOs in this situation are Messrs. Carrière and Dello Sbarba.

The Pension Plans' NRA is 65. However, a member can retire starting at age 55, in which case pension benefits will be reduced by  $\frac{1}{4}$  of 1% for each month the actual retirement date precedes the normal retirement date.

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

The following table illustrates, for each NEO, the eligible years of service and estimated annual retirement benefits payable at age 65 accrued as of March 31, 2014, and which will accrue if the participant remains employed by the Company until age 65, from the registered retirement plan and supplementary retirement plan combined. The table also sets forth the changes in the accrued obligation from March 31, 2013, to March 31, 2014, including the annual cost attributable to compensatory items for the fiscal year 2014. These amounts were calculated using the same actuarial assumptions used for determining the accrued pension obligation at year-end presented in the Company's financial statements for the fiscal year ended March 31, 2014, in accordance with accounting principles used by the Company. For more information, see the note of the Company's financial statements for the fiscal year ended March 31, 2014 that describes employee pension and other benefits plans. See "Additional Information".

**Defined Benefits Plans Table**

Name	Number of Years Credited Service (#)	Annual Benefits Payable (\$)		Opening Present Value of Defined Benefit Obligation (\$)	Compensatory Change (\$)	Non-Compensatory Change (\$)	Closing Present Value of Defined Benefit Obligation (\$)
		At Year End	At Age 65				
Lino A. Saputo, Jr.	-	-	-	-	-	-	-
Louis-Philippe Carrière	10.25	384,200	480,000	2,346,500	1,900,100	190,200	4,436,800
Dino Dello Sbarba	10.25	439,900	555,000	3,034,300	3,571,300	233,800	6,839,400
Terry Brockman	8.00	173,000	428,200	985,800	707,100	(79,500)	1,613,400
Lorenzo Spinelli	2.00	26,700	152,200	113,300	341,500	14,400	469,200

Retirement benefits earned under the Pension Plans are first payable from the Non-Contributory Canadian Registered Defined Benefit Pension Plan or the Contributory 401(K) pension plan, as per their respective terms and conditions, as applicable. Any incremental benefits are payable from the Executive Supplementary Retirement Pension Plan. The obligations accumulated in the Non-Contributory Canadian Registered Defined Benefit Pension Plan and the Contributory 401(K) pension plan are being funded. However, the Company's obligations under the Executive Supplementary Retirement Pension Plan will be paid as they become due. The Company's total obligations under the Pension Plans are expensed annually for accounting purposes in accordance with accounting principles used by the Company.

Effective April 1, 2014, the Corporate Governance and HR Committee approved changes to the supplementary retirement plans to bring them further in line with the Company's compensation philosophy. The supplementary retirement plans' NRA remains 65, or can be 60 if the sum of the participant's age and his or her credited years of service in the relevant supplementary retirement plan is at least 70. A member retiring as at age 55 will receive pension benefits reduced by  $\frac{1}{4}$  of 1% for each month the actual retirement date precedes the NRA date. The annual incentive (bonus) earned will be added to base salary when calculating final average earnings, which will continue to be calculated based on the same 36 consecutive months within the 10-year period preceding the retirement date, during which the average base salary and annual incentive (bonus) are together at their highest. The maximum annual pension benefits payable, prior to the applicable reduction for early retirement, will be capped at 60% of the participant's base salary paid in the year preceding retirement. The past service cost resulting from this modification to the Pension Plans, which was generated during the year ended March 31, 2014, is included in the Compensatory Change disclosed in the above table. This past service cost is equal to \$5,061,800 with respect to the NEOs. The current service cost is also included in the Compensatory Change disclosed in the above table and is equal to \$855,200 for the NEOs. The current service cost for the year ending March 31, 2015 is expected to be approximately \$1,400,000.

## TERMINATION OF EMPLOYMENT AND CHANGE OF CONTROL

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There is no contract, arrangement or any other understanding with respect to employment, termination of employment, a change of control or a change in responsibilities following a change of control, between the Company and any of the Company's NEOs, except as discussed under the section entitled "Elements of Executive Compensation — Long-Term Incentive Plans — Performance Share Unit Plan" "Elements of Executive Compensation — Defined Benefit Pension Plan" and "Securities Authorized for Issuance under Equity Compensation Plan". As mentioned, the Chief Executive Officer does not receive any long-term incentive as his interest in the principal shareholder constitutes a sufficient long-term incentive.

## SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

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The following table sets out the only equity compensation plan (the "Equity Compensation Plan") previously approved by security holders as of March 31, 2014, under which equity securities of the Company are authorized for issuance:

Equity Compensation Plan Information			
Plan Category	Number of Securities to Be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under the Equity Compensation Plan (Excluding Securities Reflected in Column (a))
Equity Compensation Plan approved by security holders	8,448,481	\$36.51	9,487,342

On April 1, 2013, the Corporate Governance and HR Committee granted an aggregate of 2,065,269 options to participants under the Equity Compensation Plan at an exercise price of \$51.10 per share, which represents 1.05% of the outstanding Common Shares as of such date. On April 1, 2014, the Corporate Governance and HR Committee granted an aggregate of 2,062,826 options to participants under the Equity Compensation Plan at an exercise price of \$55.48 per share, which represents 1.06% of the outstanding Common Shares as of such date.

The following text presents a summary of the main characteristics of the Equity Compensation Plan established to attract and retain experienced and competent employees and officers, and to encourage share ownership by such persons.

The Company has an Equity Compensation Plan for full-time employees and officers of the Company and its subsidiaries. The terms, exercise price and number of Common Shares covered by each option, as well as the vesting periods of such options, are determined by the Corporate Governance and HR Committee at the time the options are granted. The Equity Compensation Plan for options

granted prior to July 31, 2007, provided that the exercise price may not be less than the closing price of the Common Shares on the TSX on the business day immediately preceding the date of grant. For options granted thereafter, the Equity Compensation Plan provides that the exercise price may not be less than the volume weighted average trading price for the five trading days immediately preceding the date of grant. Options granted under the Equity Compensation Plan may not be assigned, and expire ten years from the date of grant, provided that should the expiration date for an option fall within a blackout period or within nine business days following the expiration of a blackout period, such expiration date shall be automatically extended to the tenth business day after the end of the blackout period. Options which have been granted pursuant to the Equity Compensation Plan vest over a five-year period at a rate of 20% per year. The exercise price can be paid in cash or through a "broker cashless exercise" procedure, whereby the reserve of Common Shares is deducted in full accordingly. The maximum number of Common Shares which may be optioned in favour of any single individual shall not exceed 5% of the total number of outstanding Common Shares. The maximum number of Common Shares which may be issuable at any time to insiders of the Company shall not exceed 10% of the total number of outstanding Common Shares at such time. Moreover, the maximum number of Common Shares issued to insiders of the Company within any one-year period shall not exceed 10% of the total number of outstanding Common Shares at such time.

In addition, the Equity Compensation Plan provides that, where an optionee's employment terminates for cause or for a serious reason, the vested portion of an option may not be exercised from the date of termination of such employment. Where an optionee's employment terminates by reason of death, injury or disability, the vested portion of an option at the date of termination of employment may be exercised within 180 days after such date or prior to the expiration of the original term of the option, whichever occurs first. Where an optionee's employment terminates by reason of retirement, and the optionee's age and his/her number of years of service total 70 years or more, taking into account only whole years, the vested portion of an option at the date of termination of employment and the portion of an option to be vested within two years following such date may be exercised within 90 days after the expiration of such two-year period or prior to the expiration of the original term of the option, whichever occurs first. In all other circumstances of termination, the vested portion of an option at the date of termination of employment may be exercised within 90 days after such date or prior to the expiration of the original term of the option, whichever occurs first.

The Equity Compensation Plan authorizes the Board to make certain amendments without shareholder approval, including, without limitation, the following types of amendments:

- (i) any limitations of conditions on participation in the Equity Compensation Plan (other than to the eligibility for participation);
- (ii) any amendment to any terms upon which options may be granted and exercised, including but not limited to, the terms relating to the amount and payment of the option price, vesting, expiry and adjustment of options, or the addition or amendment of terms relating to the provision of financial assistance to optionees or of any cashless exercise features;
- (iii) any amendment to the Equity Compensation Plan to permit the granting of deferred or restricted share units under the Equity Compensation Plan or to add or to amend any other provisions which would result in participants receiving securities of the Company while no cash consideration is received by the Company;
- (iv) any change that is necessary or desirable to comply with applicable laws, rules or regulations of any stock exchange on which the shares of the Company are listed;

- (v) any correction or rectification of any ambiguity, defective provision, error or omission in the Equity Compensation Plan or in any option;
- (vi) any amendment to the definitions contained in the Equity Compensation Plan and any other amendments of a clerical nature; and
- (vii) any amendment to the terms relating to the administration of the Equity Compensation Plan;

provided that such amendments to the terms of any previously granted option may not lead to significant or unreasonable dilution in the Company's outstanding securities or provide additional benefits to eligible participants, especially insiders, at the expense of the Company and its existing security holders, in which case approval of the shareholders of the Company must be obtained.

