

Saputo

Annual Information Form

June 9, 2010

Saputo

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CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This Annual Information Form contains forward-looking statements within the meaning of securities laws. These statements are based, among others, on Saputo's current assumptions, expectations, estimates, objectives, plans and intentions regarding projected revenues and expenses, the economic and industry environments in which the Company operates or which could affect its activities, its ability to attract and retain clients and consumers as well as its operating costs, raw materials and energy supplies which are subject to a number of risks and uncertainties. Forward-looking statements can generally be identified by the use of the conditional tense, the words "may", "should", "would", "believe", "plan", "expect", "intend", "anticipate", "estimate", "foresee", "objective" or "continue" or the negative of these terms or variations of them or words and expressions of similar nature. Actual results could differ materially from the conclusion, forecast or projection stated in such forward-looking information. As a result, the Company cannot guarantee that any forward-looking statements will materialize. Assumptions, expectations and estimates made in the preparation of forward-looking statements and risks that could cause actual results to differ materially from current expectations are discussed in the Company's materials filed with the Canadian securities regulatory authorities from time to time, including the "Risks and Uncertainties" section of the Management's Analysis included in the Company's 2010 Annual Report. Forward-looking information is based on Management's current estimates, expectations and assumptions, which Management believes are reasonable as of the current date. You should not place undue importance on forward-looking information and should not rely upon this information as of any other date. Except as required under applicable securities legislation, Saputo does not undertake to update these forward-looking statements, whether written or oral, that may be made from time to time by itself or on its behalf, whether as a result of new information, future events or otherwise.

ITEM 1 - THE COMPANY

1.1 INCORPORATION

Saputo Inc. was constituted by a Certificate of Amalgamation issued pursuant to the provisions of the *Canada Business Corporations Act* on July 1, 1992, which was amended on August 25, 1997 in order to, among other things, change the provisions attached to its authorized share capital. On August 3, 2000, the Certificate was further amended to, among other things, enable the directors to appoint additional directors between shareholders' meetings. The head office and principal place of business of the Company is located at 6869 Métropolitain Boulevard East, Saint-Léonard, Québec, H1P 1X8.

In this Annual Information Form, unless the context otherwise requires or indicates, the terms "Saputo" and "Company" mean Saputo Inc. itself or together with its subsidiaries and/or other entities under its direct or indirect control (collectively the "**Subsidiaries**"), or any one or more of them.

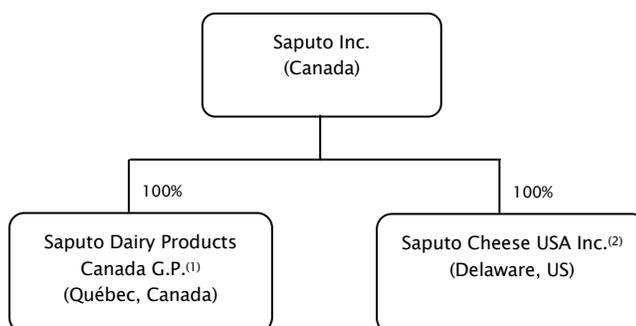
On November 23, 2001 and December 10, 2007, Saputo declared a 100% stock dividend on the Common Shares which, respectively, had the same effect as a two-for-one split (the "**Stock Splits**") and doubled the number of Common Shares outstanding. All references to numbers of Common Shares and prices of Common Shares made herein have been adjusted to reflect the Stock Splits.

In this Annual Information Form, all references to “\$” or “CDN\$” are to Canadian dollars and all references to “US\$” are to United States (“US”) dollars.

In this Annual Information Form, the information is being presented as of May 27, 2010, except for financial information and percentages derived therefrom which are given for the fiscal year ended March 31, 2010, and for the information relating to employees which is presented as of May 1, 2010.

1.2 CORPORATE STRUCTURE

The following organizational chart illustrates the corporate structure of Saputo and its significant Subsidiaries, and their respective jurisdictions of incorporation. For simplification purposes, this chart omits certain wholly-owned Subsidiaries.



- (1) Production, sale and distribution of dairy products, namely a wide range of cheese, fluid milk, cream products, yogurt, sour cream, cottage cheese, soft serve dairy mixes as well as juices and other beverages and other food products in Canada.
- (2) Production and sale of dairy products, mainly cheese, in the US.

ITEM 2 – GENERAL DEVELOPMENT OF THE BUSINESS

2.1 OVERVIEW

Saputo is the twelfth largest dairy processor in the world, the largest dairy processor in Canada, among the top three cheese producers in the US, the third largest dairy processor in Argentina and the largest snack-cake manufacturer in Canada. The Company’s total consolidated sales are generated as follows: 62.0% from Canada, 32.8% from the US, 0.9% from Europe and 4.3% from Argentina.

The Company operates its business through its Dairy Products Sector and its Grocery Products Sector, which represent respectively 97.3% and 2.7% of the Company’s total sales.

The Company operates in Canada, Europe, Argentina and the United States through 46 manufacturing facilities and employs approximately 9,800 employees. Its products are sold in more than 40 countries.

2.2 HISTORY (INCLUDING ACQUISITIONS)

Unless otherwise specified in this section, the acquisitions completed by Saputo, which are listed below, were done on a debt-free basis.

Mr. Emanuele (Lino) Saputo, Chairman of the Board of Saputo, founded the Company with his parents in 1954, producing quality cheese for the Italian community of Montréal.

Between 1970 and 1997, Saputo acquired several production operations, food distributors and developed its national distribution network, positioning itself in Canada as a leading producer of mozzarella. In 1988, the Company entered the US market by acquiring two cheese manufacturing plants. On July 31, 1997, Saputo acquired Crémèrie des Trois-Rivières, Limitée thereby entering the fluid milk market.

On October 15, 1997, the Company completed its initial public offering of 37,882,000 Common Shares at \$4.25 per share. In December of the same year, Saputo issued 36,000,000 special warrants at \$6.25 per warrant in order to finance, in part, the acquisition of Stella Holdings Inc. and its then owned subsidiaries, a US manufacturer of mozzarella and specialty cheeses.

The following table presents acquisitions completed by Saputo since its initial public offering. These acquisitions, which were in line with the Company's commitment to growth, contributed to making Saputo not only an important dairy processor in Canada, but also internationally.

Historical Acquisitions Completed by Saputo					
Acquisition Dates	Acquired Companies	Acquired Activities	Countries of Operations	Acquisition Price (Approximation)	Annual Target Sales (Approximation)
October 15, 1997 to March 31, 2006	Various companies (7)	Manufacturing, selling and distribution of dairy products (cheese, fluid milk and other) and snack-cakes	Canada	\$776 million	\$1.9 billion
October 15, 1997 to March 31, 2006	Various companies (5)	Manufacturing and selling of cheese	US	\$704 million	\$1.4 billion
October 15, 1997 to March 31, 2006	Molfino Hermanos S.A.	Manufacturing and selling of cheese	Argentina	\$60 million	\$117 million
April 13, 2006	Spezialitäten-Käserei De Lucia GmbH	Manufacturing and selling of Italian-style cheeses	Germany	\$7 million	\$28 million

Historical Acquisitions Completed by Saputo

Acquisition Dates	Acquired Companies	Acquired Activities	Countries of Operations	Acquisition Price (Approximation)	Annual Target Sales (Approximation)
July 28, 2006	Boulangerie Rondeau Inc. and Biscuits Rondeau Inc.	Manufacturing, selling and distribution of fresh tarts and fresh cookies	Canada	\$13 million	\$14 million
March 23, 2007	Dansco Dairy Products Limited	Manufacturing and selling of mostly mozzarella	United Kingdom	\$12 million	\$80 million
April 2, 2007	Activities related to Land O'Lakes West Coast industrial cheese business	Manufacturing and selling of mostly mozzarella and provolone as well as whey products	US	\$254 million	\$481 million
April 1, 2008	Alto Dairy Cooperative	Manufacturing and selling of Italian- and American-style cheese as well as whey products	US	\$161 million	\$389 million
December 1, 2008	Activities of Neilson Dairy	Manufacturing, selling and distribution of fluid milk, dairy beverages, cream products and non-dairy creamers, juices and drinks, primarily in Ontario.	Canada	\$469 million	\$600 million
July 20, 2009	Activities of F&A Dairy of California, Inc.	Manufacturing and selling of mostly mozzarella, provolone and whey products.	US	\$50 million	\$90 million

ITEM 3 – INDUSTRY OVERVIEW

3.1 DAIRY PRODUCTS INDUSTRY

3.1.1 THE CANADIAN DAIRY INDUSTRY

Regulatory Environment

In Canada, the dairy industry is regulated at the federal and provincial levels, either through shared responsibility or exclusive jurisdiction.

As a food processor and distributor, Saputo is subject to federal and provincial regulations pertaining to the content, composition, labelling, packaging, marketing and distribution of food products. Moreover, as a dairy processor and distributor, Saputo must comply with a series of federal and provincial regulations that govern the production, processing and distribution of milk and milk-related products. As such, it is subject to plant inspections, product testing and other regulatory scrutiny, both at the federal and provincial levels.

The amended regulations that established new standards of composition for cheese manufactured in and imported to Canada, as introduced by the federal government in December 2007, became effective on December 14, 2008. Saputo complies with the new requirements notwithstanding that they are not in line with the standards adopted within the international dairy industry.

Milk Supply

The Canadian dairy industry operates within a highly regulated environment. The Canadian Dairy Commission (“CDC”), a crown corporation, has been mandated by the federal government to implement and coordinate Canada’s national dairy policy which is predicated on shared jurisdictional powers between the federal and provincial governments. Fluid milk is regulated provincially, whereas industrial milk is regulated federally. “Fluid milk” refers to table milk or cream intended for consumption in fluid forms, whereas “industrial milk” is used for the manufacturing of all other dairy products, such as cheese, butter, ice cream and yogurt. According to CDC information published in May 2010, the fluid milk sector represents approximately 40% of raw milk delivered in Canada while the industrial milk sector represents approximately 60% of such deliveries.

