Saputo

3

THIRD QUARTER

FISCAL 2010

We are presenting the results for the third quarter of fiscal 2010, which ended on December 31, 2009.

- Net earnings for the quarter totalled $104.3 million, an increase of $46.5 million or 80.4% compared to $57.8 million for the same quarter last fiscal year.
- Earnings before interest, income taxes, depreciation and amortization (EBITDA[1]) amounted to $183.5 million, an increase of $57.8 million or 46.0% in comparison to $125.7 million for the same quarter last fiscal year.
- Revenues for the quarter amounted to $1.497 billion, a decrease of $20.2 million or 1.3% in comparison to $1.517 billion for the corresponding quarter last fiscal year.
- Basic earnings per share (EPS) and diluted EPS were $0.50 for the quarter, as compared to $0.28 for the corresponding quarter last fiscal year.

(in millions of dollars, except per share amounts)	For the three-month periods ended		
(unaudited)	**December 31, 2009**	December 31, 2008	September 30, 2009
Revenues	**$ 1,497.3**	$ 1,517.5	$ 1,482.7
EBITDA	**183.5**	125.7	174.7
Net earnings	**104.3**	57.8	94.5
EPS			
Basic	**$ 0.50**	$ 0.28	$ 0.46
Diluted	**$ 0.50**	$ 0.28	$ 0.45

- The acquired activities of Neilson Dairy (Neilson), completed on December 1, 2008, contributed to the quarter's revenues and EBITDA as compared to the third quarter of fiscal 2009.
- In the United States (US), the average block market[2] per pound of cheese declined by US$0.27 compared to the same period last fiscal year, placing downward pressure on revenues and EBITDA by negatively affecting the absorption of fixed costs.
- There was a favourable realization of inventories and a less favourable relationship between the average block market per pound of cheese and the cost of milk as raw material compared to the same quarter last fiscal year.
- EBITDA for the third quarter of last fiscal year included a rationalization charge of $2.0 million for the closure of our Hinesburg, Vermont manufacturing facility and inventory write-downs in the USA and CEA (Canada, Europe and Argentina) Dairy Products Sectors totalling $18.5 million, as compared to a $2.1 million inventory write-down this current quarter, positively impacting results as compared to the same quarter last fiscal year.
- The Board of Directors approved a dividend of $0.145 per share payable on March 19, 2010 to common shareholders of record on March 8, 2010.

(in millions of dollars, except per share amounts)	For the nine-month periods ended	
(unaudited)	**December 31, 2009**	December 31, 2008
Revenues	**$ 4,426.4**	$ 4,332.9
EBITDA	**516.6**	405.9
Net earnings	**283.6**	209.8
EPS		
Basic	**$ 1.37**	$ 1.02
Diluted	**$ 1.36**	$ 1.01

[1] **Measurement of results not in accordance with Generally Accepted Accounting Principles**
The Company assesses its financial performance based on its EBITDA, this being earnings before interest, income taxes, depreciation and amortization. EBITDA is not a measurement of performance as defined by Generally Accepted Accounting Principles in Canada, and consequently may not be comparable to similar measurements presented by other companies.

[2] "Average block market" is the average daily price of a 40 pound block of cheddar traded on the Chicago Mercantile Exchange (CME), used as the base price for cheese.

Management's Analysis

The goal of the management report is to analyze the results of and the financial position for the quarter ended December 31, 2009. It should be read while referring to our consolidated financial statements and accompanying notes for the three- and nine-month periods ended December 31, 2009 and 2008. Saputo's accounting policies are in accordance with Canadian Generally Accepted Accounting Principles of the Canadian Institute of Chartered Accountants (CICA). All dollar amounts are in Canadian dollars unless otherwise indicated. This report takes into account material elements between December 31, 2009, and February 2, 2010, the date of this report, on which it was approved by the Board of Directors of Saputo Inc. (Company or Saputo). Additional information about the Company, including the Annual Report and the Annual Information Form for the year ended March 31, 2009 can be obtained on Sedar at www.sedar.com.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This report, including the "Outlook" section, contains forward-looking statements within the meaning of securities laws. These statements are based, among others, on our current assumptions, expectations, estimates, objectives, plans and intentions regarding projected revenues and expenses, the economic and industry environments in which we operate or which could affect our activities, our ability to attract and retain clients and consumers as well as our 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, we 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 our actual results to differ materially from our current expectations are discussed throughout this MD&A and in our most recently filed Annual Report which is available on SEDAR at www.sedar.com. Forward-looking information contained in this report, including the "Outlook" section, 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 by law, we do not undertake to update these forward-looking statements, whether written or oral, that may be made from time to time by us or on our behalf.

