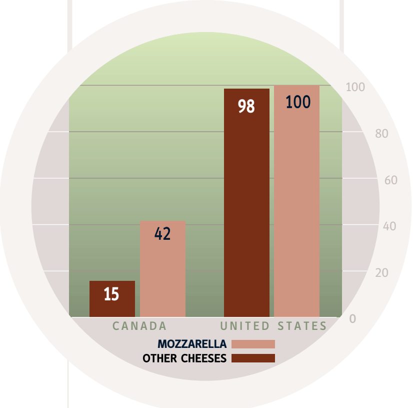
Management's discussion

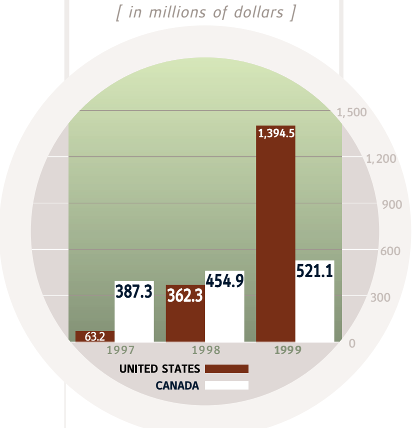
AND ANALYSIS OF OPERATING RESULTS AND FINANCIAL POSITION

1999 ANNUAL PRODUCTION
[255 million kilograms]



Saputo Group Inc. achieved excellent financial performance during the 1999 fiscal year. Sales more than doubled and net earnings rose 73% over the previous fiscal year. This performance is the result of the rapid integration of Stella Foods Inc., acquired in December 1997 and renamed Saputo Cheese USA Inc. on December 1, 1998, and the purchase of Avonmore Cheese Inc. and Waterford Food Products Inc. in May 1998. In addition to Avonmore Cheese Inc. and Waterford Food Products Inc., the Company acquired two Canadian companies, Riverside Cheese and Butter Inc. and Bari Cheese Ltd., in September 1998. All these transactions are reflected in the figures for the year ended March 31, 1999. These acquisitions redefined the Company, which, in the 1999 fiscal year, produced over 255 million kilos of cheese and generated 73% of its sales in the United States. The continuing growth of Saputo allowed a solid structure to be set up, giving the Company an opportunity to pursue its growth internationally.

REVENUES
[in millions of dollars]

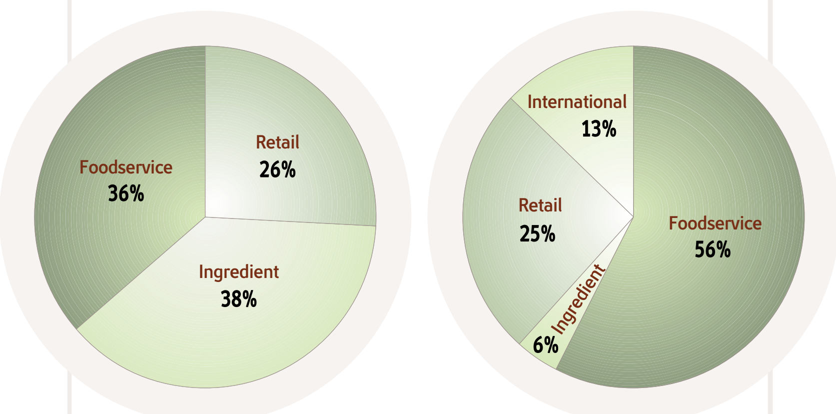


OPERATING RESULTS

During 1999, Saputo **sales** totalled $1.9 billion, an increase of 134% over the 1998 figure of $817.3 million.

The American division was the principal source of this increase, generating $1.03 billion more in sales than in the 1998 fiscal year. This reflects a full year's operation of Saputo Cheese USA Inc., compared with sixteen weeks in 1998. Two factors also favoured our American sales: the conversion of our revenues into Canadian dollars gave us a $69 million advantage this year, owing to the better exchange rate than in the previous year. As well, $163 million of our revenues were generated by the rise in the basic cheese price in the United States compared with the 1998 fiscal year.

