CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT'S STATEMENT OF RESPONSIBILITY FOR FINANCIAL REPORTING

Management is responsible for the preparation and presentation of the consolidated financial statements and the financial information presented in this annual report. This responsibility includes the selection of accounting policies and practices and making judgments and estimates necessary to prepare the consolidated financial statements in accordance with generally accepted accounting principles.

Management has also prepared the financial information presented elsewhere in this annual report and has ensured that it is consistent with the consolidated financial statements.

Management maintains systems of internal control designed to provide reasonable assurance that assets are safeguarded and that relevant and reliable financial information is being produced.

The Board of Directors is responsible for ensuring that Management fulfills its responsibilities for financial reporting and is responsible for reviewing and approving the consolidated financial statements. The Board of Directors carries out this responsibility principally through its Audit Committee, which is comprised solely of independent directors. The Audit Committee meets periodically with Management and the external auditors to discuss internal controls, auditing matters and financial reporting issues. It also reviews the annual report, the consolidated financial statements and the external auditors' report. The Audit Committee recommends the external auditors for appointment by the shareholders. The external auditors have unrestricted access to the Audit Committee. The consolidated financial statements have been audited by the external auditors Deloitte & Touche LLP, whose report follows.

Lino A. Saputo, Jr.	**Louis-Philippe Carrière, FCA**
President and	Executive Vice President,
Chief Executive Officer	Finance and Administration, and Secretary

May 28, 2010

AUDITORS' REPORT TO THE SHAREHOLDERS OF SAPUTO INC.

We have audited the consolidated balance sheets of Saputo Inc. as at March 31, 2010 and 2009 and the consolidated statements of earnings, shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP[1]

Montréal, Québec
May 28, 2010

[1] Chartered accountant auditor permit n° 18190.

CONSOLIDATED STATEMENTS OF EARNINGS

Years ended March 31 (in thousands of CDN dollars, except per share amount)	2010	2009
Revenues	$ 5,810,582	$ 5,793,263
Cost of sales, selling and administrative expenses	5,118,511	5,245,464
Earnings before interest, depreciation, amortization and income taxes	692,071	547,799
Depreciation and amortization (Notes 4 and 5)	113,506	108,284
Operating income	578,565	439,515
Interest on long-term debt	29,901	20,684
Other interest, net (Note 12)	5,161	11,031
Earnings before income taxes	543,503	407,800
Income taxes (Note 13)	160,789	128,852
Net earnings	$ 382,714	$ 278,948
Earnings per share (Note 14)		
Net earnings		
Basic	$ 1.85	$ 1.35
Diluted	$ 1.83	$ 1.34

CONSOLIDATED STATEMENTS OF **SHAREHOLDERS' EQUITY**

(in thousands of CDN dollars, except common shares)

For the year ended March 31, 2010

	Share capital (Note 10)						
	Common Shares (in thousands)	Amount	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Contributed Surplus	Total Shareholders' Equity
Balance at beginning of year	207,087	$ 555,529	$ 1,373,856	$ 16,219	$ 26,744	$ 1,972,348
Comprehensive income:						
Net earnings	–	–	382,714	–	–	382,714
Net change in currency translation of financial statements of self-sustaining foreign operations	–	–	–	(205,527)	–	(205,527)
Net change on derivative financial instruments designated as cash flow hedges, net of tax	–	–	–	1,263	–	1,263
Total comprehensive income						178,450
Dividends declared	–	–	(118,996)	–	–	(118,996)
Stock based compensation	–	–	–	–	8,060	8,060
Shares issued under stock option plan	1,759	26,008	–	–	–	26,008
Amount transferred from contributed surplus to share capital upon exercise of options	–	7,075	–	–	(7,075)	–
Excess tax benefit that results from the excess of the deductible amount over the compensation cost recognized	–	–	–	–	792	792
Shares repurchased and cancelled	(1,420)	(3,863)	(34,201)	–	–	(38,064)
Balance at end of year[1]	207,426	$ 584,749	$ 1,603,373	$ (188,045)	$ 28,521	$ 2,028,598

For the year ended March 31, 2009

	Share capital (Note 10)					
	Common Shares (in thousands)	Amount	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Contributed Surplus	Total Shareholders' Equity
Balance at beginning of year	205,963	$ 536,921	$ 1,206,568	$ (146,414)	$ 22,085	$ 1,619,160
Comprehensive income:						
Net earnings	–	–	278,948	–	–	278,948
Net change in currency translation of financial statements of self-sustaining foreign operations	–	–	–	163,896	–	163,896
Net change on derivative financial instruments designated as cash flow hedges, net of tax	–	–	–	(1,263)	–	(1,263)
Total comprehensive income						441,581
Dividends declared	–	–	(111,660)	–	–	(111,660)
Stock based compensation	–	–	–	–	7,791	7,791
Shares issued under stock option plan	1,124	14,921	–	–	–	14,921
Amount transferred from contributed surplus to share capital upon exercise of options	–	3,687	–	–	(3,687)	–
Excess tax benefit that results from the excess of the deductible amount over the compensation cost recognized	–	–	–	–	555	555
Balance at end of year[2]	207,087	$ 555,529	$ 1,373,856	$ 16,219	$ 26,744	$ 1,972,348

[1] Retained Earnings and Accumulated Other Comprehensive Income total is $1,415,328.

[2] Retained Earnings and Accumulated Other Comprehensive Income total is $1,390,075.