OPERATING RESULTS

Consolidated revenues for the quarter ended December 31, 2009 amounted to $1.497 billion, a decrease of $20.2 million or 1.3% in comparison to the $1.517 billion for the corresponding quarter last fiscal year. The decrease was mainly due to a lower average block market per pound of cheese and lower sales volumes in the US, partially offset by the contribution of Neilson in our Canadian Dairy Products Division. The addition of F&A Dairy of California, Inc. on July 20, 2009 (F&A Dairy Acquisition) increased revenues for the quarter. The strengthening of the Canadian dollar compared to the US dollar negatively affected revenues.

For the nine-month period ended December 31, 2009, revenues totalled $4.426 billion, an increase of $93.5 million or 2.1% in comparison to the $4.333 billion for the corresponding period last fiscal year. Revenues increased mainly due to the inclusion of Neilson in our CEA Dairy Products Sector. This increase was offset by a lower average block market per pound of cheese in addition to decreased sales volumes in our USA Dairy Products Sector during the period as compared to the corresponding period last fiscal year. The inclusion of F&A Dairy Acquisition also increased revenues during the nine-month period versus the corresponding period last fiscal year.

Consolidated earnings before interest, income taxes, depreciation and amortization (EBITDA) for the third quarter of fiscal 2010 amounted to $183.5 million, an increase of $57.8 million or 46.0% in comparison to $125.7 million for the same quarter last fiscal year. The EBITDA increase is explained by operational efficiencies and more favourable market conditions in our USA Dairy Products Sector. The EBITDA increase is also explained by the inclusion of Neilson and improved operational efficiencies in our Canadian Dairy Products Division. Also included in last fiscal year's third quarter EBITDA were non-recurring inventory write-downs in our Argentinean and European operations as well as non-recurring inventory write-down and rationalization charges in our USA Dairy Products Sector.

For the nine-month period ended December 31, 2009, EBITDA totalled $516.6 million, an increase of $110.7 million or 27.3% in comparison to the $405.9 million for the corresponding period last fiscal year. The inclusion of Neilson in our CEA Dairy Products Sector, improved operational efficiencies stemming from initiatives undertaken in the current and prior fiscal years in our USA and CEA Dairy Products Sectors increased EBITDA in comparison to the same period last fiscal year. This increase was partially offset by negative market factors in the US and lower profitability in our Argentinean Division. Also, the corresponding period last fiscal year included inventory write-downs and a rationalization charge.

OTHER CONSOLIDATED RESULTS ITEMS

Depreciation and amortization for the third quarter of fiscal 2010 totalled $27.3 million, a decrease of $6.8 million compared to the same quarter last fiscal year. This decrease is mainly attributed to the non-recurring impairment amount of $8.6 million included in last fiscal year's depreciation charge as a result of the Hinesburg, Vermont manufacturing facility closure. For the nine-month period ended December 31, 2009, depreciation and amortization expense amounted to $83.7 million, an increase of $4.3 million as compared to the $79.4 million for the same period last fiscal year. This increase is due mainly to the additional charge in our CEA Dairy Products Sector as a result of the inclusion of Neilson, offset by the aforementioned impairment charge. Capital investments undertaken by all divisions in the prior fiscal year also contributed to increase the expense for the respective periods.

Net interest expense remained essentially the same for the quarter ended December 31, 2009 at $8.8 million as compared to the same quarter last fiscal year and increased to $27.6 million for the nine-month period ended December 31, 2009 in comparison to $22.2 million for the nine-month period of last fiscal year. The increase during the nine-month period is mainly due to higher debt levels to fund the acquisition of Neilson as compared to the corresponding periods last fiscal year.