The following table indicates the production volumes of selected dairy products manufactured in Canada in 2009:

Canadian Production Volumes of Selected Dairy Products in 2009⁽¹⁾ (in thousands)	
Natural cheese	373,119 Kg
Fluid milk and cream	3,033,982 Litres
Cottage cheese	26,079 Kg
Ice cream and other frozen products	331,139 Litres
Other dairy products	518,334 Kg

⁽¹⁾ Source: Canadian Dairy Information Centre / May 2010

The Canadian dairy industry operates under a national supply management system, which regulates imports and domestic production to ensure that the production meets the consumer demands, while at the same time providing a fair return for dairy farmers. The administration of the supply management system is predicated on the Market Sharing Quota (“MSQ”), which consists primarily in determining the national industrial milk production target required to meet the demand of the domestic and export markets. The MSQ is determined based on the calculation structure established under the National Milk Marketing Plan, which is a federal/provincial agreement. As such, the CDC sets the MSQ every dairy year (which runs from August 1st to July 31st). Then, the MSQ is allocated to each province, based on historical entitlements, who in turn allocates its share to its respective producers according to its own policies and the quotas owned by the producers. Québec and Ontario’s shares of the national MSQ are 45.4% and 31.4% respectively compared to 18.7% for the Western provinces and 4.5% for the Maritimes. The provincial marketing boards govern the production, pricing and marketing of milk within their own borders. In 2009, changes to the MSQ standards were introduced and should be completed by August 2010. As a result, the determination of the MSQ will then be based on a formula that would enable automatic adjustments every two months in order to reflect increasing or decreasing, as the case may be, of domestic requirements. Also, the farm management of the allocated MSQ should be modified to replace the yearly fixed quota by a twelve-month rolling quota. These changes are expected to make the supply management system more efficient and allow producers to manage more effectively their milk production.

Industrial milk is allocated according to a cascading system that classifies it into various classes of products to be manufactured. Priority of supply is given to the higher milk classes which command a higher milk price. Although there may be some provincial variations, quantities of milk in each class, other than fluid milk, are generally restricted in their growth. Since the MSQ is based on historical and the anticipated demand for dairy products, Management believes that the risk of a processor losing a significant part of its available industrial milk volume is low.

Canadian Market

The dairy processing industry made a major contribution to the Canadian economy with shipments valued at \$13.1 billion in 2008. The dairy processing sector accounted for approximately 15% of the estimated value of all food and beverage processing sales during the same year.

Approximately 81% of Canada’s dairy farms are located in the provinces of Québec and Ontario. The Western provinces and the Maritime provinces account for approximately 13% and 6%, respectively.

International Trade (Canada)

Imports. The Department of Foreign Affairs and International Trade administers Canada’s cheese import quotas. These quotas are divided into European Union (the “EU”) and non-EU sources. This results from Canada’s obligation to the EU to import from it 66% of the approximate 20.4 million kilograms (kg) of cheese that Canada is committed to import annually under the World Trade Organization (“WTO”) Agreement on Agriculture. Imports within this access commitment of 20.4 million kilograms of cheese are subject to low rates of duty while imports over this commitment are subject to significantly higher tariffs. Over-access tariffs for cheese currently stand at 245.5% of invoiced value. In January 2010, the Canadian Government converted its existing agricultural quantitative import control for milk proteins to a system of

tariff rate quotas (“TRQ”) compliant with GATT/WTO Article 28. This resulted from Canada’s desire to restrict previously tariff free or very low tariff import of milk proteins with a milk protein content of 85% or more by weight from other nations. Negotiations were held with the exporting countries to establish the levels of tariff quota volumes that would be allowed annually as well as a modest growth allowance. Imports within the newly defined access commitment of 10,000 million kilograms milk protein are subject to low rates of duty while imports over this commitment are subject to significantly higher tariffs. Over access tariffs for milk proteins currently stand at 270% of invoiced value. Since New Zealand and the EU are the largest exporters of milk proteins to Canada, they were granted the greatest access under the new TRQs. These arrangements have not altered the EU’s 66% access under the existing tariff quota regime for cheese.

Exports. Pursuant to the final decision rendered by the WTO in December 2002, which found that Canada’s dairy export practices constituted export subsidies, Canada is forced to export any quantity of milk products over its WTO commitments at prices based on Canada’s national raw milk prices. Such prices are above the international milk prices therefore making exports of dairy products from Canada non-competitive. The WTO decision does not deal with dairy ingredients such as lactose and whey.

3.1.2 THE US DAIRY INDUSTRY

Regulatory Environment

The production of all food products in the US is subject to extensive federal, state and local government regulations regarding advertising, quality, packaging, labelling and safety.

All food plants are subject to regulation and inspection by the US Food and Drug Administration (“FDA”) and by the US Department of Agriculture (“USDA”). Individual states may also enforce more stringent regulations regarding the manufacturing of food products. State and local government agencies work with the federal government to properly ensure the safety of food produced within their jurisdictions.

Milk Supply

In the US, there are two grades of milk: Grade A and Grade B. Grade A milk is produced under specific sanitary requirements and dairy producers must hold a Grade A shipping permit. Grade A milk accounts for 98% of the US milk supply and is used for fluid as well as for the manufacturing of various dairy products including cheese. Grade B milk represents 2% of the US milk production and is used exclusively for manufactured dairy products. Total milk production in the US approximates 833 million hectolitres per year.

The following table presents the utilization of the US milk production in 2009⁽¹⁾:

Utilization of US Milk Production in 2009 ⁽¹⁾	
Utilized as fluid milk and cream	28%
Manufactured into natural cheese	22%
Manufactured into frozen dairy products	4%
Manufactured into butter	6%
Used on farms where produced	1%
Other uses	39%

⁽¹⁾ Source: USDA, Dairy Products 2009 Summary, published May 2010. Calculated from Total Solids.

In the US, the pricing of milk involves a wide variety of regulations based on public policy decisions. These regulations encompass milk price supports, federal milk marketing orders, import restrictions, export subsidies, domestic and international food aid programs and state-level milk marketing programs. Generally, milk pricing is regulated by milk marketing orders under federal jurisdiction, with the largest exception being California which operates and regulates its own marketing order. In most cases, milk marketed within the US is priced according to its use. Minimum milk prices are set monthly by the milk marketing orders based on product price formulas. Price data used in the federal formulas takes into account the wholesale prices of cheese, butter, dry whey and non-fat dry milk. This data is collected through surveys conducted by USDA's National Agricultural Statistic Service. In the federal milk orders, milk used in fluid products is grouped in Class I, the highest price class. Milk used to produce ice cream, yogurt, cottage cheese, sour cream, ricotta cheese and other soft products is placed in Class II. Milk used to manufacture cheese, including cream cheese, is categorized in Class III and milk used to produce butter and milk powders is categorized in Class IV. California has a similar class pricing structure. As such, commodity prices are based on the Chicago Mercantile Exchange ("CME") prices for butter and cheese as well as on the California weighted average price for non-fat dry milk. In California, milk used to produce ice cream and sherbet is included in Class 3; milk used to manufacture butter and milk powder is included in Class 4(a) and milk used to produce cheese, including cream and ricotta cheeses, is included in Class 4(b).

As a result of an emergency hearing held on November 9, 2009, the California Department of Food and Agriculture ("CDFA") granted producers a temporary increase in the price of California milk for the months of January through March 2010. The decision resulted in an increase of ten cents per hundredweight in the price of milk used to manufacture cheese.

In 2009, the CDFA and the USDA implemented various measures with the objective to provide relief to distressed dairy farmers. These measures included increasing the Class 4b milk pricing formula for a fixed period, loss assistance payments to eligible farmers, increasing the dairy products support price for a determined period, export incentive programs to help exporters meet prevailing world food prices, as well as purchase programs to alleviate inventory pressures in the US market.

In January 2006, the USDA conducted hearings to consider a petition for the revision of manufacturers' make-allowances for products included in Class III and Class IV milk price formulas. As a result of those hearings, the USDA implemented, effective February 1, 2007, an interim decision resulting in a Class III price reduction. A second round of hearings to consider broader changes to Class III and Class IV milk price formulas was held in February, April and July 2007. As a result of these hearings, effective October 1, 2008, the USDA implemented a partial interim decision including changes to the manufacturing cost allowances in the Class III and Class IV milk price formulas. The changes resulted in a reduction of the Class III price of approximately US\$0.35 per hundred weight. The final decision regarding the most recent price formula changes is still pending.

Wholesale pricing for the bulk of the US cheese production is established by daily cash cheddar cheese trading on the CME. The last trade of the day establishes the market price for the day. If no trades occur, the market price is determined based on the bid and offer prices. Processors typically charge a premium over the CME price.

Dairy processing plants are not limited in terms of the quantity of milk they can receive and are free to negotiate their milk supply with whomever they choose. Independent processors usually negotiate with local cooperatives or they may procure milk directly from individual farms. Processors are charged a price which reflects the current month's class price plus a negotiated handling charge. In 2008, Congress passed the "Farm Bill" that allows processors to enter into forward contracts for milk supply directly with farmers.

US dairy programs influence the production and marketing of milk and milk products through the operation of the Commodity Credit Corporation ("CCC"), a federal agency. The CCC buys butter, non-fat dry milk and cheese at the following support prices:

- Butter @ US\$1.05 per pound;
- Cheddar cheese 40 pound blocks @ US\$1.13 per pound;
- Cheddar cheese 500 pound barrels @ US\$1.10 per pound;
- Non-fat dry milk powder non-fortified @ US\$0.80 per pound.

Such products are sold or used either domestically or internationally in specific government programs. The CCC does not directly support dairy farmers, nor does it establish a target return for farmers.

US Market

The USDA states that there were 494 cheese manufacturing plants in the US in 2009, which produced 4.6 billion kg of cheese. Cheddar accounted for 31.7% of this amount, or 1.5 billion kg, while Italian-style cheeses totalled 1.9 billion kg, or 41.4%. Mozzarella alone amounted to 1.5 billion kg, representing 78.2% of Italian-style cheeses and 32.3% of all cheeses produced in 2009.

International Trade (US)

Imports. Another key component of the US dairy program is import restrictions. Most US cheese import quotas are country and product specific. Under the terms of the WTO Agreement on Agriculture, the US agreed to import, at a lower tariff rate, approximately 135,586 metric tons of cheese in 2009. Tariffs for cheese in excess of the quota are prohibitive.