CONSOLIDATED BALANCE SHEETS

As at March 31 (in thousands of CDN dollars)	2010	2009
ASSETS		
Current assets		
Cash and cash equivalents	$ 54,819	$ 43,884
Receivables	367,069	427,227
Inventories (Note 2)	566,754	583,594
Income taxes	5,940	9,585
Future income taxes (Note 13)	22,302	23,881
Prepaid expenses and other assets	29,494	37,501
	1,046,378	1,125,672
Portfolio investment (Note 3)	41,343	41,343
Fixed assets (Note 4)	1,038,756	1,149,662
Goodwill (Note 5)	716,695	760,283
Trademarks and other intangibles (Note 5)	316,613	327,516
Other assets (Note 6)	90,272	88,326
Future income taxes (Note 13)	3,394	6,301
	$ 3,253,451	$ 3,499,103
LIABILITIES		
Current liabilities		
Bank loans (Note 7)	$ 61,572	$ 139,399
Accounts payable and accrued liabilities	471,106	484,866
Income taxes	149,377	113,910
Future income taxes (Note 13)	8,639	6,348
Current portion of long-term debt (Note 8)	–	214,421
	690,694	958,944
Long-term debt (Note 8)	380,790	403,065
Other liabilities (Note 9)	9,694	22,180
Future income taxes (Note 13)	143,675	142,566
	1,224,853	1,526,755
SHAREHOLDER'S EQUITY	2,028,598	1,972,348
	$ 3,253,451	$ 3,499,103

On behalf of the Board,

Lino Saputo
Director

Louis A. Tanguay
Director

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended March 31 (in thousands of CDN dollars)	2010	2009
Cash flows related to the following activities:		
Operating		
Net earnings	$ 382,714	$ 278,948
Items not affecting cash and cash equivalents		
Stock based compensation	8,060	7,791
Depreciation and amortization	113,506	108,284
Loss (gain) on disposal of fixed assets	300	(3,450)
Future income taxes	19,874	2,721
Deferred share units	2,238	(62)
Funding of employee plans in excess of costs	(3,853)	(4,761)
	522,839	389,471
Changes in non-cash operating working capital items	60,776	77,817
	583,615	467,288
Investing		
Business acquisitions (Note 15)	(49,613)	(630,353)
Additions to fixed assets	(106,876)	(121,863)
Proceeds on disposal of fixed assets	542	9,032
Other assets and other liabilities	(16,965)	(12,181)
	(172,912)	(755,365)
Financing		
Bank Loans	(71,935)	(81,682)
Proceeds from issuance of long-term debt	330,000	340,000
Repayment of long-term debt	(518,517)	–
Issuance of share capital	26,008	14,921
Repurchase of share capital	(38,064)	–
Dividends	(118,996)	(111,660)
	(391,504)	161,579
Increase (decrease) in cash and cash equivalents	19,199	(126,498)
Effect of exchange rate changes on cash and cash equivalents	(8,264)	4,672
Cash and cash equivalents, beginning of year	43,884	165,710
Cash and cash equivalents, end of year	$ 54,819	$ 43,884
Supplemental information		
Interest paid	$ 34,843	$ 29,242
Income taxes paid	$ 100,068	$ 124,829

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended March 31, 2010 and 2009

(Tabular amounts are in thousands of CDN dollars except information on options, units and shares.)

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

NEW ACCOUNTING POLICIES

During the year, the Company adopted the following new accounting policies as described in the CICA Handbook (Canadian Institute of Chartered Accountants):

GOODWILL AND INTANGIBLE ASSETS

Effective April 1, 2009, the Company adopted Section 3064 of the CICA Handbook, Goodwill and Intangible Assets, which replaces Section 3062, Goodwill and Other Intangible Assets and Section 3450, Research and Development Costs. The new section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented companies. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The adoption of this new section had no significant impact on the consolidated financial statements.

FINANCIAL INSTRUMENTS – DISCLOSURES

In June 2009, the CICA amended Section 3862 to improve fair value and liquidity risk disclosures. Section 3862 now requires that all financial instruments measured at fair value be categorized into one of three hierarchy levels, described below, for disclosure purposes.

Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities:

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

Determination of fair value and the resulting hierarchy requires the use of observable market data whenever available. The classification of a financial instrument in the hierarchy is based upon the lowest level of input that is significant to the measurement of fair value. The additional disclosures required as a result of the adoption of these standards are included in the Notes to the Consolidated Financial Statements (Note 19).

SIGNIFICANT ACCOUNTING POLICIES

USE OF ESTIMATES

In the preparation of financial statements in conformity with Canadian GAAP, Management must make estimates such as the net realizable value of inventories, the useful life, impairment and depreciation of fixed assets, the valuation of goodwill, portfolio investments, trademarks and other intangibles, purchase price allocation, fair value of financial instruments and income taxes and certain actuarial and economic assumptions used in determining defined benefit pension costs, fair value of long-lived assets, accrued pension benefit obligations and pension plan assets, and stock-based compensation that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the revenues and expenses for the period. Actual results could differ from these estimates.

CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany transactions and balances have been eliminated. Investments over which the Company has effective control are consolidated. The operating results of acquired businesses, from their respective acquisition dates, are included in the consolidated statements of earnings.

CASH AND CASH EQUIVALENTS

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

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

INVENTORIES

Finished goods, raw materials and work in process are valued at the lower of cost and net realizable value. Cost being determined under the first in, first out method.

INCOME TAXES

The Company follows the liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities and are measured using the enacted or substantively enacted tax rates that will be in effect when the differences are expected to reverse. Future income tax assets are recognized only to the extent that, in the opinion of Management, it is more likely than not that the future income tax asset will be realized.

INVESTMENT

The portfolio investment is recorded at cost less the excess of dividends received over the Company's share in accumulated earnings. The Company monitors its investment for other than temporary declines in fair value and charges net earnings when other than temporary decline in estimated value occurs.

FIXED ASSETS

Fixed assets are stated at cost and are depreciated using the straight-line method over their estimated useful lives based on the following terms:

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

Assets held for sale are recorded at the lower of their carrying amount or fair value less costs to dispose, and no depreciation is recorded. Assets under construction are not amortized.

IMPAIRMENT OF LONG-LIVED ASSETS

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

GOODWILL, TRADEMARKS AND OTHER INTANGIBLE ASSETS

Goodwill and trademarks are not amortized; however they are tested for impairment annually or more frequently if events or changes in circumstances indicate that the assets might be impaired. The carrying values of goodwill and trademarks are compared with their respective fair values, and an impairment loss is recognized for the excess, if any. Other intangibles are amortized using the straight-line method over their useful lives which vary from 5 to 15 years.

BUSINESS COMBINATIONS

The Company accounts for its business combinations using the purchase method of accounting. Under this method, the Company allocates the purchase price to tangible and intangible assets acquired and liabilities assumed based on estimated fair values at the date of acquisition, with the excess of the purchase price amount allocated to goodwill.