Income taxes for the third quarter of fiscal 2010 totalled $43.0 million, reflecting an effective tax rate of 29.2% compared to 30.2% for the same quarter last fiscal year. Income taxes for the nine-month period ended December 31, 2009 totalled $121.7 million, reflecting an effective tax rate of 30.0% in comparison to 31.1% for the same period last fiscal year. During the third quarter of fiscal 2010, the Company reduced its future income tax liability by approximately $1.4 million to reflect a reduction in the Canadian tax rate sanctioned during this quarter. Without this one-time reduction, the effective tax rates for the three- and nine-month periods ended December 31, 2009 would have been 30.1% and 30.4%, respectively. Our income tax rates vary and could increase or decrease based on the amount of taxable income derived and from which source, any amendments to tax laws and income tax rates and changes in assumptions and estimates used for tax assets and liabilities by the Company and its affiliates.

Net earnings totalled $104.3 million for the quarter ended December 31, 2009 compared to $57.8 million for the same quarter last fiscal year. For the nine-month period ended December 31, 2009, net earnings totalled $283.6 million compared to $209.8 million for the corresponding period last fiscal year. These reflect the various factors analyzed in this report.

SELECTED QUARTERLY FINANCIAL INFORMATION

(in millions of dollars, except per share amounts)

Fiscal years	2010			2009				2008
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenues	$ 1,497.3	$ 1,482.7	$ 1,446.4	$ 1,460.4	$ 1,517.5	$ 1,453.5	$ 1,361.9	$ 1,266.1
EBITDA	183.5	174.7	158.5	141.9	125.7	129.9	150.3	137.5
Net earnings	104.3	94.5	84.8	69.2	57.8	69.0	83.0	75.2
EPS								
Basic	$ 0.50	$ 0.46	$ 0.41	$ 0.33	$ 0.28	$ 0.34	$ 0.40	$ 0.37
Diluted	$ 0.50	$ 0.45	$ 0.41	$ 0.33	$ 0.28	$ 0.33	$ 0.40	$ 0.36

Selected factors positively (negatively) affecting EBITDA[1]
(in millions of dollars)

Fiscal years	2010			2009
	Q3	Q2	Q1	Q4
Market factors[2]	18	5	(30)	(27)
US currency exchange	(9)	3	6	7
Inventory write-down	(2.1)	-	-	(2.4)

[1] as compared to same quarter of previous fiscal year.

[2] Market factors include the market pricing impact related to sales of dairy ingredients, the average block market per pound of cheese and its effect on the absorption of fixed costs and on the realization of inventories as well as the effect of the relationship between the average block market per pound of cheese and the cost of milk as raw material.

CASH AND FINANCIAL RESOURCES

For the three-month period ended December 31, 2009, **cash generated by operating activities before changes in non-cash working capital items** amounted to $138.7 million, an increase of $43.8 million in comparison to the $94.9 million for the corresponding quarter last fiscal year. Since the beginning of the fiscal year, this figure amounted to $390.9 million, an increase of $91.2 million in comparison to $299.7 million for the same period last fiscal year. Increases in the three- and nine-month periods are primarily attributable to increased net earnings as well as future income taxes as compared to the same periods last fiscal year. Non-cash working capital items generated $25.4 million for the third quarter of fiscal 2010, compared to a usage of $20.0 million for the corresponding quarter of fiscal 2009. For the nine-month period ended December 31, 2009, non-cash working capital items generated $32.0 million, as compared to a usage of $41.5 million for the same period last fiscal year. The change in non-cash working capital items during the three- and nine-month periods ended December 31, 2009 as compared to the same periods last fiscal year can be attributed to a decrease in receivables, both in our CEA and USA Dairy Products Sectors, as well as an increase in income tax payable as a result of increased earnings.

Investing activities comprised mainly of additions to fixed assets of $23.9 million and $80.8 million for the three- and nine-month periods ended December 31, 2009 respectively and $49.7 million for the F&A Dairy Acquisition in the nine-month period ended December 31, 2009.

