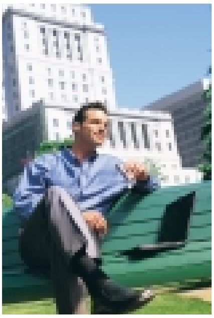
Interim Report

Fiscal 2002

1st Quarter



SAPUTO

Message to the shareholders
and analysis of operating results and financial position

We are pleased to present the financial results for the first quarter of fiscal 2002, ended June 30, 2001.

The Company started the new fiscal year with strong results, recording net earnings of $40.3 million or $0.79 (basic) per share, a 32.1% increase compared with the $30.5 million or $0.60 (basic) per share of the previous fiscal year. Reflected in these results are approximately $1 million in additional expenses associated with higher energy prices compared to the first quarter last year. Besides the continuous efforts in improving our operating process, the first quarter 2002 also benefited from the favourable impact of cheese prices in the United States, where the price per pound was more than US$0.40 higher than the average price for the same period a year earlier.

Earnings before interest, income taxes, depreciation and amortization (EBITDA) reached $91.1 million, an increase of 36.4% over the $66.8 million recorded for the first quarter of 2001. Nearly three-quarters of this increase was accounted for by the activities of Dairyworld, acquired on February 5 this year. The EBITDA margin on June 30, 2001 was 10.4%, lower compared with 13.9% at the same date last year. The main reason is the acquisition of Dairyworld, whose margins are currently lower than those of the Company's other activities. Since the acquisition, Dairyworld is undergoing an integration process in order to raise its profitability and efficiency to the same levels as those of the Company's other activities. The major part of the integration should be completed by March 31, 2002. The positive effects of the integration will materialize gradually between now and then.

The Company's revenues amounted to $876.4 million for the three months ended June 30, 2001, or 82.6% more than the $479.9 million recorded for the same period a year ago. This was the first full quarter for which Dairyworld contributed to the

Company's revenues, which explains 87% of the increase. The remainder is largely accounted for by an increase of approximately 37% in the average selling price per pound of cheese in the United States as well as a weaker Canadian dollar as to the US dollar, compared with the same period last year.

CASH AND FINANCIAL RESOURCES

Cash generated before changes in non-cash working capital items amounted to $61.3 million for the three-month period ended June 30, 2001, which is 30.7% more than the $46.9 million of the same quarter last year. This major inflow of funds allowed the Company to reimburse $19.3 million in bank loans and long-term debt, and still post a cash balance of $10.2 million at June 30, 2001. During the first quarter, additional capital expenditures amounted to $11.8 million. These amounts were spent to improve efficiency and profitability. The Company plans to add $52 million in capital expenditures during the current fiscal year. Additional sums may also be required for the integration of Dairyworld.

ACCOUNTING POLICY

The Company has adopted the new recommendations of the Canadian Institute of Chartered Accountants (CICA) concerning amortization of goodwill. Accordingly, goodwill ceased to be amortized starting April 1, 2001.

INFORMATION BY SECTOR

Dairy Products (Canada)

As a result of the Dairyworld contribution during the quarter ended June 30, 2001, revenues in this sector increased substantially to $496.6 million, or $347.9 million more than the $148.7 million of the previous fiscal year. Dairyworld contributed $346.2 million to these revenues, which basically explains the total increase in revenues. However, this acquisition has lowered the EBITDA margin, because Dairyworld generates a smaller EBITDA margin than the Company's other Canadian activities. As already mentioned, the current integration process should raise the Dairyworld EBITDA margin over the next few quarters. EBITDA at Dairyworld amounted to $18 million with a

5.2% margin, already an improvement over the 4.3% margin posted at the time it was acquired. EBITDA for the Company's other Canadian activities totalled $23 million, with a margin of 15.3%. At the end of the same period last year, EBITDA for Canadian activities amounted to $22.2 million, with a margin of 14.9%.

Dairy Products (United States)

Revenues for the first quarter ended June 30, 2001 amounted to $319.1 million, which is $52.6 million more than for the same period last year. This increase is explained by the higher average selling price per pound of cheese compared with the same period last year. This year, the average price per pound of cheese was US$0.41 higher as compared with the same period last year. This resulted in a favourable impact on revenues in the amount of $50 million. The remainder of the increase in revenues was accounted for by slightly higher volumes and the favourable effects of a lower Canadian dollar.

EBITDA for the first quarter of the new fiscal year amounted to $40.5 million, which is $6.2 million or 18.1% higher than the $34.3 million of the first quarter last year. The EBITDA margin went from 12.9% in the first quarter last year to 12.7% in the first quarter of the current fiscal year. Excluding the effect of the variation in the average selling price per pound of cheese and the favourable impact of the lower Canadian dollar, the margins for this period would be 13.2%, compared with 12.9% for the same period last year. The recovery of cheese prices on the American market benefited the Company, raising EBITDA by an additional $5 million for the quarter ended June 30, 2001. In addition, the favourable effects of rationalization during the previous fiscal year has also been reflected in this quarter's results.