Entry for dairy products made with sheep, goat and buffalo milk do not require a license nor are they subject to a US duty. The same is true for a few other products including brie cheese.

Exports. The US has not historically been a significant exporter of dairy products. However, its export activity accounted for US\$2.3 billion in 2009 and US\$3.8 billion in 2008 compared to US\$3 billion in 2007.

Most export activity is conducted through the Dairy Export Incentive Program which allocates subsidized export volumes to specific countries thereby enabling exporters to bid for export assistance for dairy products destined to these countries.

3.1.3 INTERNATIONAL DAIRY INDUSTRY

The economic situation that deteriorated worldwide in 2008 negatively impacted the demand for dairy products, including in emerging markets such as Asia and Africa, causing dairy prices to fall sharply in the second half of 2008 and into 2009. In certain countries, dairy prices even fell to levels below cost of production, which resulted in a reduction of milk production. In order to mitigate the negative impacts on their dairy industries, many governments worldwide instituted policy measures which concrete efficiency has yet to be proven.

In the EU, where prices remained high, policies were implemented to reduce dairy farm gate prices as well as to eliminate export subsidies, which was expected to help meet the domestic demand. However, these initiatives combined with the increase in 2008 of EU's member states' milk production quotas did not result in increased milk production. Therefore, supplies remained tight. EU maintains its policy objective to eliminate progressively all quotas by March of 2015.

Moreover, dairy supply from Australia and New Zealand were less than expected in 2009 as a result of weather related events that impacted production.

The shortage in milk production from traditional and recent exporters is also explained by the low prices at the farm gate. In fact, dairy farmers' efforts to limit the impact of these low prices on their activities resulted in producers trying to reduce their feed input costs, resulting in lower production and thereby impacting supply availability.

As 2009 progressed, prices in the international market evolved towards more traditional levels, contributing at a slow pace to an improvement in levels of milk production and to the stabilization of demand. Since the beginning of 2010, conditions are improving in most production areas, while in the EU production quotas remain unfilled.

For 2010 and the foreseeable future, there remains a concern about the impact of low farm gate prices on milk production, which may not be sufficient to meet the demand for finished products. Exporting countries and countries with milk producing capacities are expected to react to this opportunity. In fact, it is anticipated that the supply of dairy products will remain insufficient until the domestic demand returns to its historical levels and that demand is fully served.

The world market continues polarizing into "pre-packed, consumer ready" and "bulk commodity, dairy ingredients" markets with as yet unpredictable long-term effects on traditional trading patterns and ultimately, world prices.

European Union

Regulatory Environment

The EU has multiple food related legislation and supporting regulations. These regulations cover all aspects of the agri-food industry from farm production to food processing and distribution. All member states are required to implement and enforce the regulations as conditions of EU membership. Consequently, the EU regulatory regime is the umbrella under which all dairy food production, processing and distribution as well as imports and exports are governed within the EU. No member state may enact competing regulations which could constitute a barrier to internal trade within the EU, nor trade externally to the EU without meeting EU standards and their related obligations.

In light of the foregoing, the German and United Kingdom (“UK”) dairy industries operate under the general dairy provisions of the EU’s *Common Agricultural Policy*. In accordance with this policy, milk production quotas should be eliminated by 2015 and milk prices should be more subject to market fluctuations, with partial compensation for farmers being provided through direct payments consistent with WTO commitments.

Within Germany and the UK, there are a series of regulations governing the processing of milk into dairy products with standards based on the international Codex Alimentarius of the Food and Agricultural Organization and World Health Organization in place for cheese and skim milk powder. While there are federal, state, lander and municipal regulations, the majority are not specific to the dairy industry but apply equally to all food processing establishments and require the application of recognized good manufacturing practices.

Milk Supply

In Germany and the UK, milk prices vary from state to state and are usually negotiated monthly between the processors and milk producers. The bulk of the milk is generally sold to cooperatives who process milk for their own account and also re-sell milk to milk dealers or to other processors. Processors generally contract a major portion of their supply needs with a cooperative or a milk dealer, and rely on the seasonal spot market to complete their annual requirements, taking advantage of seasonal milk price changes.

Beginning in late Spring of 2007, a milk price escalation pattern began on the international market following (i) temporary reduction in milk supplies as a result of unexpected weather related events in Australia and Argentina, primarily, and also New Zealand; and (ii) strong world demand for dairy products. In a matter of only several months, the price evolution was unprecedented. This situation was not consistent with the new EU policies aimed at reducing prices, thus creating challenges on management of milk pricing.

To address this new context, the EU initiated a series of milk production quota increases for its member states, including Germany and the UK, setting the stage for increased milk production in the years leading to 2015 when all quotas should be eliminated. These initiatives have already had a mitigating effect on the price of milk.

Total milk production approximates 278 million hectolitres per year in Germany and 136 million hectolitres per year in the UK, which represent together about 29% of all European milk production. The following table indicates the production volume of selected dairy products produced in Germany and in the UK:

Germanic Production Volumes of Selected Dairy Products in 2008⁽¹⁾ (in thousands)		
Natural cheese	2,140	Metric tons
Fluid milk	6,077,000	Litres
Fresh dairy products	2,961	Metric tons
Other dairy products	1,830	Metric tons

⁽¹⁾ Source: ZMP, BMVEL, Bulletin FIL-IDF 438/2009

UK Production Volumes of Selected Dairy Products in 2008⁽¹⁾ (in thousands)		
Natural cheese	373	Metric tons
Fluid milk	7,067,000	Litres
Other dairy products	222	Metric tons

⁽¹⁾ Source: ZMP, BMVEL, Bulletin FIL-IDF 438/2009

Exports

After many years of a declining milk price trend in Germany, prices for food in general, including dairy products, followed the price of milk upwards in early 2008 but have now regressed to more competitive levels. Consequently, the overall export potential for Germany remains positive.

In the UK, milk production has been slowly decreasing due not only to weather related difficulties but also to consistently lower farm gate milk prices than in the rest of the EU. However, in 2008, farm gate prices reached levels not seen in decades, generating optimism in the farm community which has proven to be short lived as recent prices have collapsed in reaction to global market price adjustments. Notwithstanding the foregoing, the UK offers the potential for dairy products export growth, due mainly to a very competitive raw milk price and high quality milk supply.

Argentina

Regulatory Environment

The regulatory environment in Argentina is different from that in Canada or the US. While there are national, provincial and municipal laws, only a small number are specific to the dairy industry. The dairy industry adheres to the international Codex Alimentarius of the Food and Agricultural Organization and World Health Organization standards for those products which are traded internationally, such as cheese and milk powder, and follows recognized good manufacturing practices for all products brought to the domestic market.

Milk Supply

In Argentina, milk prices are negotiated monthly between the processors and milk producers. There are no limitations or restrictions as to the quantity of milk that is produced and processed. In addition, milk marketed within Argentina is not priced or classified according to its use. Moreover, dairy processors are not limited to the amount of milk that they can purchase and are free to negotiate milk supply agreements with whomever they choose. Usually, agreements are negotiated with dairy producers within a given radius of the dairy processing plant.

From March 2007 to September 2007, Argentina was affected by excess rain that resulted in floods followed by colder conditions than usual, which negatively affected the production of milk and resulted in a reduction of approximately 6% compared to 2006. During 2008, the production levels recovered to similar levels as of those of 2006. During 2009, notwithstanding the drop in dairy product prices as a result of the international markets conditions and difficult weather conditions during the winter/spring seasons, the volumes of milk production in the country remained at levels similar to those of 2008 totalling about 10 billion litres.

Total milk production in Argentina approximates 100 million hectolitres per year. The following table indicates the production volume of selected dairy products produced in Argentina:

Argentina Production Volumes of Selected Dairy Products in 2008 ⁽¹⁾ (in thousands)	
Natural cheese	490 Metric tons
Fluid milk	2,483,581 Litres
Yogurt	519 Metric tons
Other dairy products	554 Metric tons

⁽¹⁾ Source: *Secretaria de Agricultura, Ganaderia Pesca y Alimentos, Cuadro estadístico, May 2010.*

Exports

Argentina is a member of the South American free trade group Mercosur, and is also an active participant in the international dairy market. It has a large milk basin and is capable of producing milk at internationally competitive prices. There are no governmental programs that aid processors to export dairy products. In fact, in 2007, the government imposed new regulations that limited selling prices on the export market. These regulations were revised in November 2007, which resulted in removing the ceiling price namely on butter and hard cheese. In March 2009, the ceiling prices and export tax for cheese, milk powder and certain dairy products were eliminated. Instead, the government pre-approves the volume of several products destined to the export market to ensure that domestic requirements are met. In 2009, Argentina exported 307,133 MT of dairy products. Of this quantity, 157,382 MT was milk powder, 47,537 MT cheese and the remaining 102,214 MT consisted of other dairy products.

3.1.4 FUTURE TRENDS

After a period of high prices driven by changing climatic conditions coupled with growing demand from developing nations, global supplies have since recovered as world economies are caught in the throes of a recession. While traditional dairy exporters remain key players, the US has recently

become more price competitive on the international market and Argentina has re-affirmed its presence and position after regaining its historical level of production.

More than ever, the competitive environment within the industry is expected to force processors to either adapt, sell or merge with other industry participants. Well-capitalized industry consolidators will likely take advantage of this competitive environment to make strategic acquisitions. Moreover, in the coming years, the dairy industry will need to focus on creating innovative dairy products that match the changing nutritional needs of consumers. The long-term prognosis for growth in demand for dairy products is positive, while slowed by the difficult global economic context. In fact, expanding wealth in developing nations should fuel a transition toward increased proteins in the diet and the dairy industry is a likely primary beneficiary. Processors sourcing milk at world competitive prices and employing innovative processing technologies could position themselves to profitably serve these markets, subject to producers' ability to produce milk based on farm gate prices adapted to the new economic reality, which they failed to achieve in 2009.

Discussions between various governments to pursue a final agreement through the Doha Round of WTO negotiations in an effort to reduce agricultural product subsidies and establish new tariffs for such products were resumed in 2009 with a higher level of political involvement. The resulting impacts of a final agreement, when achieved, remain unknown but should, once again, challenge processors to remain competitive and creative to grow internationally.