Financing activities for the third quarter of fiscal 2010 consisted of an increase in bank loans of $62.9 million, issuance of shares for a cash consideration of $11.3 million as part of the stock option plan, reimbursement of long-term unsecured

Senior Notes for an amount of $178.5 million, as well as the payment of $30.0 million of dividends. For the nine-month period ended December 31, 2009, the Company reimbursed $518.5 million of long-term debt, received proceeds from the issuance of $330.0 million long-term unsecured Senior Notes, purchased share capital totalling $28.1 million in accordance with a normal course issuer bid, and paid $88.9 million in dividends.

As at December 31, 2009, the Company had working capital of $294.3 million, an increase from the $166.7 million as at March 31, 2009. This is mainly related to the decrease in short-term liabilities, mainly bank loans and the reimbursement of the current portion of long-term debt.

As at December 31, 2009, our net interest bearing debt-to-equity ratio stood at 0.24, in comparison to 0.36 as at March 31, 2009, mainly resulting from the decrease in indebtedness.

As at December 31, 2009, the Company had available bank credit facilities of approximately $615 million, $118.4 million of which were drawn. Should the need arise, the Company could make additional financing arrangements to pursue growth through acquisitions.

BALANCE SHEET

With regards to balance sheet items as at December 31, 2009, compared to those as at March 31, 2009, the strengthening of the Canadian dollar versus the US dollar since March 31, 2009 resulted in the conversion of the balance sheets of foreign subsidiaries at lower rates, thus decreasing the Canadian dollar value of balance sheet items. This decrease in balance sheet items was partially offset by the F&A Dairy Acquisition in the US. The Company's total assets stood at $3.257 billion as at December 31, 2009 compared to $3.499 billion as at March 31, 2009.

SHARE CAPITAL INFORMATION

Share capital authorized by the Company is comprised of an unlimited number of common and preferred shares. The common shares are voting and participating. The preferred shares can be issued in one or more series, and the terms and privileges of each series must be determined at the time of their creation.

		Issued as at		
	Authorized	January 28, 2010	December 31, 2009	March 31, 2009
Common shares	Unlimited	207,224,906	207,198,589	207,087,283
Preferred shares	Unlimited	–	–	–
Stock options		9,963,919	10,017,320	9,128,841

During the nine-month period ended December 31, 2009, the Company purchased 1,084,400 common shares at prices ranging from $24.10 to $27.25 per share as part of the normal course issuer bid effective November 13, 2008 and expired on November 12, 2009. Under this normal course issuer bid, the Company was authorized to purchase, for cancellation purposes, up to 10,340,377 of its common shares. Prior to these purchases, the Company had not purchased any common shares under this normal course issuer bid. On November 13, 2009, a normal course issuer bid became effective, authorizing the Company to purchase until November 12, 2010 inclusively, for cancellation purposes, up to 10,322,467 of its common shares. During the quarter, the Company did not purchase any common shares under this normal course issuer bid.

CONTRACTUAL OBLIGATIONS

The Company completed during the first quarter of fiscal 2010 a $330.0 million debt financing, composed of $110.0 million Canadian denominated unsecured Senior Notes, issued at an interest rate of 5.34% for a term of five years maturing on June 22, 2014, and $220.0 million Canadian denominated unsecured Senior Notes issued at an interest rate of 5.82% for a term of seven years maturing on June 22, 2016. The proceeds of this financing were used to pay down part of the Company's existing long-term debt credit facilities and for general corporate purposes.

The Company's contractual obligations consist of commitments and/or estimates to repay certain of its long-term debts as well as certain leases of premises, equipment and rolling stock.