Grocery Products

Revenues during the first quarter of fiscal 2002 amounted to $60.7 million. A year ago, they stood at $64.8 million. The $4.1 million decrease reflects the smaller number of promotional activities compared with the same period last year. Sales volume would have fallen more sharply had it not been for the outstanding performance of the new

Ah Caramel! cookies, launched under the Vachon brand in April. EBITDA amounted to $9.6 million, with an EBITDA margin of 15.9%, the same as at the end of the same quarter last year.

To improve profitability in this whole sector, the Company signed a partnership agreement on July 16 with Dare Foods, through its Culinar subsidiary. Under this agreement, Dare Foods acquired the manufacturing and marketing activities for the cookies, fine breads and soups in the Company's Grocery Products sector. In exchange, the Company now holds a 21% interest in Dare Foods. This will enable the Company's Grocery Products sector to focus solely on the snack cakes category and maximize its development.

DIVIDENDS

In light of the Company's strong performance, the Board of Directors has revised the Company's dividend policy upwards. The quarterly dividend is to be increased from 9 cents to 11 cents per share, for a total for 44 cents per share annually. This decision will take effect with payment of the dividend of August 31, 2001 to shareholders of record at August 17, 2001.

In conclusion, our recent initiatives in the Cookies, Fine breads and Soups categories and the introduction of new operating structures in the form of business divisions will allow the Company to maximize future development and concentrate more intensively in each division, to the benefit of all shareholders.

LINO SAPUTO
Chairman of the Board and Chief Executive Officer
August 1, 2001

Consolidated statements of **earnings** *(unaudited)*

For the three-month periods ended June 30

(in thousands of dollars, except per share amounts)	2001	2000
REVENUES	**$ 876,406**	$ 479,949
Cost of sales, selling and administrative expenses	**785,297**	413,190
EARNINGS BEFORE INTEREST, DEPRECIATION, AMORTIZATION AND INCOME TAXES	**91,109**	66,759
Depreciation of fixed assets	**18,257**	12,392
OPERATING INCOME	**72,852**	54,367
Interest on long-term debt	**14,291**	9,907
Other interest	**(338)**	(57)
EARNINGS BEFORE INCOME TAXES AND AMORTIZATION OF GOODWILL	**58,899**	44,517
Income taxes	**18,622**	14,027
EARNINGS BEFORE AMORTIZATION OF GOODWILL	**40,277**	30,490
Amortization of goodwill***	**—**	3,180
NET EARNINGS	**$ 40,277**	$ 27,310
PER SHARE		
Net earnings *(earnings before amortization of goodwill in 2000)*		
Basic	**$ 0.79**	$ 0.60
Diluted	**$ 0.78**	$ 0.59

*** The Company adopted the new Canadian Institute of Chartered Accountants accounting recommendations on amortization of goodwill. Goodwill ceased to be amortized in accordance with these recommendations since April 1, 2001. Had the application of the new recommendations been permitted during the period of three months ended June 30, 2000, net earnings would have been $30,490,000.

Consolidated statements of retained **earnings** *(unaudited)*

For the three-month periods ended June 30

(in thousands of dollars)	2001	2000
RETAINED EARNINGS, BEGINNING OF PERIOD	**$ 271,087**	$ 177,746
Net earnings	**40,277**	27,310
RETAINED EARNINGS, END OF PERIOD	**$ 311,364**	$ 205,056

Segmented **information** *(unaudited)*

For the three-month periods ended June 30

(in thousands of dollars)	2001			2000		
	Canada	**United States**	**Total**	Canada	United States	Total
REVENUES						
Dairy products	**$ 496,603**	**$ 319,122**	**$ 815,725**	$ 148,687	$ 266,455	$ 415,142
Grocery products	**60,681**	**—**	**60,681**	64,807	—	64,807
	$ 557,284	**$ 319,122**	**$ 876,406**	$ 213,494	$ 266,455	$ 479,949
EARNINGS BEFORE INTEREST, DEPRECIATION, AMORTIZATION AND INCOME TAXES						
Dairy products	**$ 40,971**	**$ 40,491**	**$ 81,462**	$ 22,185	$ 34,315	$ 56,500
Grocery products	**9,647**	**—**	**9,647**	10,259	—	10,259
	$ 50,618	**$ 40,491**	**$ 91,109**	$ 32,444	$ 34,315	$ 66,759
DEPRECIATION OF FIXED ASSETS						
Dairy products	**$ 7,409**	**$ 8,378**	**$ 15,787**	$ 2,959	$ 6,902	$ 9,861
Grocery products	**2,470**	**—**	**2,470**	2,531	—	2,531
	$ 9,879	**$ 8,378**	**$ 18,257**	$ 5,490	$ 6,902	$ 12,392
OPERATING INCOME						
Dairy products	**$ 33,562**	**$ 32,113**	**$ 65,675**	$ 19,226	$ 27,413	$ 46,639
Grocery products	**7,177**	**—**	**7,177**	7,728	—	7,728
	$ 40,739	**$ 32,113**	**$ 72,852**	$ 26,954	$ 27,413	$ 54,367
Interest			**13,953**			9,850
EARNINGS BEFORE INCOME TAXES AND AMORTIZATION OF GOODWILL			**58,899**			44,517
Income taxes			**18,622**			14,027
EARNINGS BEFORE AMORTIZATION OF GOODWILL			**40,277**			30,490
Amortization of goodwill***			**—**			3,180
NET EARNINGS			**$ 40,277**			$ 27,310