EMPLOYEE FUTURE BENEFITS

The cost of pension and other post-retirement benefits is actuarially determined using the projected benefit method prorated on services and using Management estimates of expected return on plan assets, which is based on market-related value, rates of compensation increase, retirement ages of employees and expected health care costs and other post retirement benefits. Current service costs are expensed in the year. In accordance with GAAP, past service costs and the excess of the net actuarial gains or losses related to defined benefit pension plans over 10% of the greater of the benefit obligations or fair value of plan assets are amortized over the expected average remaining service period of active employees entitled to receive benefits under the plans. The Company recognizes changes in the fair value of plan assets over a period of five years to determine the defined benefit pension costs. In the case where a plan restructuring entails both a plan curtailment and settlement of obligations from the plan, the curtailment is recorded before the settlement. The average remaining service period of active participants covered by the pension plans is 11.8 years. The net pension expenditure under defined contribution pension plans is generally equal to the contributions made by the employer.

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

REVENUE RECOGNITION

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

FOREIGN CURRENCY TRANSLATION

The balance sheet accounts of the self-sustaining companies operating outside Canada are translated into Canadian dollars using the exchange rates at the balance sheet dates. Statement of earnings accounts are translated into Canadian dollars using the average monthly exchange rates in effect during the periods. The unrealized gains (losses) on translation of the financial statements of self-sustaining foreign operations account presented in accumulated other comprehensive income (loss) represents accumulated foreign currency gains (losses) on the Company's net investments in companies operating outside Canada. The change in the unrealized gains (losses) on translation of the financial statements of self-sustaining foreign operations account for the period resulted mainly from the fluctuation in the value of the Canadian dollar as compared to the US dollar.

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

	2010	2009
Foreign currency (loss) gain	$ (348)	$ 1,962

STOCK-BASED COMPENSATION

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

EARNINGS PER SHARE

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

RESEARCH AND DEVELOPMENT TAX CREDITS

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

FINANCIAL INSTRUMENTS

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

The Company has made the following classifications:

- Cash and cash equivalents are classified as financial assets held for trading and are measured at fair value.
- Accounts receivable are classified as loans and receivables and are measured at amortized cost.
- Portfolio investment is classified as available for sale, and is carried at cost since it does not have a quoted price in an active market.
- Other assets that meet the definition of a financial asset are classified as loans and receivables and are initially measured at fair value and subsequently at amortized cost.
- Bank loans, accounts payable and accrued liabilities, other liabilities and long-term debt are classified as other liabilities and are measured at amortized cost, with the exception of the liability related to deferred share units which is measured at fair value.
- Derivative financial instruments are measured at fair value. The change in fair value of the effective portion of the hedge, when applicable, is recognized in other comprehensive income, net of income taxes.

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

HEDGES

The Company uses interest rate derivatives to manage the combination of floating to fixed interest rates on its bank debt. The Company currently uses cash flow hedges and does not use any fair value hedges. For its cash flow hedges, the effective portion of the changes in fair value of the hedging item is recognized in accumulated other comprehensive income, whereas the ineffective portion is recognized in interest expense. The amounts recognized in accumulated other comprehensive income, with respect to cash flow hedges, are reclassified in net earnings in the period or periods during which the hedged item affects net earnings.

FUTURE ACCOUNTING POLICIES

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

In 2006, the Canadian Accounting Standards Board (AcSB) published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five-year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Accordingly, the Company's transition date of April 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended March 31, 2011. While the Company is in the second phase of its convergence plan and proceeding according to schedule the financial reporting impact of the transition to IFRS cannot be quantified at this time.

BUSINESS COMBINATIONS

In 2009, the CICA issued Section 1582, Business Combinations, replacing Section 1581 of the same name. This new section will be applicable to business combinations for which the acquisition date is on or after the Company's interim and fiscal year beginning April 1, 2011. Early adoption is permitted. This Section improves the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a business combination and its effects. The Company has not yet determined the impact of the adoption of this new Section on the consolidated financial statements.

CONSOLIDATED FINANCIAL STATEMENTS

In 2009, the CICA issued Section 1601, Consolidated Financial Statements, replacing Section 1600 of the same name. This new section will be applicable to financial statements relating to the Company's interim and fiscal year beginning on or after April 1, 2011. Early adoption is permitted. This Section establishes standards for the preparation of consolidated financial statements. The Company has not yet determined the impact of the adoption of this new Section on the consolidated financial statements.

NON-CONTROLLING INTERESTS

In 2009, the CICA issued Section 1602, Non-Controlling Interests. This new Section will be applicable to financial statements relating to the Company's interim and fiscal year beginning on or after April 1, 2011. Early adoption is permitted. This Section establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The Company has not yet determined the impact of the adoption of this new Section on the consolidated financial statements.

NOTE 2 INVENTORIES

	2010	2009
Finished goods	$ 372,373	$ 368,456
Raw materials, work in process and supplies	194,381	215,138
	$ 566,754	$ 583,594

The amount of inventories recognized as an expense in cost of sales for the year ended March 31, 2010 is $4,579,330,000 ($4,715,075,000 for the year ended March 31, 2009).

The Company recorded an inventory write down of $2,109,000 ($20,900,000 in 2009) which was recognized as an expense in cost of sales.

NOTE 3 PORTFOLIO INVESTMENT

	2010	2009
21% share capital interest in Dare Holdings Ltd.	$ 41,343	$ 41,343

A dividend of $1,500,000 was received during fiscal 2010 and was accounted for in revenues ($1,500,000 in 2009).

NOTE 4 FIXED ASSETS

	2010			2009		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Land	$ 38,920	$ –	$ 38,920	$ 42,243	$ –	$ 42,243
Buildings	382,480	92,164	290,316	417,335	90,675	326,660
Furniture, machinery and equipment	1,242,504	543,674	698,830	1,321,468	548,676	772,792
Rolling stock	13,117	8,435	4,682	13,329	7,864	5,465
Held for sale	6,008	–	6,008	2,502	–	2,502
	$ 1,683,029	$ 644,273	$ 1,038,756	$ 1,796,877	$ 647,215	$ 1,149,662

During the year, the depreciation expense related to fixed assets totalled $105,609,000 ($97,245,000 in 2009).

An impairment of fixed assets in the amount of $2,603,000 was recorded as a result of a plant closure and consolidation of distribution activities in the CEA Dairy Products Sector ($8,649,000 in 2009 in the USA Dairy Products Sector) and is included in depreciation and amortization expense.