3.2 GROCERY PRODUCTS INDUSTRY

Regulatory Environment

The regulation of the content, composition, labelling, packaging, marketing and distribution of all food products in Canada is a shared responsibility between the federal and the provincial governments and applies to all food processors in Canada, including the grocery products industry. Consequently, Saputo's bakery products are subject to quality and labelling standards, including those of the *Food and Drugs Act* and of the *Consumer Packaging and Labelling Act*.

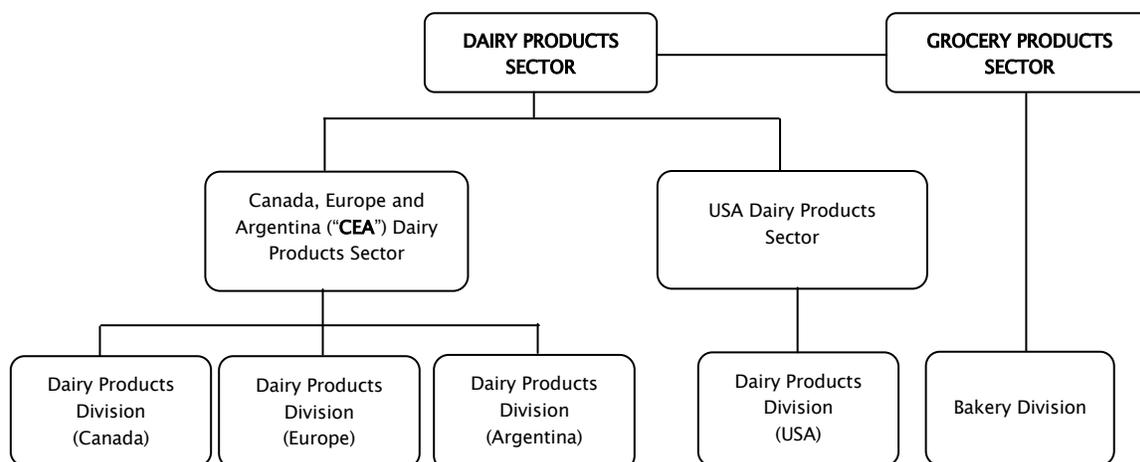
Trends

Over the recent years, Canada's retail market has changed with the increasing importance of non-supermarket channels of distribution such as mass-merchandisers and warehouse clubs. This trend has resulted in significant consolidation within the traditional grocery channel where four national chains controlled approximately 60% of all retail sales in calendar 2009.

The snack-cake industry generates sales of approximately \$703 million per year in Canada. This industry segment comprises among others, snack-cakes, muffins, fresh baked desserts as well as marshmallow squares. Pre-packaged snack-cake products enjoy a 23% market share of the snack-cake industry in Canada. Of the pre-packaged snack-cake products' total sales in Canada, approximately 55% and 29% are generated from the provinces of Québec and Ontario, respectively.

ITEM 4 - DESCRIPTION OF THE BUSINESS

The Company operates its business through two (2) sectors and five (5) divisions.



The Company operates 46 manufacturing facilities and employs approximately 9,800 employees.

Saputo sells its products under well-known brands such as *Saputo*, *Alexis de Portneuf*, *Armstrong*, *Baxter*, *Dairyland*, *Danscorella*, *De Lucia*, *Dragone*, *DuVillage 1860*, *Frigo Cheese Heads*, *Kingsey*, *La Paulina*, *Neilson*, *Nutrilait*, *Ricrem*, *Stella*, *Treasure Cave*, *HOP&GO!*, *Rondeau* and *Vachon*.

The following table presents the relative importance of the Company's two Sectors over the last two fiscal years:

	Sales by Sector			
	Year ended March 31, 2010		Year ended March 31, 2009	
	Sales (\$000)	% of Total Sales	Sales (\$000)	% of Total Sales
Dairy Products Sector				
CEA Dairy Products Sector	3,745,930	64.5	3,323,541	57.4
USA Dairy Products Sector	1,906,189	32.8	2,304,613	39.7
Sub-total	5,652,119	97.3	5,628,154	97.1
Grocery Products Sector	158,463	2.7	165,109	2.9
Total	5,810,582	100.0	5,793,263	100.0

CEA Dairy Products Sector

Through its operations in Canada, Saputo produces, markets and distributes mozzarella, cheddar as well as other specialty and fine cheeses, fluid milk and a wide range of dairy products including cream, yogurt, butter, powdered milk, evaporated milk, ice cream mixes and value-added dairy ingredients such as whey powder, lactose and whey protein. Saputo also distributes fine imported cheeses to specialty stores. The fluid milk product line is complemented by various non-dairy products, including flavoured coffee creamers, juices and drinks. Saputo has established itself as Canada's leading producer of cheese, with a share of approximately 32% of the Canadian natural cheese production and is the leading fluid milk processor in Canada with an estimated 35% share of the Canadian market. Saputo's dairy products are sold within three market segments: retail, foodservice and industrial.

In Europe, the Company produces and markets Italian-style cheese specialties such as mozzarella, ricotta and mascarpone. Saputo sells these products mainly to the retail and the foodservice markets.

Through its operations in Argentina, the Company produces and markets a wide variety of soft, semi-soft, hard and grated cheeses, as well as butter, cream, milk powder and dairy ingredients. Saputo sells these products to the retail and industrial market segments. The Company is the third largest dairy processor in Argentina.

In fiscal 2010, the sales from the CEA Dairy Products Sector represented 64.5% of the Company's total sales. The retail segment accounted for 67.3% of the CEA Dairy Products Sector sales, the foodservice segment for 25.0% and the industrial segment for 7.7%. Through this Sector, the Company operates 30 manufacturing facilities, 26 of which are located in Canada, one in Germany, one in the UK and two in Argentina, and employed, as of May 1, 2010, 5,967 employees, 4,942 of which were based in Canada, 115 in Europe and 910 in Argentina.

USA Dairy Products Sector

Through its USA Dairy Products Sector, the Company produces a wide variety of mozzarella, American-style and specialty cheeses. The Company also produces a variety of whey protein concentrates and ingredient blends.

Saputo ranks among the top three cheese producers in the US with approximately 9% of natural cheese production. Saputo services three market segments: retail, foodservice and industrial.

In fiscal 2010, the USA Dairy Products Sector represented 32.8% of the Company's total sales. The retail segment accounted for 36.4% of the USA Dairy Products Sector's sales volume, the foodservice segment for 49.2% and the industrial segment for 14.4%. Through this Sector, the Company operates 15 manufacturing facilities located in the US and employed, as of May 1, 2010, 2,921 employees.

Grocery Products Sector

The Company produces, markets and distributes snack-cakes, pies, cereal bars and fresh cookies in Canada. These products are sold almost exclusively in the retail market. Saputo is the largest manufacturer of snack-cakes in Canada. It also manufactures, on a small scale, products for third

parties under brand names owned by such parties and sold on the US market (the “Co-Packing Agreements”).

In fiscal 2010, the Grocery Products Sector represented 2.7% of the Company’s total sales. In this Sector, the Company operates one manufacturing facility located in the Province of Québec and employed, as of May 1, 2010, 923 employees.

Overall Profile

The following tables present the segmentation of total Company sales by region and by market segment for the last two fiscal years:

Total Company Sales – Geographic Segmentation					
		Year ended March 31, 2010		Year ended March 31, 2009	
		Sales (\$'000)	% of Total Sales	Sales (\$'000)	% of Total Sales
Canada		3,599,964	62.0	3,153,622	54.5
Europe		51,719	0.9	67,338	1.2
Argentina		252,710	4.3	267,690	4.6
US		1,906,189	32.8	2,304,613	39.7
	Total	5,810,582	100.0	5,793,263	100.0

Total Company Sales – Market Segmentation					
		Year ended March 31, 2010		Year ended March 31, 2009	
		Sales (\$'000)	% of Total Sales	Sales (\$'000)	% of Total Sales
Dairy Products Sector					
CEA Dairy Products Sector					
	Retail	2,521,849	43.5	2,106,726	36.4
	Foodservice	937,650	16.1	921,923	15.9
	Industrial	286,431	4.9	294,892	5.1
	Sub-total	3,745,930	64.5	3,323,541	57.4
	USA Dairy Products Sector ⁽¹⁾	1,906,189	32.8	2,304,613	39.7
	Sub-total	5,652,119	97.3	5,628,154	97.1
	Grocery Products Sector⁽²⁾	158,463	2.7	165,109	2.9
	Total	5,810,582	100.0	5,793,263	100.0

(1) Sales volumes are more representative of our US activities due to the impact of currency fluctuation and the variation of the selling price per pound of cheese on sales dollars (see table “Sales Volumes – Market Segmentation”).

(2) The grocery products are sold almost exclusively in the retail market segment.

4.1 CEA DAIRY PRODUCTS SECTOR

4.1.1 PRODUCTS

In Canada, Saputo produces, markets and distributes nationally a wide variety of quality cheeses including mozzarella and cheddar, specialty cheeses such as ricotta, provolone, parmesan, feta, havarti, fine cheeses such as brie and camembert, other firm cheeses including brick, colby, farmer, munster and monterey jack, as well as fresh curd and processed cheeses. Saputo's cheese products are sold under various brand names, such as *Saputo*, *Armstrong*, *Alexis de Portneuf*, *Bari*, *Cheese Heads*, *Cogruet*, *DuVillage 1860*, *Kingsey* and *Stella*. Saputo also sells cheese products under private labels and produces butter, powdered milk and evaporated milk, ice cream mixes as well as a number of dairy ingredients derived from its cheese production, including whey powder, lactose and whey protein. Through the Company's cheese distribution network, it distributes fine imported cheeses to specialty stores and other non-dairy products manufactured by third parties.

Saputo also produces and markets fluid milk, cream, yogurt, sour cream and cottage cheese. Fluid milk is sold under the *Dairyland* brand in Western Canada, the *Neilson* brand in Ontario, the *Nutrilait* brand in Québec and the *Baxter* brand in the Maritimes. Specialty milk is marketed under *Ultimate* and the brand names *Trutaste*, *Dairy Oh!*, *Milk 2 Go/Lait's Go*, *Dairyland Plus* and *Nutrilait Plus*. In addition, within its fluid milk operations, Saputo produces and distributes non-dairy products, including flavoured coffee creamers under the *International Delight** brand, juices and drinks such as *Sunny Delight**.