Consolidated statements of **cash flows**

(unaudited)

For the three-month periods ended June 30

(in thousands of dollars, except per share amounts)	2001	2000
Cash flows related to the following activities:		
OPERATING		
Net earnings	$ 40,277	$ 27,310
Items not affecting cash		
Depreciation and amortization	18,257	15,572
Future income taxes	2,789	4,031
	61,323	46,913
Currency loss on cash held in foreign currency	64	2
Changes in non-cash operating working capital items	(28,373)	(20,772)
	33,014	26,143
INVESTING		
Net additions to fixed assets	(11,826)	(6,513)
Other assets	(6,799)	743
Foreign currency translation adjustment	22,807	(12,304)
	4,182	(18,074)
FINANCING		
Bank loans	(9,343)	(1,270)
Repayment of long-term debt	(10,000)	(48,722)
Issuance of share capital	2,326	71
Foreign currency translation adjustment	(16,169)	10,180
	(33,186)	(39,741)
INCREASE (DECREASE) IN CASH	4,010	(31,672)
CURRENCY LOSS ON CASH HELD IN FOREIGN CURRENCY	(64)	(2)
CASH, BEGINNING OF PERIOD	6,294	4,310
CASH (BANK OVERDRAFT), END OF PERIOD	$ 10,240	$ (27,364)
SUPPLEMENTAL INFORMATION		
Interest paid	$ 19,617	$ 17,115
Income taxes paid	$ 4,587	$ 4,164
PER SHARE		
Net inflow of cash related to operations before changes in non-cash operating working capital items		
Basic	$ 1.20	$ 0.92
Diluted	$ 1.19	$ 0.89

Consolidated **balance sheets**

(in thousands of dollars)	*(unaudited)* June 30, 2001	*(audited)* March 31, 2001
ASSETS		
CURRENT ASSETS		
Cash	$ 10,240	$ 6,294
Receivables	276,343	279,493
Inventories	398,110	376,447
Income taxes	2,500	2,866
Future income taxes	20,956	22,751
Prepaid expenses and other assets	9,856	10,628
	718,005	698,479
FIXED ASSETS	655,840	675,021
GOODWILL, UNAMORTIZED PORTION (COST OF $619,617)	582,589	592,646
OTHER ASSETS	40,769	33,970
FUTURE INCOME TAXES	12,267	12,863
	$ 2,009,470	$ 2,012,979
LIABILITIES		
CURRENT LIABILITIES		
Bank loans	$ 1,300	$ 10,643
Accounts payable and accrued liabilities	316,632	320,426
Income taxes	41,862	29,457
Current portion of long-term debt	110,000	95,075
	469,794	455,601
LONG-TERM DEBT	661,253	700,821
EMPLOYEE FUTURE BENEFITS	11,838	11,574
FUTURE INCOME TAXES	95,954	97,082
	1,238,839	1,265,078
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (51 335 031 SHARES, 51 225 390 SHARES AS AT MARCH 31, 2001)	453,373	451,047
RETAINED EARNINGS	311,364	271,087
FOREIGN CURRENCY TRANSLATION ADJUSTMENT	5,894	25,767
	770,631	747,901
	$ 2,009,470	$ 2,012,979

Notes relating to the **consolidated financial statements**

NOTE 1 - ACCOUNTING POLICIES

The unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles used in Canada and applied in the same manner as the most recently audited financial statements. The unaudited consolidated financial statements do not include all the information and notes required according to generally accepted accounting principles for annual financial statements, and should therefore be read with the audited consolidated financial statements and the notes included in the Company's annual report for the year ended March 31, 2001.

NOTE 2 - ACCOUNTING CHANGES

As of March 31, 2001, the Company retroactively adopted the new recommendations of the CICA regarding the method used to calculate diluted earnings per share. In accordance with the new recommendations, the treasury stock method is now used to determine the dilutive effect of share options.

Following this change, the earnings before amortization of goodwill per common share for the quarter ended June 30, 2000 has been restated from $ 0.58 to $ 0.59. This change in accounting policy had no effect on the current period.

The weighted average number of common shares outstanding for the three-month period ended June 30, 2001 is 51 273 768 (51 202 150 as at June 30, 2000).

The weighted average number of common shares outstanding, including the potentially dilutive shares that could be issued following the exercise of options granted under the Company's share option plan for the three-month periods ended June 30, 2001 and June 30, 2000 are 51,549,904 and 51,461,117 respectively.

NOTE 3 - SUBSEQUENT EVENT

On June 15, 2001, the Company entered into an agreement through its subsidiary Culinar pursuant to which Dare Foods acquired the cookies, fine breads and soups operations of the Company's Grocery Products sector. Following the close of the transaction, Saputo Inc. holds an interest of 21% in Dare Foods Ltd.

This non monetary transaction will be accounted for at the fair market value of the assets disposed of, without any impact on the Company's results.