In 2009, a gain on disposal of fixed assets held for sale totalling $3,450,000 was recorded in cost of sales, selling and administrative expenses.

The net book value of fixed assets under construction amounts to $46,271,000 as at March 31, 2010 ($67,707,000 as at March 31, 2009) and consists mainly of machinery and equipment.

The assets held for sale relate mainly to land and buildings in Canada and in the United States as a result of certain plant closures.

NOTE 5 GOODWILL, TRADEMARKS AND OTHER INTANGIBLES

	2010			2009		
	Dairy Products Sector	Grocery Products Sector	Total	Dairy Products Sector	Grocery Products Sector	Total
Goodwill						
Balance, beginning of year	$ 590,853	$ 169,430	$ 760,283	$ 353,116	$ 169,430	$ 522,546
Foreing currency translation adjustment	(64,328)	–	(64,328)	61,508	–	61,508
Business acquisitions (Note 15)	20,740	–	20,740	176,229	–	176,229
Total Goodwill	$ 547,265	$ 169,430	$ 716,695	$ 590,853	$ 169,430	$ 760,283
Trademarks						
Balance, beginning of year	$ 255,955	$ 2,000	$ 257,955	$ 28,125	$ 2,000	$ 30,125
Foreing currency translation adjustment	(4,903)	–	(4,903)	4,630	–	4,630
Business acquisitions (Note 15)	–	–	–	223,200	–	223,200
Balance, end of year	$ 251,052	$ 2,000	$ 253,052	$ 255,955	$ 2,000	$ 257,955
Other intangibles						
Balance, beginning of year	$ 69,561	$ –	$ 69,561	$ 7,918	$ –	$ 7,918
Foreing currency translation adjustment	(817)	–	(817)	933	–	933
Business acquisitions (Note 15)	111	–	111	63,100	–	63,100
Amortization	(5,294)	–	(5,294)	(2,390)	–	(2,390)
Balance, end of year	$ 63,561	$ –	$ 63,561	$ 69,561	$ –	$ 69,561
Total trademarks and other intangibles	$ 314,613	$ 2,000	$ 316,613	$ 325,516	$ 2,000	$ 327,516

The gross carrying amount of Other intangibles is $71,479,000 as at March 31, 2010 ($72,707,000 in 2009) and the accumulated amortization is $7,918,000 as at March 31, 2010 ($3,146,000 in 2009).

NOTE 6 OTHER ASSETS

	2010	2009
Net accrued pension plan assets (Note 16)	$ 64,451	$ 61,040
Taxes receivables	15,893	18,993
Other	9,928	8,293
	$ 90,272	$ 88,326

NOTE 7 BANK LOANS

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

		Available for use			Amount drawn	
Credit Facilities	Maturity	Canadian Currency Equivalent	Base Currency		2010	2009
North America–US Currency	[1]December 2012	132,054	130,000	USD	–	–
North America–CDN Currency	[1]December 2012	375,846	370,000	USD	30,000	390,000
Canada	May 2009	–	–		–	40,000
Argentina	[2] Yearly	73,490	281,140	ARS	28,213	47,927
Germany	[3] Yearly	6,869	5,000	EUR	–	1,472
United Kingdom	[3] Yearly	10,795	7,000	BPS	3,359	–
		599,054			61,572	479,399
Amount classified as long-term debt					–	(340,000)
					61,572	139,399

[1] Bear monthly interest at rates based on lender's prime rates plus a maximum of 0.25% or LIBOR or banker's acceptance rate plus 0.50% up to a maximum of 1.125%, depending on a financial ratio of the Company.

[2] Bear monthly interest at local rate and can be drawn in ARS or USD.

[3] Bear monthly interest at base rate plus 1.50% or LIBOR-EURIBOR plus 1.50%.

NOTE 8 LONG-TERM DEBT

	2010	2009
Unsecured senior notes[1]		
8.12%, issued in November 1999 and due in November 2009 (US$170,000,000)	$ –	$ 214,421
8.41%, issued in November 1999 and due in November 2014 (US$50,000,000)	50,790	63,065
5.34%, issued in June 2009 and due in June 2014	110,000	–
5.82%, issued in June 2009 and due in June 2016	220,000	–
Bank loan – long-term portion (Note 7)	–	340,000
	380,790	617,486
Current portion	–	214,421
	$ 380,790	$ 403,065

Estimated principal repayments are as follows:

	2010	2009
Less than 1 year	$ –	$ 200,000
1-2 years	–	140,000
2-3 years	–	–
3-4 years	–	–
4-5 years	160,790	–
More than 5 years	220,000	63,065
	$ 380,790	$ 403,065

[1]Interest payments are semi-annual.

NOTE 9 OTHER LIABILITIES

	2010	2009
Employee future benefits (Note 16)	$ 9,256	$ 9,797
Other	438	12,383
	$ 9,694	$ 22,180

NOTE 10 SHARE CAPITAL

AUTHORIZED

The authorized share capital of the Company consists of an unlimited number of common and preferred shares. The common shares are voting and participating. The preferred shares may be issued in one or more series, the terms and privileges of each series to be determined at the time of their creation.

	2010	2009
ISSUED		
207,425,823 common shares (207,087,283 in 2009)	$ 584,749	$ 555,529

1,758,740 common shares (1,124,319 in 2009) were issued during the year ended March 31, 2010 for an amount of $26,008,000 ($14,921,000 in 2009) pursuant to the share option plan. For share options granted since April 1, 2002, the amount previously accounted for as an increase to contributed surplus was also transferred to share capital upon the exercise of options. For the year ended March 31, 2010, the amount transferred from contributed surplus was $7,075,000 ($3,687,000 in 2009).

Pursuant to the normal course issuer bid, which began on November 13, 2008, and expired on November 12, 2009, the Company was authorized to purchase for cancellation up to 10,340,377 of its common shares. Under the new normal course issuer bid that became effective on November 13, 2009, and expiring on November 12, 2010, the Company is authorized to purchase, for cancellation purposes, up to 10,322,467 of its common shares. During the year ended March 31, 2010, the Company purchased 1,420,200 common shares, at prices ranging from $24.10 to $29.99 per share, relating to the normal course issuer bids. The excess of the purchase price over the carrying value of the shares in the amount of $34,201,000 was charged to retained earnings. During the year ended March 31, 2009 the Company did not purchase any common shares under the normal course issuer bids.