In Europe, the Company produces and markets Italian-style cheese specialties such as mozzarella, ricotta and mascarpone. The majority of these products are sold on the European market under the *De Lucia* and *Danscorella* brand names.

In Argentina, Saputo produces and markets a wide variety of soft, semi-soft, hard and grated cheeses, as well as butter, cream, milk powder and dairy ingredients. The sale of these products is well balanced between the national and international markets. These products are sold under the recognized brand names of *La Paulina*, *Molfino* and *Ricrem*.

4.1.2 PRODUCTION

Raw Materials

Milk represents the primary cost incurred by the Company in the manufacturing of dairy products. In Canada, due to the regulated nature of the dairy industry, Saputo can only source its milk through the milk boards in each province. The Company sources its other raw materials from various suppliers.

* Trademark used under licence.

In Europe, Saputo sources the majority of its milk for its German operations from various milk dealers and for its UK operations, from farmers. The Company sources its other raw materials from various suppliers.

In Argentina, Saputo sources its milk directly from farmers and approximately 2% of its milk supply is sourced from Saputo's farms. The Company sources its other raw materials from various suppliers.

Facilities

In the CEA Dairy Products Sector, the Company operates a total of 30 manufacturing facilities, 26 of which are located in Canada, two in Europe and two in Argentina. The Company owns all of its plants with the exception of one facility located in Calgary, Alberta. The Canadian facilities have an overall excess capacity of 33%.

In Europe, the Company operates one facility in Germany and one in the UK with an overall excess capacity of 85%.

In Argentina, the Company operates two facilities with an overall excess capacity of 30%.

4.1.3 MARKETS

Saputo is Canada's leading producer of cheese with a share of approximately 32% of the Canadian natural cheese production. Saputo sells its cheese products to the retail, foodservice and industrial market segments. The Company also distributes fine imported cheeses to specialty stores and provides various non-dairy products manufactured by third parties that are complementary to the sale of its cheeses. The Company is the leading fluid milk processor in Canada with an estimated 35% share of the Canadian market. Through its Canadian operations, Saputo also sells lactose, whey powder, ice cream mixes and whey protein to a vast array of clients in Canada, Europe, South America, Asia and Africa.

Saputo is a small player in Europe, processing less than 1% of the entire milk production in Germany and the UK. The Company sells its products throughout the EU, mainly to the retail and the foodservice market segments.

Saputo is the third largest dairy processor in Argentina, processing approximately 8% of the entire milk production. The sale of its products manufactured in Argentina is well balanced between the national and international markets. Products are sold nationally to the retail and industrial market segments and internationally to over 30 countries.

Clientele

The following table illustrates, for the CEA Dairy Products Sector, the segmentation of sales by market segment for each of the last two fiscal years:

CEA Dairy Products Sector – Sales – Market Segmentation					
		Year ended March 31, 2010		Year ended March 31, 2009	
	Sales (\$000)	% of Total Sales	Sales (\$000)	% of Total Sales	
Retail	2,521,849	67.3	2,106,726	63.4	
Foodservice	937,650	25.0	921,923	27.7	
Industrial	286,431	7.7	294,892	8.9	
Total	3,745,930	100.0	3,323,541	100.0	

Retail. Saputo sells both branded and private label products to its retail customers which include supermarket chains, mass-merchandisers, convenience stores, independent retailers, warehouse clubs and specialty cheese boutiques. In fiscal 2010, the majority of Saputo's retail sales was in branded products with the remainder being private label. Saputo's retail dairy products are sold in the dairy case and deli cheese counter sections of stores. Saputo provides its retail customers with a wide range of dairy products, including cheddar, mozzarella, fluid milk, cream, yogurt, sour cream, cottage cheese, specialty cheeses and fine cheeses. The fluid milk product line is complemented with various non-dairy products, including flavoured coffee creamers, juices and drinks.

Foodservice. Foodservice customers include broadline distributors, restaurants (corporate restaurant chains, franchisees and individually-owned), hotels and institutions. Saputo provides its foodservice customers with branded and private label dairy products. Through its distribution network, Saputo provides non-dairy products manufactured by third parties. Saputo also produces soft-serve dairy mixes for quick service restaurant chains.

Industrial. Industrial clients include processors who use the Company's products as an ingredient in the preparation of other food items. The Company supplies cheese to processors of frozen entrées as well as to frozen pizza manufacturers. The Company also produces dairy ingredients such as lactose, whey powder and whey protein. The Company sells lactose, whey powder, ice cream mixes, whey protein, milk powder, evaporated milk, butter and cream to a vast array of clients in Canada, Argentina, Europe, South America, Asia and Africa.

4.1.4 DISTRIBUTION

In Canada, sales of dairy products are made through direct shipments to certain large retail, foodservice and industrial customers as well as to national and regional third party distributors. Saputo has also developed a nation-wide distribution network for its dairy operations, comprised of 26 distribution centres and warehouses and over 650 distribution routes located across Canada.

In Europe, the Company distributes its products to its customers mainly through third party carriers.

In Argentina, the Company distributes its products through third party distributors which are supplied through the Company's three distribution centres located across the country. This network services large retail chains, distributors and industrial customers.

4.1.5 COMPETITION

In Canada, the Company competes mainly with multinational and national dairy processors and manufacturers. Saputo has established itself as Canada's leading producer of cheese with a share of approximately 32% of the Canadian natural cheese production and is the leading fluid milk processor, with an estimated 35% share of the Canadian market.

The Company is a small player in Europe and it competes mainly with national and multinational milk processors.

The Company is the third largest dairy processor in Argentina, processing approximately 8% of the entire milk production. The Company competes mainly with national and international milk processors.

4.1.6 EMPLOYEE RELATIONS

As at May 1, 2010, the Company's CEA Dairy Products Sector had a total of 5,967 employees, of which 4,942 are located in Canada, 115 in Europe and 910 in Argentina. Approximately 43% of the CEA Dairy Products Sector's work force is unionized.

The Company does not currently foresee any labour unrest in connection with the renewal of collective agreements expiring in fiscal 2011. All agreements that expired in fiscal 2010 were either renewed upon satisfactory terms or continue to govern during ongoing negotiations, which are expected to result in satisfactory renewals. The Company has good employee relations. The loyalty and dedication of its employees are key elements in the Company's performance. In Management's opinion, this is the direct result of the family culture that has permeated the entire Company.

4.2 USA DAIRY PRODUCTS SECTOR

4.2.1 PRODUCTS

Through its Dairy Products Division (USA), Saputo produces a broad line of mozzarella, American-style and specialty cheeses such as ricotta, provolone, blue, swiss, parmesan and romano, which are sold under various brand names such as *Dragone*, *Frigo Cheese Heads*, *Gardenia*, *Lorraine*, *Lugano*, *Saputo*, *Stella* and *Treasure Cave*, as well as under private labels. The Company also produces whey powder, whey protein concentrates and ingredient blends.

4.2.2 PRODUCTION

Raw Materials

In the US, Saputo sources its milk primarily from cooperatives, mostly through short- and long-term supply agreements as well as directly from farmers. Milk represents the primary costs incurred by the Company in the manufacturing of the dairy products. The Company sources its other raw materials from various suppliers.

Facilities

Within this Sector, the Company operates 15 manufacturing facilities which are all owned by the Company. The US facilities have an overall excess capacity of 11%.

4.2.3 MARKETS

Saputo is among the top three cheese producers in the US with approximately 9% of natural cheese production. The Company competes in the US natural cheese industry by selling branded and private label products to retail, foodservice and industrial customers.

Clientele

The following table illustrates, for the USA Dairy Products Sector, the segmentation of sales volumes by market segment for each of the last two fiscal years:

	USA Dairy Products Sector – Sales Volumes – Market Segmentation ⁽¹⁾	
	Year ended March 31, 2010	Year ended March 31, 2009
	% of Total Sales Volumes	% of Total Sales Volumes
Retail	36	35
Foodservice	49	47
Industrial	15	18
Total	100	100

(1) Sales volumes are more representative of our US activities due to the impact of currency fluctuation and the variation of the selling price per pound of cheese on sales dollars.

Retail. Saputo sells both branded and private label products to its retail customers which include supermarket chains, mass-merchandisers, independent retailers, warehouse clubs and specialty cheese boutiques. In fiscal 2010, Saputo's retail sales were in private label and branded products. Saputo's retail dairy products are sold in the dairy case and deli cheese counter sections of stores. Saputo also provides its retail customers with specialty cheeses.

Foodservice. Foodservice customers include broad-line distributors, restaurants (corporate restaurant chains, franchisees and individually-owned) and hotels. Saputo provides its foodservice customers with branded and private label products.

Industrial. Industrial clients include processors who use the Company's products as an ingredient in the preparation of other food items. The Company supplies cheese to numerous processors of frozen entrées, including frozen pizza manufacturers and sauces and dressings manufacturers. The Company also produces dairy ingredients from its cheese manufacturing activities such as whey protein.

4.2.4 DISTRIBUTION

Sales are made through direct shipments to certain large retail, foodservice and industrial customers as well as to national and regional third party distributors.

4.2.5 COMPETITION

In the US, the Company competes against both regional and national competitors.

4.2.6 EMPLOYEE RELATIONS

As at May 1, 2010, the Company's USA Dairy Products Sector had 2,921 employees. Approximately 27% of the workforce is unionized.

The Company does not currently foresee any labour unrest in connection with the renewal of collective agreements expiring in fiscal 2011. Agreements that expired in fiscal 2010 continue to govern during ongoing negotiations, which are expected to result in satisfactory renewals. The Company has good employee relations in the US. The loyalty and dedication of its employees are key elements in the Company's performance. In Management's opinion, this is the direct result of the family culture that has permeated the entire Company.

4.3 GROCERY PRODUCTS SECTOR

4.3.1 PRODUCTS

Within this Sector, the Company produces and markets snack-cakes, pies, cereal bars and fresh cookies, which are sold almost exclusively in the retail market. Saputo occupies a predominant position in the snack-cake market in Canada. Its products are sold under the *Vachon, HOP&GO!, Hostess, Igor* and *Rondeau* umbrella brands which carry recognized brand names such as *Jos Louis, Ah Caramel!, Passion Flakie, May West, Granny's, Big Daddy, Authentic* and others.