The approval of the shareholders of the Company is required if the amendment to the Equity Compensation Plan relates to the following:

- (i) any amendment to increase the maximum number of Common Shares issuable under the Equity Compensation Plan, except for adjustments in the event that such Common Shares are subdivided, consolidated, converted or reclassified by the Company or that any other action of a similar nature affecting such Common Shares is taken by the Company;
- (ii) any amendment to reduce the exercise price or purchase price of any option;
- (iii) any amendment to extend the term of any option;
- (iv) any amendment to make a change to the class of persons eligible to participate under the Equity Compensation Plan; and
- (v) any amendment which would permit any option granted under the Equity Compensation Plan to be transferable or assignable, other than by will or under succession laws (estate settlement);

provided that Common Shares held directly or indirectly by insiders benefiting from the amendment in (ii) and (iii) shall be excluded when obtaining such shareholder approval.

The Equity Compensation Plan provides that in the event of (i) a proposed amalgamation, merger or consolidation of the Company; (ii) a proposed liquidation, dissolution or winding-up of the Company; (iii) an offer to purchase the Common Shares or any part thereof made to all holders of Common Shares; or (iv) a change of control, the Board may (i) provide for the substitution, replacement or assumption of options granted by the acquiring or surviving entity; (ii) terminate the options outstanding, other than the options already vested; (iii) make options exercisable in full; or (iv) change the vesting conditions and the expiration date of the options. A change of control under the Equity Compensation Plan consists of (i) a sale of all or substantially all of the assets of the Company and its subsidiaries; or (ii) a sale, directly or indirectly, resulting in more than 50% of the Common Shares being held, directly or indirectly, by another person (other than a wholly-owned subsidiary of the Company).

As of May 23, 2014, of the 22,749,130 Common Shares authorized for issuance under the Equity Compensation Plan, 5,050,124 Common Shares had been issued (or 2.6% of the Common Shares outstanding at such date), there were 10,247,519 options outstanding (representing 10,247,519 Common Shares or 5.2% of the Common Shares outstanding at such date) and 7,451,487 options remaining available for future grants (representing 7,451,487 Common Shares or 3.8% of the Common Shares outstanding at such date). Of the 10,247,519 options

outstanding as of May 23, 2014, 4,857,408 options were exercisable and 5,390,111 will vest at a rate of 20% per year, on each of the first five anniversaries of their date of grant.

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

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The Company carries liability insurance in an amount limited to \$70 million with respect to its directors and officers as a group, subject to a \$500,000 deductible. For fiscal 2014, the total annual premium in respect of such insurance was \$221,284, all of which was paid by the Company and charged to earnings.

## **INDEBTEDNESS OF EXECUTIVE OFFICERS**

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

## **APPOINTMENT OF AUDITORS**

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

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

During fiscal 2014, the Company retained its auditors, Deloitte LLP, to provide services. Details of the services and amounts paid to Deloitte LLP are presented in the section "External Auditors' Fees (By Category)" of the Annual Information Form of the Company for the year ended March 31, 2014. Copy of this document can be found on SEDAR at [www.sedar.com](http://www.sedar.com) or by contacting the Secretary of the Company at its head office, 6869 Métropolitain Boulevard East, Saint-Léonard, Québec H1P 1X8, Telephone: 514-328-6662.

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

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In the normal course of business, the Company receives and provides goods and services from and to companies subject to control or significant influence through ownership by its principal shareholder. These goods and services are of an immaterial amount and compensated by a consideration equal to their fair market value, comparable to similar arms' length transactions. Reference is made to the note of the Consolidated Financial Statements of the Company that describes the related party transactions. See "Additional Information".

## **SHAREHOLDER PROPOSALS**

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Subject to the Canada Business Corporations Act, certain shareholders of the Company may submit to the Company proposals to be considered at the next annual meeting of the Company. All shareholder proposals must be received by the Company no later than March 7, 2015.



## **ADDITIONAL INFORMATION**

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The Company's financial information is included in the Consolidated Financial Statements of the Company and notes thereto, as well as in the accompanying Management's Discussion and Analysis for the fiscal year ended March 31, 2014. Copies of these documents and additional information concerning the Company can be found on SEDAR at [www.sedar.com](http://www.sedar.com), and may also be obtained upon request to the Secretary of the Company at its head office, 6869 Métropolitain Boulevard East, Saint-Léonard, Québec H1P 1X8, Telephone: 514-328-6662.

## **GENERAL**

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Except as otherwise specifically indicated, the information contained herein is given as of May 23, 2014. Management of the Company presently knows of no matters to come before the Meeting other than matters identified in the Notice of Meeting. If any matter should properly come before the Meeting, the persons named in the form of proxy will vote on such matters according to their best judgment.

## **APPROVAL OF THE DIRECTORS**

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

Saint-Léonard, Québec, June 5, 2014.

*(signed) Emanuele (Lino) Saputo*  
Emanuele (Lino) Saputo, C.M., O.Q., D<sup>r</sup> h.c.  
Chairman of the Board

## **SCHEDULE A**

### **BOARD MANDATE**

The Board of Directors (the “Board”) is responsible for the stewardship of Saputo Inc. (the “Company”). As such, the Board establishes all Company policies, oversees and assesses management’s strategic decisions, and has full power for duties that are not specifically delegated to its committees or to management. The Board is also responsible for overseeing the management of the Company’s business by taking into account the best interests of the Company and its shareholders in general. Management’s role is to conduct the Company’s day-to-day operations so as to ensure that this objective is met.