SALES BY MARKET SEGMENT

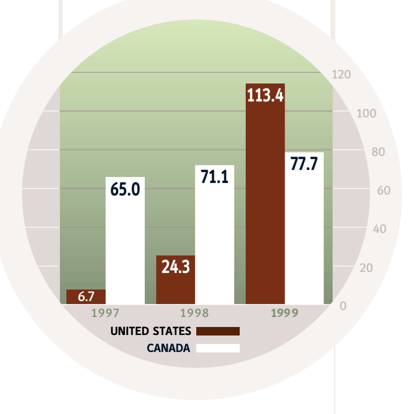


UNITED STATES
total: 1,394 million dollars

CANADA
total: 521 million dollars

On the Canadian side, sales reached $521.1 million during the 1999 fiscal year, a 14.6% increase compared with the 1998 figure of $454.9 million. Froma-Dar Inc. and Crémerie des Trois-Rivières, Limitée, two companies acquired during 1998, made a full contribution to the year's results; indeed, their share, combined with the two Canadian acquisitions completed in the 1999 fiscal year, accounts for 72% of this increase. The second major reason for the increase in sales was the contribution from the international sector, which rose by $12.2 million, a 22.9% increase over the 1998 results.

EBITDA
[in millions of dollars]

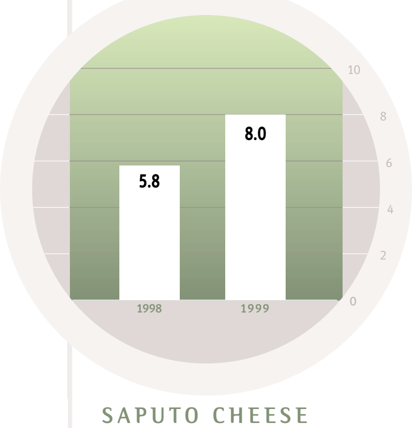


Earnings before interest, taxes, depreciation and amortization (EBITDA) rose 100% compared with the 1998 figure of $95.4 million, reaching $191.1 million in 1999 ($77.7 million in Canada and $113.4 in the United States). 93% of this increase is accounted for by our American activities.

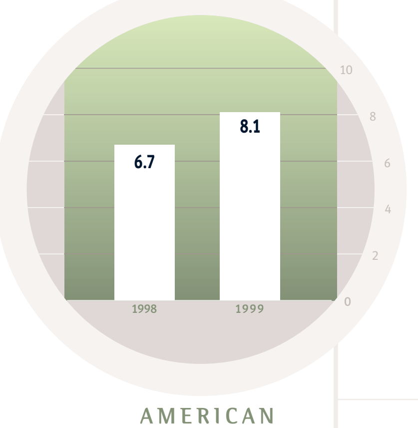
The EBITDA margin decreased from 11.7% for 1998 to 10% for 1999. This decrease is the result of the fact that we operated most of our American division for a full year compared with sixteen weeks last year. This division generates sales that are twice as large as in Canada, but with a smaller profit margin than for our Canadian operations. Downward pressure was therefore exerted on the overall EBITDA margin. However, it should be emphasized that the EBITDA margin of our American activities improved during fiscal 1999, reaching 8.1% compared with 6.7% in 1998. More specifically, this represents an additional $29.1 million in EBITDA solely from activities related to Saputo Cheese USA Inc., for which the EBITDA margin grew from 5.8% in 1998 to 8% in 1999. This attests to the success of the whole integration process carried out during the year.

For purposes of comparison with the 1998 fiscal year, if the exchange rate and selling price per pound of cheese in the United States had remained unchanged in 1999, the EBITDA margin of our American division would have been 9.3%, or 1.2% higher than the 8.1% actually achieved. Fluctuations in cheese prices on the American market have a direct impact on profit margins. An increase in the price of cheese boosts earnings without changing the profit in absolute dollars because the price increase of the raw material keeps pace with the price of cheese.