4.3.2 PRODUCTION

Raw Materials

The Company generally sources its raw materials from various suppliers.

Facilities

Within this Sector, Saputo operates one manufacturing facility in the Province of Québec. This facility is owned by the Company and has an overall excess capacity of 34%.

4.3.3 MARKETS

The Company is the largest manufacturer of snack-cakes in Canada. Saputo sells its snack-cake products almost exclusively in the retail market segment and its fresh cookies mainly in the retail and foodservice market segments. The Company's sales for this Sector are almost exclusively in branded products. During fiscal 2010, the Company manufactured, on a small scale, snack-cake products for the US market pursuant to Co-Packing Agreements.

4.3.4 DISTRIBUTION

The Company's grocery products are distributed mainly through its direct-to-store delivery distribution network.

4.3.5 COMPETITION

The Company competes mainly with regional and foreign manufacturers which enjoy smaller market shares than Saputo in Canada.

4.3.6 EMPLOYEE RELATIONS

As at May 1, 2010, the Grocery Products Sector had 923 employees, approximately 87% of which were unionized. The Company does not currently foresee any labour unrest in connection with the renewal of the collective agreement expiring in fiscal 2011. No agreement expired in fiscal 2010.

4.4 CAPITAL EXPENDITURES

Management believes that the Company has adequate manufacturing capacity to meet current and near term demand for its products. It is Saputo's intention to continue to expand and modernize its plants, with investments being focused on equipment and processes designed to increase efficiency. More specifically, during the last five fiscal years, Saputo incurred \$502 million in capital expenditures. In fiscal 2010, the Company spent \$107 million and, in fiscal 2011, Saputo expects to incur capital expenditures of approximately \$108 million.

With regards to depreciation expense, during the last five fiscal years, Saputo recorded \$424 million in depreciation expense. In fiscal 2010, depreciation expense totalled \$106 million and, in fiscal 2011, the Company expects to incur approximately \$99 million in depreciation expense.

4.5 ENVIRONMENT

The Company's global operations are subject to various federal, provincial, state, municipal and local laws and regulations relating to the protection of the environment. Its facilities generally operate under wastewater discharge permits issued under such laws and regulations or have entered into a wastewater discharge agreement with local municipalities. Compliance with these laws, regulations, permits and agreements require the Company to incur expenses and to monitor its operations on an ongoing basis. The Company believes that its operations are in compliance in all material respects with its permits and agreements requirements, and with currently applicable environmental laws and regulations except as discussed below. It is the Company's intention to

comply with all applicable environmental laws and regulations, including all permits requirements and agreements with municipalities.

The Company has an environmental policy directed towards minimizing the environmental impact of all its activities and which promotes environmental awareness among employees. To support the application of the policy, management systems put in place by the Company include conducting periodical training sessions for its employees; conducting internal environmental audits to assess operation's compliance with the policy's objectives; and reporting on the environmental status of its facilities and their operations.

Exceedances in wastewater generated by some Company facilities over the limits prescribed in wastewater discharge permits or agreements with the municipalities have been registered in the past and in some recent samplings, and an isolated wastewater overflow incident at one location occurred and was promptly addressed. At such facilities, the Company has been implementing various measures to reduce wastewater at source and, at certain locations, has upgraded or is upgrading equipment to achieve compliance and prevent future incidents.

Through past acquisitions, the Company inherited historical contamination at some facilities. Most of these sites have been contaminated by former petroleum storage tanks, all of which have been addressed. At each of these sites, the Company is either implementing proper remediation measures, or proceeding with additional investigation to determine if further action is required. In some cases, with the consent of governmental authorities, the Company continues to monitor the situation to confirm that no further action is required. The Company does not expect that major expenditures will be required to deal with the contamination at these facilities.

During fiscal 2010, the Company spent approximately \$4 million to comply with existing environmental laws and regulations and improve plant efficiency to reduce noise emission and wastewater discharge, to update or remove underground storage tanks, to address contamination issues and to improve wastewater treatment systems at a number of its facilities in Canada, the US, Argentina and Europe, plus approximately \$137,000 for costs associated with the past closure of facilities. For fiscal 2011, Management estimates similar expenditures at \$5 million and \$145,000, respectively. Management believes that compliance with currently applicable environmental protection requirements will not have a material effect on the Company's earnings or competitive position during fiscal 2011.

4.6 INTELLECTUAL PROPERTY

As the Company is involved in the production, sale and distribution of food products, it relies on brand recognition and loyalty from its clientele in addition to relying on the quality of its products. The Company focuses on certain established brands and believes that its trademarks are recognized by consumers for quality and reliability. Also, as innovation forms part of Saputo's growth strategy, new technologies, products and process optimization methods have been developed by our research and development teams in the recent years. Therefore, a new approach to the protection of these assets has been implemented, which may include patenting certain technologies when appropriate. Hence, Saputo takes appropriate measures to protect and enforce its intellectual property.

4.7 RISKS AND UNCERTAINTIES

The risks and uncertainties related to our operations are disclosed in the Company's Management's Analysis contained in the 2010 annual report, more specifically under the heading "Risks and Uncertainties" on page 23, and incorporated herein by reference. The Management's Analysis may be found on SEDAR at www.sedar.com. A copy may also be obtained upon request to the Secretary of the Company, at its head office, 6869 Métropolitain Boulevard East, Saint-Léonard, Québec, H1P 1X8, Telephone: 514.328.6662.

ITEM 5 – DIVIDEND POLICY

Saputo has a policy of declaring quarterly cash dividends on the Common Shares. In fiscal 2008, 2009 and 2010, Saputo declared respectively the following yearly dividends on the Common Shares, \$0.48, \$0.56 and \$0.58 per share. In fiscal 2010, the Company's dividend policy was reviewed by the Board of Directors and the quarterly dividend of \$0.14 per share, representing a yearly dividend of \$0.56 per share, was increased on August 4, 2009 to \$0.145 per share, representing a yearly dividend of \$0.58 per share. The balance of the Company's earnings are reinvested to finance the growth of its business. The Company's dividend policy is reviewed from time to time, but at least once annually, by the Board of Directors and depends on Saputo's financial condition, results of operations, capital requirements and such other factors as the Board of Directors, in its sole discretion, deems relevant.

ITEM 6 – CAPITAL STRUCTURE

The articles of the Company provide that its authorized share capital shall be composed of an unlimited number of Common Shares and an unlimited number of Preferred Shares, issuable in series, all without nominal or par value. As of the close of business on May 27, 2010, 207,527,188 Common Shares and no Preferred Shares were issued and outstanding.

The following is a summary of the material provisions which attach to the classes of shares of the capital stock of Saputo and is qualified by reference to the full text of the rights, privileges, restrictions and conditions of such shares.

Common Shares

The Common Shares carry and are subject to the following rights, privileges, restrictions and conditions:

Voting

Each Common Share entitles its holder to receive notice of and to attend all general and special meetings of shareholders of Saputo, other than meetings at which only the holders of a particular class or series are entitled to vote, and each such Common Share entitles its holder to one vote.

Dividends

The holders of Common Shares are, at the discretion of the Board of Directors, entitled to receive, out of any amounts properly applicable to the payment of dividends and after the payment of any dividends payable on the Preferred Shares, any dividends declared and payable by Saputo on the Common Shares.

Dissolution

The holders of Common Shares shall be entitled to share equally in any distribution of the assets of Saputo upon the liquidation, dissolution or winding-up of Saputo or other distribution of its assets among its shareholders. Such participation is subject to the rights, privileges, restrictions and conditions attached to any issued and outstanding Preferred Shares or shares of any other class ranking prior to the Common Shares.

Preferred Shares

The Preferred Shares may be issued from time to time in one or more series, the terms of each series including the number of shares, the designation, rights, preferences, privileges, priorities, restrictions, conditions and limitations to be determined at the time of creation of each such series by the Board of Directors of Saputo without shareholder approval, provided that all Preferred Shares will rank, with respect to dividends and return of capital in the event of liquidation, dissolution, winding-up or other distribution of assets of Saputo for the purpose of winding-up its affairs, *pari passu* among themselves and in priority to all shares of any class ranking junior to the Preferred Shares.

ITEM 7 – MARKET FOR SECURITIES

7.1 TRADING

The Common Shares of Saputo are listed on the Toronto Stock Exchange under the stock market symbol “SAP”. The following table outlines the price range and trading volume of the Common Shares for each of the months of the last fiscal year:

Price Range and Trading Volume of the Common Shares			
Month	High (\$)	Low (\$)	Volume
April 2009	23.390	20.750	5,425,989
May 2009	23.090	21.000	4,972,288
June 2009	24.820	21.360	7,193,579
July 2009	25.000	22.620	6,989,288
August 2009	28.000	23.570	6,281,430
September 2009	27.600	24.780	6,795,114
October 2009	27.040	24.200	7,219,061
November 2009	30.480	25.660	8,305,056
December 2009	31.100	29.300	6,128,908
January 2010	31.000	28.000	6,381,890
February 2010	30.650	28.550	6,021,048
March 2010	30.730	28.250	8,876,575

ITEM 8 - DIRECTORS AND OFFICERS

8.1 DIRECTORS

The following table sets forth each director's name and Province/State and Country of residence, the year in which he or she first became a director, his or her principal occupation and the number of Common Shares beneficially owned, directly or indirectly, or over which control or direction was exercised by each director, as at May 27, 2010. Directors are elected until the next annual meeting of shareholders or, in the case of a vacancy or resignation, until a successor is elected or appointed.