### **BOARD ORGANIZATION**

- The directors are elected annually by the Company’s shareholders. These directors, together with those appointed between annual meetings to fill vacancies or as additional directors, make up the Board of the Company.
- The Board must be composed of a majority of independent directors as defined by applicable legislation.
- The Chair of the Board must be appointed by a resolution of the Board, and a Lead Director must be appointed if the Chair of the Board is not an independent director. The Lead Director must be appointed by a resolution of the independent members of the Board.
- The Board meets at least five times per year and may call special meetings as required. Board meetings may be held at the request of any director.
- The independent directors meet without management in attendance, following each meeting of the Board. The Chair of the Board, or Lead Director if the Chair is not an independent director, chairs the meetings.
- The Chair of the Board and the Lead Director approve meeting agendas and ensure that documents referred to in the agenda are forwarded to directors sufficiently in advance for their perusal.
- The Board may, as required, invite any person deemed appropriate to a Board meeting to take part in discussions on the Company’s business. However, such a person may not at any time vote at a Board meeting.
- The minutes of Board meetings must accurately reflect the significant discussions and the decisions of the Board and must be circulated to the members of the Board, with copies to the Chief Executive Officer and to the Executive Vice President, Finance and Administration.
- The Board has full access to members of senior management and other personnel, as well as to documents of the Company and its affiliates. The Board is granted the resources it needs to perform its duties and is able to retain the services of external consultants for support in carrying out its mandate.

## RESPONSIBILITIES

The Board takes on the following responsibilities:

- 1) reviewing and approving the Company's strategic orientation: identification of short, medium and long-term qualitative and quantitative objectives, annual approval of the strategies for achieving them, which strategies take into account opportunities and risks, and monitor the achievements of management;
- 2) reviewing and approving the Company's annual budget;
- 3) periodically studying and approving the results obtained by the Company in comparison with objectives pursued; determining the causes of any discrepancies and approving the appropriate corrective actions, if any;
- 4) reviewing and approving the dividend policy and approving the declaration of dividends for payment, when required;
- 5) monitoring, where possible, the integrity of the Chief Executive Officer and other senior executives, as well as ensuring that each of them promotes a culture of integrity within the Company;
- 6) reviewing and approving the appointment, compensation, indemnification, and succession and education plans for the Chief Executive Officer, the President and Chief Operating Officer, divisional Presidents and Executive Vice Presidents;
- 7) reviewing the performance of the Chief Executive Officer in light of his position description and objectives to be met;
- 8) implementing and supervising a process for assessing the performance of the Board and the directors, as well as periodically evaluating their performance;
- 9) implementing and supervising the process to select and recruit candidates for the Board of directors;
- 10) determining the independence, or lack thereof, of each director;
- 11) implementing and supervising the orientation and continuing professional development programs of directors;
- 12) reviewing and approving the compensation and indemnification of directors;
- 13) ensuring, as feasible, that each director acts with integrity and good faith in the best interest of the Company, with the diligence and the skills that would present, in such circumstances, a prudent and diligent person;

- 14) identifying the main risks associated with the Company's business and ensuring the deployment of appropriate measures to enable risk management;
- 15) overseeing the integrity of the Company's management information and internal control systems;
- 16) monitoring compliance of the Company with laws, regulations and norms applicable to it and its activities;
- 17) establishing and overseeing the implementation of the environmental policy;
- 18) establishing and overseeing the implementation of the food safety and quality policy;
- 19) establishing and overseeing the implementation of the corporate disclosure policy, and reviewing and approving the continuous disclosure documents, such as the financial statements, management proxy circular, annual information form and annual report;
- 20) approving significant acquisitions and sales of assets or shares, any major contract, including financing agreements and agreements under which guarantees are given or substantial assets are given as security, as well as any other important matter or any major development concerning the Company or the industry in which it operates;
- 21) approving the Company's approach to corporate governance, in particular adopting corporate governance principles and guidelines that apply specifically to the Company;
- 22) establishing and overseeing the implementation of the Code of Ethics;
- 23) deploying appropriate measures to receive comments from the Company's shareholders;
- 24) annually reviewing the Board's mandate; and
- 25) reviewing any other matter or issue that may be referred to it by one of the Board committees or that the Board deems appropriate to be mandated to act on.

In general, the Board has the responsibility to approve all matters that lie within the powers of directors under the *Canada Business Corporations Act* and any other applicable law.

The Board may request the assistance of Board committees in performing its duties, and delegate responsibilities to them if it deems appropriate.