SHARE OPTION PLAN

The Company established a share option plan to allow for the purchase of common shares by key employees, officers and directors of the Company. The total number of common shares which may be issued pursuant to this plan cannot exceed 28,000,000 common shares. As at March 31, 2010, 14,838,951 common shares are issuable under this plan. Options granted prior to July 31, 2007 may be exercised at a price equal to the closing quoted value of the shares on the day preceding the grant date. Options granted thereafter may be exercised at a price not less than the weighted average market price for the five trading days immediately preceding the date of grant. The options vest at 20% per year and expire ten years from the grant date.

NOTE 10 SHARE CAPITAL (CONT'D)

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

	2010			2009	
Granting period	Exercise price	Number of options	Number of exercisable options	Number of options	Number of exercisable options
2000	$ 9.85	–	–	33,436	33,436
2001	$ 6.75	33,644	33,644	157,440	157,440
2002	$ 9.50	182,307	182,307	269,398	269,398
2003	$ 15.18	322,158	322,158	544,730	544,730
2004	$ 11.25	572,238	572,238	908,166	908,166
2005	$ 16.53	670,588	670,588	1,003,300	723,258
2006	$ 18.08	1,011,254	721,888	1,255,410	657,616
2007	$ 16.35	1,412,668	645,677	1,765,450	575,704
2008	$ 23.09	1,502,581	547,815	1,618,484	307,012
2009	$ 27.81	1,522,354	306,704	1,573,027	–
2010	$ 21.40	2,183,958	–	–	–
		9,413,750	4,003,019	9,128,841	4,176,760

Changes in the number of outstanding options are as follows:

	2010		2009	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance at beginning of year	9,128,841	$ 16.93	8,893,428	$ 16.52
Options granted	2,232,039	$ 21.40	1,634,393	$ 27.81
Options exercised	(1,758,740)	$ 14.78	(1,124,319)	$ 13.27
Options cancelled	(188,390)	$ 20.91	(274,661)	$ 20.83
Balance at end of year	9,413,750	$ 18.65	9,128,841	$ 16.93

The exercise price of the options granted in fiscal 2010 is $21.40, which corresponds to the weighted average market price for the five trading days immediately preceding the date of grant ($27.81 in 2009).

The fair value of options granted in fiscal 2010 was estimated at $3.26 per option ($4.98 in 2009), using the Black Scholes option pricing model with the following assumptions:

	2010	2009
Risk-free interest rate:	1.9%	3.0%
Expected life of options:	5 years	5 years
Volatility:	19.1%	19.0%
Dividend rate:	2.0%	1.7%

A compensation expense of $8,060,000 ($7,224,000 after income taxes) relating to stock options was recorded in cost of sales, selling and administrative expenses for the year ended March 31, 2010 and $7,791,000 ($6,865,000 after income taxes) was recorded for the year ended March 31, 2009.

Options to purchase 1,753,233 common shares at a price of $29.32 were granted on April 1, 2010.

DEFERRED SHARE UNITS PLAN FOR DIRECTORS

In accordance with the deferred share units plan, all eligible directors of the Company are allocated annually a fixed amount of deferred share units which are granted on a quarterly basis. Moreover, the directors have a choice to receive either cash or deferred

NOTE 10 SHARE CAPITAL (CONT'D)

share units for their compensation. The number of units issued to each director is based on the market value of the Company's common shares at each grant date. Following cessation of functions as director of the Company, a cash payment equal to the market value of the accumulated deferred share units will be disbursed. The liability relating to these units is adjusted by taking the number of units outstanding multiplied by the market value of common shares at the Company's year-end. The variation of the liability is recorded as an expense in cost of sales, selling and administrative expenses.

	2010		2009	
	Units	Liability	Units	Liability
Beginning of year	146,063	$ 3,385	112,601	$ 3,447
Annual grant	20,000	549	18,000	433
Board compensation	15,335	415	15,462	364
Increase (decrease) due to change in stock price	–	1,274	–	(859)
End of year	181,398	$ 5,623	146,063	$ 3,385

NOTE 11 ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

	Balance as at April 1, 2009	Net changes incurred during the year	Balance as at March 31, 2010
Net unrealized gains (losses) on translation of financial statements of self-sustaining foreign operations	$ 17,482	$ (205,527)	$ (188,045)
Losses on derivatives items designated as hedges of interest cash flows, net of tax	(1,263)	1,263	–
Accumulated other comprehensive income (loss)	$ 16,219	$ (204,264)	$ (188,045)

	Balance as at April 1, 2008	Net changes incurred during the year	Balance as at March 31, 2009
Net unrealized (losses) gains on translation of financial statements of self-sustaining foreign operations	$ (146,414)	$ 163,896	$ 17,482
Losses on derivatives items designated as hedges of interest cash flows, net of tax	–	(1,263)	(1,263)
Accumulated other comprehensive (loss) income	$ (146,414)	$ 162,633	$ 16,219

NOTE 12 OTHER INTEREST

	2010	2009
Expense	$ 5,216	$ 11,380
Income	(55)	(349)
	$ 5,161	$ 11,031

NOTE 13 INCOME TAXES

The provision for income taxes is comprised of the following:

	2010	2009
Current income taxes	$ 140,915	$ 126,131
Future income taxes	19,874	2,721
	$ 160,789	$ 128,852

NOTE 13 INCOME TAXES (CONT'D)

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

	2010	2009
Income taxes, calculated using Canadian statutory income tax rates of 29.52% (31.06% in 2009)	$ 160,434	$ 126,677
Adjustments resulting from the following:		
Effects of tax rates for foreign subsidiaries	10,693	5,306
Changes in tax laws and rates	(2,225)	(857)
Benefit arising from investment in subsidiaries	(14,202)	(15,008)
Stock based compensation	1,838	1,776
Effect of losses carry forward	1,443	3,493
Other	2,808	7,465
Provision for income taxes	$ 160,789	$ 128,852

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

	2010	2009
Future income tax asset		
Accounts payable and acrrued liabilities	$ 14,451	$ 14,677
Income tax losses	230	2,505
Portfolio Investment	743	740
Other	7,660	7,135
	$ 23,084	$ 25,057

	2010	2009
Future income tax liability		
Inventories	$ 3,706	$ 1,732
Fixed assets	109,230	107,310
Net assets of pension plans	15,203	13,625
Other assets	19,063	10,647
Long-term debt	2,500	10,475
	$ 149,702	$ 143,789

Classified in the financial statements as:

	2010	2009
Current future income tax asset	$ 22,302	$ 23,881
Long-term future income tax asset	3,394	6,301
Current future income tax liability	(8,639)	(6,348)
Long-term future income tax liability	(143,675)	(142,566)
Net future income tax liability	$ (126,618)	$ (118,732)

As at March 31, 2010, in addition to the income tax losses recorded, the Company has income tax losses of approximately $17,984,000 ($19,760,000 in 2009) which may be used to reduce future years' taxable income of its foreign subsidiaries. These losses can be carried forward indefinitely.