Name and Province/State and Country of Residence	Director Since	Principal Occupation	Common Shares Beneficially Owned or Over Which Control or Direction was Exercised as at May 27, 2010
Emanuele (Lino) Saputo ⁽¹⁾ Québec, Canada	1992	Chairman of the Board of the Company	69,879,924 ⁽²⁾
Lino A. Saputo, Jr. Québec, Canada	2001	President and Chief Executive Officer of the Company	67,281
André Bérard ^{(3) (5)} Québec, Canada	1997	Corporate Director	24,250
Lucien Bouchard ⁽³⁾ Québec, Canada	2004	Senior Partner, Davies Ward Phillips & Vineberg LLP	-

Name and Province/State and Country of Residence	Director Since	Principal Occupation	Common Shares Beneficially Owned or Over Which Control or Direction was Exercised as at May 27, 2010
Pierre Bourgie ⁽³⁾ Québec, Canada	1997	President and Chief Executive Officer of Société Financière Bourgie (1996) Inc. (a diversified investment company)	946,000
Frank A. Dottori ^{(4) (6)} Québec, Canada	2003	President of Fadco Consulting Inc. (a consulting company) and Managing Director of Greenfield Ethanol's Cellulosic Ethanol division (an ethanol and industrial alcohol manufacturer and distributor)	2,575
Anthony M. Fata ⁽⁴⁾ Québec, Canada	2008	President of Sager Food Products Inc. (a food products manufacturing and distribution company)	6,000
Jean Gaulin ⁽³⁾ California, USA	2003	Corporate Director	57,400
Tony Meti ⁽⁴⁾ Québec, Canada	2008	President of G.D.N.P. Consulting Services, Inc. (a consulting company)	400
Caterina Monticciolo, CA Québec, Canada	1997	President of Julvest Capital Inc. (a holding company)	238,000
Patricia Saputo, CA, ICD.D Québec, Canada	1999	Chief Financial Officer of Placements Italcen Inc. (a diversified investment company)	2,000
Louis A. Tanguay ^{(4) (7)} Québec, Canada	1997	Corporate Director	20,000

- (1) Mr. Emanuele (Lino) Saputo is a director of Arbec Forest Products Inc. (formerly Uniforêt Inc.) which filed for protection under the *Companies' Creditors Arrangement Act* on April 17, 2001. In May 2003, Uniforêt Inc. entered into a plan of arrangement with its creditors. In February 2004, it completed the implementation of this plan.
- (2) The shares are held by Jolina Capital Inc. and Gestion Jolina Inc., both of which are holding companies controlled by Mr. Emanuele (Lino) Saputo.
- (3) Member of the Corporate Governance and Human Resources Committee. The Chairman of the Committee is Mr. André Bérard.
- (4) Member of the Audit Committee. The Chairman of the Committee is Mr. Louis A. Tanguay.
- (5) Lead Director.
- (6) Mr. Frank A. Dottori was a director of Gestion Papiers Gaspésia Inc. and its subsidiary, Papiers Gaspésia Inc., until October 29, 2003. On January 30, 2004, Papiers Gaspésia Inc. and Papiers Gaspésia Limited Partnership filed for protection under the *Companies' Creditors Arrangement Act*. On July 4, 2005, the Plan of Arrangement submitted by Papiers Gaspésia Inc. and Papiers Gaspésia Limited Partnership to their creditors was homologated by the Court and is being implemented since then.
- (7) Mr. Louis A. Tanguay was a member of the board of directors of SR Telecom and was subject to a management cease-trade order issued by the *Autorité des marchés financiers* from November 15, 2006 until December 8, 2006 and from April 2, 2007 until June 19, 2007, as a result of the failure by SR Telecom to timely file its financial statements during such periods. Also, on November 19,

2007, while Mr. Tanguay was a director, SR Telecom filed for creditor protection under the *Companies' Creditors Arrangement Act*. The plan of compromise and reorganization was sanctioned by the Superior Court on October 20, 2008, and completed in December 2008.

During the last five years, all of the above nominees have been engaged in their present principal occupations or in other executive capacities with the companies indicated opposite their name or with related or affiliated companies, except for: Mr. Frank A. Dottori who, until January 26, 2006, was President and Chief Executive Officer of Tembec Inc. (a forest products company) and became managing director of Greenfield Ethanol's Cellulosic Ethanol division (an ethanol and industrial alcohol manufacturer and distributor) on March 7, 2008, in addition to his functions as President of Fadco Consulting Inc.; and Mr. Tony Meti who, until April 2007, was Senior Vice-President, Commercial Banking and International at a Canadian Chartered Bank.

Information as to shares beneficially owned by each director, or over which each exercised control or direction, as at May 27, 2010, has been furnished by the directors individually.

Additional information concerning the shareholdings of, options held and deferred share units granted to, directors is included in the section entitled "Election of Directors" appearing on page 5 of the Company's Management Proxy Circular dated June 9, 2010, which information is incorporated herein by reference.

8.2 EXECUTIVE OFFICERS

The following table sets forth the name, Province/State and Country of residence and position with the Company of each person who is an executive officer of the Company as of the date hereof:

Name and Province/State and Country of Residence	Position
Emanuele (Lino) Saputo Québec, Canada	Chairman of the Board
Lino A. Saputo, Jr. Québec, Canada	President and Chief Executive Officer
Terry Brockman Wisconsin, US	President and Chief Operating Officer Dairy Products Division (USA)
Louis-Philippe Carrière, FCA Québec, Canada	Executive Vice President, Finance and Administration and Secretary
Dino Dello Sbarba, FCMA Québec, Canada	President and Chief Operating Officer Dairy Products Division (Canada) and by interim (Europe and Argentina)
Lionel Ettetdgui Québec, Canada	President and Chief Operating Officer Bakery Division
Pierre Leroux Québec, Canada	Executive Vice President, Human Resources and Corporate Affairs
Claude Pinard Québec, Canada	Executive Vice President, Communications and Social Responsibility

During the last five years, all of the above executive officers have held the principal occupation indicated above or other executive capacities with the Company except for Mr. Lionel Ettegui who, until October 2008, was President, General Manager and Chairman of the Board of Kooll Desserts, a dairy dessert company.

As at May 27, 2010, the directors and executive officers of Saputo, as a group, beneficially owned, directly or indirectly, or exercised control or direction over, an aggregate of 71,332,719 Common Shares, representing approximately 34.4% of the outstanding Common Shares of the Company.

ITEM 9 - LEGAL PROCEEDINGS

The Company is defendant to certain claims arising from the normal conduct of its business. Management believes that the final resolution of these claims will not have a material adverse effect on its earnings or financial position.

ITEM 10 - INTEREST OF MANAGEMENT AND OTHERS IN TRANSACTIONS

In the normal course of business, the Company receives and provides goods and services from and to companies subject to significant influence by its principal shareholder. These goods and services of an immaterial amount are compensated by a counterpart equal to the fair market value, which are comparable to similar transactions. Reference is made to note 18 to the Consolidated Financial Statements of the Company that describes the related party transactions (see "Additional Information").

ITEM 11 - EXPERTS

Saputo's auditors are Deloitte & Touche LLP. Saputo's Consolidated Financial Statements as at March 31, 2010 and for the year then ended have been filed under National Instrument 51-102 "Continuous Disclosure Obligations" in reliance on the report of Deloitte & Touche LLP, independent chartered accountants, given on their authority as experts in auditing and accounting.

ITEM 12 - TRANSFER AGENT AND REGISTRAR

The transfer agents and registrar of the Company is Computershare Trust Company of Canada at its principal offices in Montreal and Toronto.

ITEM 13 - MATERIAL CONTRACTS

No material contract outside the ordinary course of business was entered into by the Company since January 1, 2002.

ITEM 14 – AUDIT COMMITTEE INFORMATION

14.1 AUDIT COMMITTEE’S CHARTER

The Audit Committee’s mandate is included in Appendix A.

14.2 COMPOSITION AND RELEVANT EDUCATION AND EXPERIENCE

All members of the Audit Committee are independent and financially literate.

The following table sets forth each Audit Committee member’s name and education and experience relevant to the performance of his responsibilities as an Audit Committee member:

Name	Education and Experience
Frank A. Dottori	Completed a Bachelor’s degree in Chemical Engineering and Applied Science. In 1973, Mr. Dottori and three other executives founded Tembec Inc. and Mr. Dottori was Tembec’s President and Chief Executive Officer until January 26, 2006. In May 2006, he became the President of Fadco Consulting Inc. and on March 7, 2008, he was named Managing Director of Greenfield Ethanol’s Cellulosic Ethanol division. Mr. Dottori has served as a Governor of the Montreal Stock Exchange, Director of the Canadian Market Productivity Centre and on the Board of Directors of several organizations and corporations. Mr. Dottori’s professional experiences required and contributed to the development of his ability to analyse financial statements and understand Generally Accepted Accounting Principles (“GAAP”).
Anthony M. Fata	Completed a Bachelor’s degree in Law and a Master’s degree in business and administration (MBA) and is a member of the Quebec Bar. From 1993 to 1999, he occupied various positions in the Corporate Finance and Mergers and Acquisitions department of a Canadian Chartered Bank, including Executive Director. During this period, he was actively involved in various equity and debt issues as well as numerous merger and acquisition transactions. In 1999, he became Vice-President of sales and marketing of Sager Food Products Inc. and was appointed President in November 2004. In this role, he is responsible for the financial results and financial statements and is also required to understand internal controls and procedures. Mr. Fata’s professional experiences required and contributed to the development of his ability to analyse financial statements and understand GAAP.

Tony Meti	Completed a Bachelor's degree in Commerce. Mr. Meti occupied over the past thirty (30) years various positions within Canadian Chartered Banks, including Senior Vice-President, Commercial Banking and International and Senior Vice-President, Commercial, North America. He is now the President of G.D.N.P. Consulting Services. Mr. Meti's professional experiences required and contributed to the development of his ability to analyse financial statements and understand GAAP.
Louis A. Tanguay	Completed a Bachelor's degree in Commerce. Mr. Tanguay occupied several executive positions within the BCE organization requiring his involvement in the preparation of financial statements and the analysis of financial and operational performances of BCE related companies. More specifically, he was Chairman of the Board of Telebec, Executive Vice-President (Corporate) of Bell Canada, President of Bell Québec and President of Bell Canada International. He was also actively involved in the acquisition, merger and disposal of companies. Mr. Tanguay has an extensive past and present experience as a corporate director of public companies involving, for some of them, participation in audit committees. Mr. Tanguay's professional experiences required and contributed to the development of his ability to analyse financial statements and understand GAAP.