EBITDA MARGIN
[percentage]



SAPUTO CHEESE U.S.A. INC.



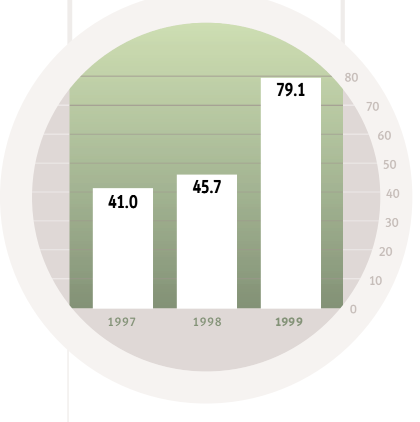
AMERICAN ACTIVITIES

Canadian activities amounted to $77.7 million in EBITDA in 1999, up 9.3% over the 1998 figure of $71.1 million. This increase is a direct result of the growth in Canadian sales during 1999, which increased by 14.6% over the previous year. The EBITDA margin went from 15.6% in 1998 to 14.9% in 1999. This decrease is primarily linked to the acquisition of companies whose EBITDA margin at the time of purchase was lower than that of our Canadian activities, in particular Riverside Cheese and Butter Inc. and Bari Cheese Ltd. Both were acquired in September 1998 and are currently in the process of being integrated. Another factor explaining the decrease is the fluid milk sector, which has a lower EBITDA margin and was operated for 52 weeks during 1999 compared with 34 weeks in 1998. Finally, growth in the international sector, another sector with lower margins, also exerted downward pressure on the EBITDA margin.

Depreciation and amortization expenses totalled $34.9 million during the 1999 fiscal year, compared with $15.7 million in the previous year. This increase, which mainly results from the twelve-month operation of Saputo Cheese USA Inc., also reflects additional capital expenditures during the year.

Interest expenses amounted to $33.9 million in 1999, up $25 million compared with $8.9 million in 1998. This increase reflects the use of financing set up for the acquisition of Stella Foods Inc. over the whole 1999 period, compared with sixteen weeks in 1998. It also reflects the $50 million in additional financing put in place at the time of the Avonmore-Waterford acquisition in May 1998. During 1999, we also repaid $57 million of the long-term debt.

NET EARNINGS
[in millions of dollars]



Income tax expenses amounted to $43.2 million for 1999, compared with $25.1 million the previous year. The Company's tax rate remained substantially the same as in the previous year and this despite an increase in the profitability of its American activities. This is the result of certain financial transactions and corporate reorganizations.

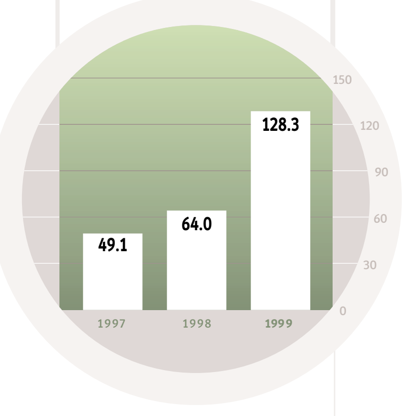
Net earnings attained $79.1 million for the 1999 fiscal year, ($1.63 per share), compared with $45.7 million in 1998 ($1.23 per share), a 73% increase mainly attributable to our American operations. Integrating these activities enabled us to improve certain manufacturing processes, streamline our operation and generally apply more stringent management.

CASH AND FINANCIAL RESOURCES

Cash generated, before changes in non-cash working capital items, was $128.3 million, an increase of 100.5% compared with the 1998 figure of $64 million. The Company took advantage of these major inflows of cash to gradually build up its inventory and eliminate the costly off-balance sheet financing activities that were being used by Stella Foods Inc. at the time it was acquired in December 1997.