NOTE 14 EARNINGS PER SHARE

	2010	2009
Net earnings	$ 382,714	$ 278,948
Weighted average number of common shares outstanding	206,987,839	206,720,191
Dilutive options	1,857,080	1,595,432
Dilutive number of common shares outstanding	208,844,919	208,315,623
Basic earnings per share	$ 1.85	$ 1.35
Diluted earnings per share	$ 1.83	$ 1.34

NOTE 14 EARNINGS PER SHARE (CONT'D)

When calculating dilutive earnings per share, 1,175,232 options (1,573,027 in 2009) were excluded from the calculation because their exercise price is higher than the average market value.

Shares purchased in fiscal 2010 under normal course issuer bids were excluded from the calculation of earnings per share as of the date of purchase.

NOTE 15 BUSINESS ACQUISITIONS

On July 20, 2009, the Company completed the acquisition of the activities of F&A Dairy of California, Inc. in the United States.
On December 1, 2008, the Company completed the acquisition of the activities of Neilson Dairy.
On April 1, 2008, the Company completed the acquisition of the cheese activities of Alto Dairy Cooperative in the United States.

		March 31, 2010	March 31, 2009	
		F&A Dairy of California Inc.	Neilson Dairy	Alto Dairy Cooperative
Assets acquired	Receivables	$ –	$ 29,983	$ 31,709
	Inventories	3,860	9,859	22,096
	Prepaid expenses	–	378	262
	Fixed assets	24,902	87,040	70,840
	Goodwill	20,740	112,880	63,349
	Trademarks and other intangibles	111	286,300	–
Liabilities assumed	Accounts payable and accrued liabilities	$ –	$ 56,041	$ 27,182
	Future income tax	–	1,120	–
Net assets acquired		$ 49,613	$ 469,279	$ 161,074
Consideration	Cash paid	$ 49,613	$ 469,279	$ 161,074

NOTE 16 EMPLOYEE PENSION AND OTHER BENEFITS PLANS

The Company provides benefits and defined contribution pension plans as well as other benefits plans such as health insurance, life insurance and dental plans to eligible employees and retired employees.

Under the terms of the defined benefit pension plans, pensions are based on years of service and the average salary of the last employment years or the career salary. The Company and the employee share the cost of the contributions which are based on recommendations from independent actuaries. For defined benefits plans, actuarial valuations were performed in December 2009, covering more than 93% of the obligations with respect to this type of plan. The measurement date of pension plan assets and liabilities is December 31.

The defined contribution pension plans entitle participating employees to an annual contribution giving right to a pension.

Defined benefit pension plans assets are held by several independent trusts, and the composition of the overall portfolio as at December 31, 2009 was 1% in cash and short-term investments, 51% in bonds and 48% in shares of Canadian, US and foreign companies. For the moment, the Company does not expect any major change to this asset allocation. The composition as of December 31, 2008 was 7% in cash and short-term investments, 52% in bonds and 41% in shares of Canadian, US and foreign companies.

NOTE 16 EMPLOYEE PENSION AND OTHER BENEFITS PLANS (CONT'D)

FINANCIAL POSITION OF THE PLANS

	2010		2009	
	Defined benefit pension plans	Other benefits plans	Defined benefit pension plans	Other benefits plans
Changes in accrued benefit obligations				
Benefit obligations at beginning of year	$ 169,680	$ 11,330	$ 196,170	12,684
Addition during the year	–	–	–	26
Current service cost	4,573	24	6,137	231
Interest cost	12,302	705	10,834	674
Benefits paid	(13,689)	(1,037)	(12,848)	(1,222)
Actuarial losses (gains)	27,325	(43)	(31,341)	(1,448)
Foreign currency (gain) loss	(817)	(384)	728	385
Benefit obligations at end of year	199,374	10,595	169,680	11,330
Changes in fair value of plan assets				
Fair value of plan assets at beginning of year	166,708	–	192,060	–
Actual return (loss) on plan assets	23,847	–	(22,784)	–
Employer contributions	6,264	1,037	8,611	1,035
Employee contributions	1,046	–	1,100	187
Benefits paid	(13,689)	(1,037)	(12,848)	(1,222)
Foreign currency (loss) gain	(548)	–	569	–
Fair value of plan assets at end of year	183,628	–	166,708	–
Funded status				
Deficit, end of year	(15,746)	(10,595)	(2,972)	(11,330)
Unamortized actuarial losses	83,889	608	68,628	505
Unamortized past service cost	645	139	853	201
Valuation allowance	(295)	–	(559)	–
Unamortized transitional (asset) obligation	(5,282)	581	(6,437)	777
Asset (liability) as at the measurement date	63,211	(9,267)	59,513	(9,847)
Employer contributions made from the measurement date to the end of the year	1,240	11	1,527	50
Net asset (liability) recognized in the balance sheet	$ 64,451	$ (9,256)	$ 61,040	$ (9,797)

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

NOTE 16 EMPLOYEE PENSION AND OTHER BENEFITS PLANS (CONT'D)