14.3 POLICIES AND PROCEDURES REGARDING THE SERVICES RENDERED BY THE EXTERNAL AUDITORS

The Company has a policy with respect to services rendered by its external auditors (the "**Policy**"). The Policy divides the services in three categories: (i) services that are considered audit related ("**Audit Services**") and therefore covered by the annual audit budget; (ii) services that do not qualify as audit services ("**Other Mandates**"); and (iii) services that cannot be provided by the external auditors ("**Prohibited Mandates**"). Pursuant to the Policy, no Other Mandate can be provided by the Company's external auditors unless the following conditions are met:

- (i) The Audit Committee has pre-approved the Other Mandate; or
- (ii) The amount of the fees to be paid for the Other Mandate is not higher than \$75,000 and the aggregate amount of all Other Mandates not pre-approved by the Audit Committee and granted since the beginning of the financial year do not exceed \$150,000.

Finally, the Policy requires that the Management of the Company presents to the Audit Committee, on a quarterly basis, a statement of the services (other than the Audit Services) rendered by the external auditors of the Company as well as any mandate given to other accounting firms.

14.4 EXTERNAL AUDITORS FEES BY CATEGORY

The following table sets out, by categories, the fees billed by Deloitte & Touche LLP, the Company's external auditors, for the fiscal years 2010 and 2009:

Fee Category	2010 (\$)	2009 (\$)
Audit Fees	701,557	1,051,356
Audit Related Fees	122,331	60,517
Tax Fees	209,818	233,413
All Other Fees	457,924	467,490
Total	1,491,630	1,812,776

"Audit Fees" include the aggregate professional fees billed by Deloitte & Touche LLP for the audit of the consolidated annual financial statements.

"Audit Related Fees" include the aggregate fees billed by Deloitte & Touche LLP for services that would normally be performed by the external auditors. More specifically, these services include, among others, pension plans audits, attest services that are required by statute or regulation, assistance in preparing for the requirements on internal control certification, consultations regarding financial reporting and accounting standards and translation services.

"Tax Fees" include the aggregate fees billed by Deloitte & Touche LLP for tax compliance, tax advice, tax planning and advisory services relating to the preparation of corporate tax, capital tax and sales tax returns.

"All Other Fees" include the aggregate fees billed by Deloitte & Touche LLP for all services other than those reported under Audit Fees, Audit Related Fees and Tax Fees.

ITEM 15 - ADDITIONAL INFORMATION

Additional information, including disclosure of the Company's corporate governance practices, remuneration and indebtedness to the Company of the directors and officers, principal holders of Saputo's securities, and options to purchase securities, where applicable, is included in Saputo's Management Proxy Circular dated June 9, 2010 and may be found on SEDAR at www.sedar.com. Additional financial information is included in the Consolidated Financial Statements of Saputo and Notes thereto and in the accompanying Management's Analysis for the fiscal year ended March 31, 2010 and may be found on SEDAR at www.sedar.com. Copies of these documents may be obtained upon request to the Secretary of the Company, at its head office, 6869 Métropolitain Boulevard East, Saint-Léonard, Québec, H1P 1X8, Telephone: 514.328.6662.

In addition, when the securities of Saputo are in the course of a distribution pursuant to a short form prospectus or when a preliminary short form prospectus has been filed, the following documents may be obtained free of charge from the Secretary of the Company:

(i) one copy of the Annual Information Form, together with one copy of any documents or portion thereof incorporated by reference therein;

(ii) one copy of the comparative financial statements of Saputo for its most recently completed fiscal year together with the report of the auditor thereon and one copy of any interim financial statements of Saputo subsequent to the financial statements for its most recently completed fiscal year;

(iii) one copy of Saputo's Management Proxy Circular for its most recent annual meeting of shareholders which involved the election of directors; and

(iv) one copy of any other documents that are incorporated by reference in the preliminary short form prospectus or the short form prospectus.

At any other time, one copy of the documents referred to in subparagraphs (i), (ii) and (iii) above will be provided free of charge upon request to the Secretary.

* * *

APPENDIX “A”

AUDIT COMMITTEE MANDATE

1. AUTHORITY

The audit committee (the “Committee”) is a standing committee of the board of directors (the “Board”) which has the responsibilities described under the heading “Responsibilities”. The Committee reports to the Board.

The Committee has free access to personnel and documents of Saputo Inc. (“Saputo” or the “Company”) and is granted the resources necessary to carry out its duties.

2. STRUCTURE

- 2.1. The Committee is made up of a minimum of three directors of the Company, each being independent and financially literate, except to the extent permitted by the requirements concerning the Committee as per the applicable securities legislation. The term “independent” and “financially literate” each have the meaning given to them under securities legislation applicable to audit committees.
- 2.2. The mandate of the members is for one year and may be renewed. The members are appointed by the Board at the first meeting following the annual meeting of shareholders, or at any other meeting to fill a vacancy.
- 2.3. The chairman is appointed by the Board for a one-year term, which may be renewed. In the absence or failure of the chairman to sit, the chair is filled by a member chosen by the Committee.
- 2.4. The Committee meets at least four times annually to examine the annual and quarterly financial statements of the Company. The Chairman of the Board, the Lead Director, members of the Committee or the external auditors may call special meetings as needed. The Committee determines the place, date and time of its meetings. The meetings may be held by telephone or by any other means allowing the members to communicate with each other.
- 2.5. The quorum for meetings of the Committee is a majority of the members and decisions are made by the majority of the votes cast by the members present.
- 2.6. Minutes of meetings of the Committee are taken by the secretary of the Board (or any other person designated by the Committee) and must give an exact account of the decisions made at the meetings. The minutes of the Committee meetings are presented to and filed with the Board. The President of the Committee presents a verbal report at the Board meeting that immediately follows.
- 2.7. In addition to the members of the Committee, any other person may be called before the meetings at the request of the chairman of the Committee.

- 2.8. The Committee has the power to retain, at the cost of the Company, independent legal counsels or other advisors it considers necessary to carry out its mandate and to fix their compensation.
- 2.9. The Committee has the power to communicate directly with the internal and external auditors of the Company and its accounting personnel and members of its management. In the exercise of its duties, the Committee may examine pertinent books and accounts of the Company and its subsidiaries.
- 2.10. The external auditor is under the direct authority of and reports directly to the Committee.

3. **RESPONSIBILITIES**

3.1 Financial Disclosure

- Review the Company's unaudited quarterly financial statements and audited annual financial statements, including the report of the external auditors, management's report and press releases respecting the financial results before their public release and recommend their approval to the Board. This review includes discussions with management and the external auditors on important matters regarding the Company's accounting principles and practices.
- Review all public documents that present financial information, audited or unaudited, including any prospectus, management proxy circular, annual information form and annual report of the Company, prior to their public disclosure, and recommend their approval to the Board.
- Review and monitor practices and procedures adopted to ensure compliance with applicable securities legislation of management certification of the financial statements and of the controls and procedures concerning the disclosure of financial information.
- Review and discuss with management and the external auditors the appropriateness and disclosure of the accounting principles and practices, the underlying assumptions and the reporting practices of the Company, and the appropriateness of any significant changes thereto, and ensure they are appropriate and in compliance with the applicable legislation.
- Review, examine and discuss the foreseeable repercussions of any new audit and accounting standards or new securities rules.
- Review, at least annually, the dividends policy and recommend the approval by the Board of all payments of dividends, if any.
- Review the financial statements of the pension plans of the Company.

3.2 Risk Management and Internal Control

- Study and evaluate the risk factors inherent to the Company and ensure that appropriate measures are in place to enable management to identify and manage them effectively, including financial, strategic and operational risks.
- Supervise the application and respect of the environmental policy of the Company and make periodical reports to the Board with respect thereto.
- Monitor periodically the presence and the effectiveness of the necessary internal control systems of the Company through periodical reports which would also identify weaknesses that could have a material impact on the financial information of the Company, the measures taken to rectify them and follow-ups.
- Periodically evaluate the procedures set up by the Company to communicate to the public the financial information taken or derived from the financial statements of the Company.
- Establish and maintain a policy concerning the disclosure of material information.
- Review the management report concerning related party transactions.
- Review any legal matters that could have a material effect on the financial statements and ensure that they are appropriately disclosed in the financial statements.
- Ensure that the annual information form and the management proxy circular include the required and obligatory information concerning the Committee.
- Review communications with the “*Autorité des marchés financiers*” on matters concerning the financial statements and continuous disclosure documents.
- Establish and maintain procedures regarding:
 - The receipt, keeping and processing of complaints received by the Company respecting accounting and internal accounting controls or the audit;
 - The confidential and anonymous presentation by employees of the Company of concerns affecting questionable matters relating to accounting or auditing.
- Review the delegation of authority and supervise its application.

3.3 Internal Auditors

- Monitor and control the internal audit function.
- Review and approve annually the internal audit plan prepared by the director, internal audit.
- Review the adequacy of the resources attributed to the internal audit department in order to fulfill its mandate and responsibilities.
- Meet periodically with the director, internal audit, with and without the presence of management. During private meetings, discuss namely the level of cooperation received from management and any unresolved differences of opinion, if any.
- Make the link between the internal auditor and the external auditors of the Company.

3.4 External Auditors

- Supervise the work of the external auditor retained to establish or issue the auditor's report or render other audit, examination or certification services to the Company and resolve disagreements, if any, between management and the external auditor regarding financial reporting.
- Recommend to the Board the appointment of external auditors for the upcoming fiscal year and the fees to be paid to them.
- Review and adopt annually the audit plan prepared by the external auditors, determine whether it meets the needs of the Company and, at least once a year, obtain an official written declaration of the external auditors attesting their independence.
- Evaluate, at least once a year, the performance of the external auditors.
- Adopt and monitor a policy concerning the prior approval of all services not related to the audit which the external auditors of the Company may render to the Company and its subsidiaries in accordance with applicable legislation.
- Examine and approve the hiring policies of the Company with respect to partners and employees, former or present, of the current or former auditors of the Company.
- Meet with the auditors, with and without the presence of management, in regard to the financial statements and discuss with them their assessment of the control systems in place and their recommendations.
- Ensure that there is a rotation of the lead audit partner, concurring partner and other audit partners as prescribed by Canadian standards concerning governance.
- Study any other issue about which the Board should, in the opinion of the external auditors, be informed.

3.5 Evaluation of the Committee

- Annually assess the accomplishments and performance of the Committee.
- Annually review the mandate of the Committee.

3.6 Other Responsibilities

- Carry out any other duty related to the performance of its mandate.
- Carry out any other mandate which the Board may entrust to it from time to time.