	December 31, 2009			March 31, 2009		
	Long-term debt	Minimum lease	Total	Long-term debt	Minimum lease	Total
Less than 1 year	$ –	$ 12,129	$ 12,129	$ 214,421	$ 13,769	$ 228,190
1-2 years	–	10,173	10,173	200,000	10,042	210,042
2-3 years	–	8,033	8,033	140,000	8,831	148,831
3-4 years	–	6,931	6,931	–	7,251	7,251
4-5 years	162,550	4,891	167,441	–	6,213	6,213
Subsequent years	220,000	7,202	227,202	63,065	11,360	74,425
	$ 382,550	$ 49,359	$ 431,909	$ 617,486	$ 57,466	$ 674,952

ACCOUNTING STANDARDS

Goodwill and Intangible Assets

In February 2008, the CICA issued Handbook Section 3064, Goodwill and Intangible Assets, which supersedes Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs, effective April 1, 2009 for the Company. This new Section sets out standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets. The adoption of this Section had no impact on the consolidated financial statements of the Company.

International Financial Reporting Standards (IFRS)

In February 2008, the AcSB announced January 1, 2011 as the changeover date for publicly-listed companies with December 31st year ends to adopt IFRS, replacing Canada's own generally accepted accounting principles. The changeover date applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Accordingly, the Company's IFRS adoption date of April 1, 2011 will require the restatement, for comparative purposes, of amounts reported by the Company for the year ended March 31, 2011 and an opening IFRS balance sheet as of April 1, 2010.

The Company has divided its convergence plan into the following phases in order to ensure seamless transition to IFRS:

Phase 1 Identification and Analysis
Phase 2 Impact Analysis and Development Phase
Phase 3 Implementation Phase

The Company is currently in the Impact Analysis and Development Phase of its convergence plan and is progressing according to schedule. The effects of any Canadian GAAP to IFRS divergences noted during the Company's Phase 1 are currently under analysis and quantification.

Furthermore, accounting policies are currently under analysis by Management with active implication of Senior Management in the identification and approval of significant IFRS policy divergences.

The Company has identified the following seven accounting areas that it has deemed of either high or moderate significance:

IFRS 1 "First Time Adoption of Reporting Standards"
IFRS 2 "Share-Based Payment"
IFRS 3 "Business Combinations"
IAS 16 "Property, Plant and Equipment"
IAS 19 "Employee Benefits"
IAS 32, IAS 39 & IFRS 9 "Financial Instruments Presentation, Recognition and Measurement"
IAS 36 "Impairment of Assets"

Significance has been established as the potential impact divergences may have on the Company's consolidated financial statements. The determination of the significance of the areas listed above has been assessed based on a review of currently available CICA publications detailing divergences between Canadian GAAP and IFRS and through an analysis undertaken by the IFRS Convergence Team of all enacted IFRS Standards.

Readers of the Consolidated Financial Statements are cautioned that the International Accounting Standards Board (IASB) intends on further revising several accounting standards (including but not limited to "Financial Instruments", "Post Employment Benefits" and "Related Party Transactions") that may result in modification to the accounting areas identified above. The IASB has also indicated several other convergence projects between IFRS and Financial Accounting Standard Boards (FASB) that may further alter this assessment.

Financial Statement readers should also note that any transition divergences between Canadian GAAP and IFRS will be accounted for through opening retained earnings (or another category of equity where applicable) and not through the consolidated statement of earnings. Reconciliations between Canadian GAAP and IFRS financial statements shall be presented in the year of conversion specifying significant IFRS adjustments.

In phase II, which began on October 1, 2009, the Company has undertaken the analysis of the impact of divergences that it has identified in Phase I and is developing processes and controls to ensure it meets the requirements of the applicable international accounting standards.

Identification and Resolution of Key IT and Data Systems Requirements
The Company has performed an initial analysis of its data system infrastructure and has concluded that transition to IFRS will not result in a material modification to any of its IT processes as a result of the divergences it has identified.

Future amendments to IFRS may, however, result in a revision to this conclusion.

Internal Control over Financial Reporting
The Company is in the process of identifying the impact of divergences on its internal controls, the significant impact of which, if any, will be disclosed in future filings when the assessment will be finalized.

Financial Reporting Expertise, Including Training Requirements
The Company has undertaken the development of an internal communication plan to disseminate relevant modifications to the accounting for and reporting of financial results ensuing from significant IFRS divergences. Management, including senior management, and finance staff have received training seminars on relevant IFRS standards and their potential impact.