EMPLOYEE BENEFITS PLANS EXPENSE

	2010		2009	
	Defined benefit pension plans	Other benefits plans	Defined benefit pension plans	Other benefits plans
Defined benefit plans				
Employer current service cost	$ 3,526	$ 24	$ 5,037	$ 42
Interest cost on benefit obligations	12,302	705	10,834	674
Actual return on plan assets	(23,847)	–	22,784	–
Actuarial losses (gains)	27,325	(131)	(31,341)	(1,448)
Curtailment	87	104	–	–
Unadjusted benefits expense (income) before taking into account the long-term nature of the cost	19,393	702	7,314	(732)
Difference between expected return and actual return on plan assets	10,075	–	(37,117)	–
Difference between amortized past service costs and plan amendment for the year	121	31	115	59
Difference between net actuarial loss recognized and actuarial loss on benefit obligations	(25,692)	41	34,651	1,573
Transitional (asset) obligation amortization	(1,155)	196	(1,156)	196
Defined benefit plans expense before valuation allowance	2,742	970	3,807	1,096
Valuation allowance	(264)	–	(18)	–
Defined benefit plans expense	2,478	970	3,789	1,096
Defined contribution plans expense	17,997	–	15,537	–
Total benefit plans expense	$ 20,475	$ 970	$ 19,326	$ 1,096

For the year ended March 31, 2010, the Company's total expense for all its employee benefits plans was $21,445,000 ($20,422,000 in 2009) and the total Company contributions to the employee benefits plans was $25,298,000 ($25,183,000 in 2009).

For the purposes of determining the defined benefit pension cost, the assets of the plans were smoothed. The asset valuation method used is a smoothed value recognizing gains and losses over a 5-year period, at a rate of 20% per year. Those gains and losses represent the difference between the actual return and the expected long-term return of the pension fund. This method aims at reducing the effect of short-term variations in financial markets.

Weighted average assumptions

To determine benefits obligation at the end of year:				
Discount rate	6.00%	5.93%	7.47%	6.68%
Rate of compensation increase	3.50%	3.50%	3.50%	3.50%
To determine benefits plans expenses:				
Discount rate	7.47%	6.68%	5.61%	5.44%
Expected long-term rate of return on plan assets	6.76%	N/A	7.01%	N/A
Rate of compensation increase	3.50%	3.50%	3.50%	3.50%

For measurement purposes, a 5.5% to 11.0% annual rate of increase was used for health, life insurance and dental plan costs for the year 2011 and this rate is assumed to decrease gradually to 5.25% in 2015. In comparison, during the previous year, a 6.3% to 7.6% annual rate was used for the year 2010 and that rate was assumed to decrease gradually to 5% in 2014.

NOTE 17 COMMITMENTS AND CONTINGENCIES

LEASES

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

Less than 1 year	$ 12,600
1-2 years	10,285
2-3 years	8,161
3-4 years	7,094
4-5 years	5,261
More than 5 years	6,977
	$ 50,378

The Company guarantees to certain lessors a portion of the residual value of certain leased assets with respect to operations which mature until 2015. If the market value of leased assets, at the end of the respective operating lease term, is inferior to the guaranteed residual value, the Company is obligated to indemnify the lessors, specific to certain conditions, for the shortfall up to a maximum value. The Company believes that the potential indemnification will not have a significant effect on the consolidated financial statements.

CLAIMS

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

INDEMNIFICATIONS

The Company from time to time offers indemnifications to third parties in the normal course of its business, in connection with business or asset acquisitions or dispositions. These indemnification provisions may be in connection with breach of representations and warranties and for future claims for certain liabilities, including liabilities related to tax and environmental matters. The terms of these indemnification provisions vary in duration. At March 31, 2010, given that the nature and amount of such indemnifications depend on future events, the Company is unable to reasonably estimate its maximum potential liability under these agreements. The Company has not made any significant indemnification payments in the past, and as at March 31, 2010 and 2009, the Company has not recorded a liability associated with these indemnifications.

NOTE 18 RELATED PARTY TRANSACTIONS

The Company receives and provides goods and services from and to companies subject to significant influence through ownership by its principal shareholder. These transactions were made in the normal course of business and have been recorded at the exchange amount which corresponds to the fair market value, being the market value of similar transactions.

Goods and services received were the following:

	2010	2009
Rent, travel, transport and lodging expenses and canned goods	$ 3,785	$ 4,923
Management fees for compensation of the Chairman of the Board	$ 500	$ 500
	$ 4,285	$ 5,423

Goods and services provided were the following:

Dairy products and services provided by the Company	$ 384	$ 528

There is an amount payable by the Company of $61,000 with respect to these transactions as at March 31, 2010 ($1,380,000 in 2009).

NOTE 19 FINANCIAL INSTRUMENTS

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

A) FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company has determined that the fair value of its financial assets and financial liabilities with short-term maturities approximates their carrying value. These financial instruments include cash and cash equivalents, accounts receivable, bank loans, accounts payable and accrued liabilities. The table below shows the fair value and the carrying value of other financial instruments as at March 31, 2010 and 2009. Since estimates are used to determine fair value, they must not be interpreted as being realizable in the event of a settlement of the instruments.

	2010		2009	
	Fair Value	Carrying Value	Fair value	Carrying value
Other assets that meet the definition of a financial asset	$ 1,516	$ 1,538	$ 1,719	$ 1,735
Long-term debt	420,922	380,790	615,554	617,486
Interest rate swaps	(372)	(372)	(1,785)	(1,785)
Currency forwards	(247)	(247)	233	233

The following table summarizes the financial instruments measured at fair value in the consolidated balance sheet as at March 31, 2010, classified using the fair value hierarchy described in Note 1.

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 54,819	$ –	$ –	$ –
Interest rate swaps	$ –	$ (372)	$ –	$ –
Currency forwards	$ –	$ (247)	$ –	$ –

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

B) CREDIT RISK

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

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

The Company grants credit to its customers in the normal course of business. Credit valuations are performed on a regular basis and the financial statements take into account an allowance for bad debts.

The Company considers that it has low exposure to concentration of credit risk with respect to accounts receivable from customers due to its large and diverse customer base operating and its geographic diversity. There are no accounts receivable from any individual customer that exceeded 10% of the total balance of accounts receivable as at March 31, 2010.

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

NOTE 19 FINANCIAL INSTRUMENTS (CONT'D)

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

C) LIQUIDITY RISK

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure and financial leverage, as outlined in Note 20-Capital Disclosures. It also manages liquidity risk by continuously monitoring actual and projected cash flows. The Board of Directors reviews and approves the Company's operating and capital budgets, as well as any material transactions out of the normal course of business.

D) INTEREST RATE RISK

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

For the fiscal year ended March 31, 2010, the interest expense on long-term debt totalled $29,901,000 ($20,684,000 in March 31, 2009). The interest accrued to March 31, 2010 was an amount of $6,660,000 ($8,661,000 at March 31, 2009).