In view of this cash flow and the successful integration of the American activities, the Company accelerated the execution of certain additional capital expenditure projects. Expenditures totalled $62.6 million in 1999 compared with $22 million in 1998 and will enable the Company to increase the profitability of its manufacturing operation through the upgrading of production processes and modernization of the Hinesburg, Vermont plant. Updating this plant will allow for better geographical distribution of our American production volumes. 1999 was marked by the acquisition of Avonmore Cheese Inc. and Waterford Food Products Inc. in May 1998, and Riverside Cheese and Butter Inc. and Bari Cheese Ltd. in September 1998. These transactions amounted to $64.5 million and were financed with $50 million in bank loans, a $1.1 million issue in shares, and $13.4 million from current liquidities.

CASH FLOW GENERATED BY OPERATIONS
[in millions of dollars]



During 1999, the Company repaid $57 million of long-term debt, $18.5 million more than anticipated. It also paid shareholders $11.7 million in dividends and ended the fiscal year with $98.5 million of working capital, long-term debt (including the short-term portion) of $377.8 million and shareholders' equity of $449.9. The ratio of long-term debt to overall capitalization improved from 49.4% in 1998 to 45.6% in 1999.

For fiscal 2000, the Company forecasts net capital expenditures in the area of $38 million. This amount will be devoted mainly to the ongoing improvement of manufacturing processes and includes the cost of expanding the Company's head office, rendered necessary by the integrated approach the Group has taken in managing its Canadian and American activities. The Company also intends to repay $49.1 million of the long-term debt, in accordance with the pre-established repayment schedules.

Cash flow generated by operations and the available but not used credit facilities, currently $80 million, should be sufficient for the Company to cover its capital expenditures and repay the long-term debt, while assuring corporate expansion. All other forms of additional financing will be evaluated if necessary.

FINANCIAL INSTRUMENTS, RISK AND UNCERTAINTY

To mitigate fluctuating interest rates, the Company concluded swap contracts allowing it to benefit from fixed rates during specific periods and protect itself against fluctuations. On the other hand, fluctuating exchange rates do not adversely affect Saputo's financial position because the cash generated from the American operation allows the Company to meet long-term debt obligations contracted in US dollars.

OUTLOOK

As the new millennium draws near, Saputo is up to the new challenges that will arise in its development. The rapid integration of our acquisitions over the last sixteen months demonstrates the Company's skill in transmitting its know-how and expertise to the newly acquired ventures.

Most of the changes planned for our American division have now been implemented and the 2000 fiscal year should reflect the completion of the integration process.

We will continue to deploy all our efforts in order to remain a low-cost cheese manufacturer. Moreover, if changes are introduced in the dairy regulations between Canada and the United States, the Company will be well placed, thanks to a substantial presence on both sides of the border.

With solid foundations, dedicated people and a healthy financial position, the Company believes it has all the resources to become an important international player.

THE YEAR 2000

For many companies, the arrival of the Year 2000 constitutes a risk for certain computers and computerized systems that are unable to read the year accurately, because it is shown in two digits instead of four.

Management believes that the Company is unlikely to experience such problems because its systems are relatively simple and only interact with third-party systems to a limited extent. Nevertheless, in October 1997, the Company launched a Year 2000 Compliance program to identify problems and take the necessary corrective action.

The Company compiled an exhaustive inventory of its computers, software and manufacturing and other equipment, and contacted the appropriate suppliers to obtain assurances of compliance. The Company also contacted all major clients and suppliers who might affect its activities, to determine the risks resulting from their inability to handle the changeover to the Year 2000. Tests on the Company's computers and software showed conclusively that information, accounting and financial systems were Year 2000 compliant. As regards to manufacturing and other equipment, the major components have already been replaced and the remainder should be replaced by September 1999. The Year 2000 Compliance program also encompassed the businesses acquired by Saputo and an emergency plan was prepared to deal with unforeseen circumstances.

Saputo Group Inc. is continuing its follow-up with key clients and suppliers to determine the status of each one. Although the Company is doing everything in its power to maintain good relations with business partners, it is unable to provide any assurances regarding compliance of third-party systems.

All phases of the program should be completed by fall 1999. The costs incurred should be less than $1 million, to be amortized over a three-year period.