Status of Remaining Key Elements
The status of the remaining key elements, as identified by CSA Staff Notice 52-320 and as discussed in the Company's 2009 Annual Report remains unchanged.

FOLLOW-UP ON CERTAIN SPECIFIC ITEMS OF THE ANALYSIS

For an analysis of off-balance sheet arrangements, guarantees, related party transactions, accounting standards, critical accounting policies and use of accounting estimates as well as risks and uncertainties, we encourage you to consult the comments provided in the 2009 Annual Report on pages 31 to 36 of the management's analysis, since there were no notable changes during the nine-month period ended December 31, 2009.

DISCLOSURE CONTROLS AND PROCEDURES

The Chief Executive Officer and the Chief Financial Officer are responsible for establishing and maintaining disclosure controls and procedures. The Company's disclosure controls and procedures are designed to provide reasonable assurance that material information relating to the Company is made known to Management in a timely manner so that information required to be disclosed under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Chief Executive Officer and the Chief Financial Officer are responsible for establishing and maintaining internal control over financial reporting. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

The Chief Executive Officer and the Chief Financial Officer, together with Management, have concluded after having conducted an evaluation and to the best of their knowledge that, as of December 31, 2009, no change in the Company's internal control over financial reporting occurred that could have materially affected or is reasonably likely to materially affect the Company's internal control over financial reporting.

INFORMATION BY SECTOR

CEA Dairy Products Sector

(in millions of dollars)

Fiscal years	2010			2009				2008
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenues	$ 960.2	$ 963.6	$ 945.7	$ 904.3	$ 854.1	$ 810.1	$ 755.0	$ 746.2
EBITDA	115.4	112.3	112.5	98.3	86.7	94.9	99.0	94.2

Selected factors positively (negatively) affecting EBITDA[1]
(in millions of dollars)

Fiscal years	2010			2009
	Q3	Q2	Q1	Q4
Market factors[2]	2	(1)	(2)	(4)
Inventory write-down	–	–	–	(1)

[1] as compared to same quarter of previous fiscal year.
[2] Market factors include the international market pricing impact related to sales of dairy ingredients.

Revenues

For the quarter ended December 31, 2009, revenues for the CEA Dairy Products Sector totalled $960.2 million, an increase of $106.1 million compared to $854.1 million for the same period last fiscal year. This increase is mainly due to the inclusion of Neilson contributing to revenues for the full quarter compared to four weeks for the same quarter last fiscal year. In addition, higher revenues were generated in Canada due to higher selling prices in accordance with the increase in the cost of milk as raw material as well as additional sales volumes and a favourable dairy ingredients market. In Argentina, higher sales volumes increased revenues, offsetting lower selling prices mainly in the export market. During the quarter, the strengthening of the Canadian dollar versus the Argentinean pesos decreased revenues by approximately $16 million.

Since the beginning of the fiscal year, revenues from the CEA Dairy Products Sector amounted to $2.869 billion, an increase of $450.2 million in comparison to $2.419 billion for the same period last fiscal year. This increase is mainly due to the inclusion of Neilson. For the nine-month period ended December 31, 2009, the appreciation of the Canadian dollar eroded approximately $29 million of revenues to the Sector, essentially from our Argentinean operations.

EBITDA

For the quarter ended December 31, 2009, EBITDA for the CEA Dairy Products Sector totalled $115.4 million, an increase of $28.7 million or 33.1% compared to the $86.7 million of the corresponding quarter last fiscal year. The increase in EBITDA is mainly attributed to our Canadian Dairy Products Division as a result of the inclusion of Neilson as well as additional sales volumes and continued operational efficiencies. The dairy ingredients market was favourable this quarter compared to the same quarter of last fiscal year, increasing EBITDA by approximately $2 million. Finally, in the third quarter of the last fiscal year, inventory write-downs of $7.4 million were recorded in relation to our Argentinean and European operations.

For the quarter ended December 31, 2009, our Dairy Products Division (Europe) recorded higher EBITDA compared to the same quarter last fiscal year. The Division continues to show improvements with better efficiencies, cost cutting measures and higher sales volumes.