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

As at March 31, 2010, the net amount exposed to short-term rates fluctuations was approximately $61,500,000. Based on this exposure, an assumed 1 percentage point increase in interest rate would have an unfavourable impact of approximately $440,000 on net earnings with an equal but opposite effect for an assumed 1 percentage point decrease. The Company uses derivative contracts to manage the combination of floating interest rates on its bank debt.

E) FOREIGN EXCHANGE RISK

The Company operates internationally and is exposed to foreign exchange risk resulting from various foreign currency transactions. Foreign exchange transaction risk arises primarily from future commercial transactions that are denominated in a currency that is not the functional currency of the Company's business unit that is party to the transaction. The Company had outstanding foreign currency contracts as at the balance sheet date for the purchase of 2,300,000 euros (1,800,000 euros in 2009) and 4,000,000 US dollars (none in 2009).

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

	2010	2009
	US dollar impact	US dollar impact
Increase in net earnings	$ 895	$ 514
Increase in comprehensive income	$ 10,004	$ 8,050

F) COMMODITY PRICE RISK

The Company occasionally enters into contracts to hedge against fluctuations in the price of commodities. Outstanding contracts as at the balance sheet date had a negative fair value of approximately $1,119,000 (negative fair value of $3,790,000 in 2009). The Company does not use hedge accounting for these transactions.

NOTE 20 CAPITAL DISCLOSURES

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

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

The primary measure used by the Company to monitor its financial leverage is its ratio of net debt to shareholders' equity. The net debt-to-equity ratio as at March 31, 2010 and March 31, 2009 was as follows:

	2010	2009
Bank loans	$ 61,572	$ 139,399
Current portion of long-term debt	–	214,421
Long-term debt	380,790	403,065
Cash and cash equivalents	(54,819)	(43,884)
Net debt	$ 387,543	$ 713,001
Shareholders' equity	$ 2,028,598	$ 1,972,348
Net debt-to-equity	0.19:1	0.36:1

The Company has existing credit facilities which require a quarterly review of financial ratios and the Company is not in violation of any such ratios as at March 31, 2010.

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

NOTE 21 SEGMENTED INFORMATION

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

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

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

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

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

NOTE 21 SEGMENTED INFORMATION (CONT'D)

Information on operating sectors

	2010			2009		
	CEA	USA	Total	CEA	USA	Total
Revenues[1]						
Dairy products	$ 3,745,930	$ 1,906,189	$ 5,652,119	$ 3,323,541	$ 2,304,613	$ 5,628,154
Grocery products	158,463	–	158,463	165,109	–	165,109
	$ 3,904,393	$ 1,906,189	$ 5,810,582	$ 3,488,650	$ 2,304,613	$ 5,793,263
Earnings before interest, depreciation, and income taxes						
Dairy products	$ 457,895	$ 218,375	$ 676,270	$ 378,898	$ 152,006	$ 530,904
Grocery products	15,801	–	15,801	16,895	–	16,895
	$ 473,696	$ 218,375	$ 692,071	$ 395,793	$ 152,006	$ 547,799
Depreciation and amortization						
Dairy products	$ 54,843	$ 49,844	$ 104,687	$ 41,560	$ 58,849	$ 100,409
Grocery products	8,819	–	8,819	7,875	–	7,875
	$ 63,662	$ 49,844	$ 113,506	$ 49,435	$ 58,849	$ 108,284
Operating income						
Dairy products	$ 403,052	$ 168,531	$ 571,583	$ 337,338	$ 93,157	$ 430,495
Grocery products	6,982	–	6,982	9,020	–	9,020
	$ 410,034	$ 168,531	$ 578,565	$ 346,358	$ 93,157	$ 439,515
Interest, net			35,062			31,715
Earnings before income taxes			543,503			407,800
Income taxes			160,789			128,852
Net earnings			$ 382,714			$ 278,948

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

NOTE 21 SEGMENTED INFORMATION (CONT'D)

Geographic information

	2010				2009			
	Canada	Argentina & Europe	United States	Total	Canada	Argentina & Europe	United States	Total
Revenues[1]								
Dairy products	$ 3,441,501	$ 304,429	$ 1,906,189	$ 5,652,119	$ 2,988,513	$ 335,028	$ 2,304,613	$ 5,628,154
Grocery products	158,463	–	–	158,463	165,109	–	–	165,109
	$ 3,599,964	$ 304,429	$ 1,906,189	$ 5,810,582	$ 3,153,622	$ 335,028	$ 2,304,613	$ 5,793,263
Total assets								
Dairy products	$ 1,648,241	$ 190,868	$ 1,142,115	$ 2,981,224	$ 1,660,987	$ 271,142	$ 1,295,986	$ 3,228,115
Grocery products	272,227	–	–	272,227	270,988	–	–	270,988
	$ 1,920,468	$ 190,868	$ 1,142,115	$ 3,253,451	$ 1,931,975	$ 271,142	$ 1,295,986	$ 3,499,103
Net book value of fixed assets								
Dairy products	$ 426,913	$ 76,460	$ 497,636	$ 1,001,009	$ 438,675	$ 97,210	$ 572,615	$ 1,108,500
Grocery products	37,747	–	–	37,747	41,162	–	–	41,162
	$ 464,660	$ 76,460	$ 497,636	$ 1,038,756	$ 479,837	$ 97,210	$ 572,615	$ 1,149,662
Additions to fixed assets								
Dairy products	$ 32,050	$ 5,597	$ 63,585	$ 101,232	$ 43,359	$ 12,107	$ 63,000	$ 118,466
Grocery products	5,644	–	–	5,644	3,397	–	–	3,397
	$ 37,694	$ 5,597	$ 63,585	$ 106,876	$ 46,756	$ 12,107	$ 63,000	$ 121,863
Goodwill								
Dairy products	269,064	365	277,836	547,265	$ 269,204	$ 395	$ 321,254	$ 590,853
Grocery products	169,430	–	–	169,430	169,430	–	–	169,430
	$ 438,494	$ 365	$ 277,836	$ 716,695	$ 438,634	$ 395	$ 321,254	$ 760,283

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

NOTE 22 COMPARATIVE AMOUNTS

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

www.saputo.com