The EBITDA of our Dairy Products Division (Argentina) was negatively affected, as compared to the same quarter last fiscal year, mainly due to the continued high cost of milk as raw material versus lower selling prices in the export market, which offset better efficiencies in the Division.

Since the beginning of the fiscal year, EBITDA for the CEA Dairy Products Sector totalled $340.2 million, an increase of $59.6 million or 21.2% in comparison to the $280.6 million for the same period last fiscal year. This increase is mainly due to the inclusion of Neilson in our Canadian Dairy Products Division, along with higher sales volumes and better operational efficiencies. Partially offsetting this increase is an unfavourable dairy ingredients market, decreasing EBITDA by approximately $1 million. Our European Division showed an increase in EBITDA as a result of lower milk cost due to reductions in milk supply, cost cutting measures and better efficiencies. The EBITDA of our Dairy Products Division (Argentina) was negatively affected since the beginning of the fiscal year as selling prices in the export market remained low, while prices for milk as raw material remained high. Also included in the corresponding period of last fiscal year was non-recurring inventory write-downs in our Argentinean and European operations.

USA Dairy Products Sector

(in millions of dollars)

Fiscal years	2010			2009				2008
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenues	$ 498.1	$ 477.3	$ 458.6	$ 517.0	$ 621.6	$ 601.5	$ 564.5	$ 481.8
EBITDA	63.7	58.1	41.3	39.1	35.7	31.1	46.0	40.2

Selected factors positively (negatively) affecting EBITDA[1]
(in millions of dollars)

Fiscal years	2010			2009
	Q3	Q2	Q1	Q4
Market factors[2]	16	6	(28)	(23)
US currency exchange	(9)	3	6	7
Inventory write-down	(2.1)	–	–	(1.4)

[1] as compared to same quarter of previous fiscal year.

[2] Market factors include the average block market per pound of cheese and its effect on the absorption of fixed costs and on the realization of inventories, the effect of the relationship between the average block market per pound of cheese and the cost of milk as raw material as well as market pricing impact related to sales of dairy ingredients.

Other pertinent information
(in US dollars, except for average exchange rate)

Fiscal years	2010			2009	
	Q3	Q2	Q1	Q4	Q3
Average block market per pound of cheese	$ 1.517	$ 1.232	$ 1.189	$ 1.203	$ 1.788
Closing block price[1] per pound of cheese	$ 1.450	$ 1.413	$ 1.115	$ 1.290	$ 1.133
Whey market price[2] per pound	$ 0.370	$ 0.320	$ 0.270	$ 0.160	$ 0.160
Spread[3]	$ 0.149	$ 0.155	$ 0.176	$ 0.196	$ 0.198
US average exchange rate to Canadian dollar[4]	1.056	1.096	1.172	1.254	1.205

[1] Closing block price is the price of a 40 pound block of cheddar traded on the Chicago Mercantile Exchange (CME) on the last business day of each quarter.

[2] Whey powder market price is based on Dairy Market News published information.

[3] Spread is the average block market per pound of cheese less the result of the average cost per hundredweight of Class III and/or Class 4b milk price divided by 10.

[4] Based on Bank of Canada published information.

Revenues

Revenues for the USA Dairy Products Sector totalled $498.1 million for the quarter ended December 31, 2009, a decrease of $123.5 million from the $621.6 million for the corresponding quarter last fiscal year. The decrease of US$0.27 in the average block price per pound of cheese reduced revenues by approximately $59 million compared to the same quarter last fiscal year. The F&A Dairy Acquisition, completed on July 20, 2009, combined with additional revenues from a more favourable dairy ingredients market offsetting lower sales volumes increased revenues by approximately $5 million. The appreciation of the Canadian dollar eroded approximately $70 million in revenues.

Since the beginning of the fiscal year, revenues totalled $1.434 billion, a decrease of $353.6 million in comparison to the $1.788 billion for the same period last fiscal year. A lower average block market per pound of cheese decreased revenues by approximately $344 million. Revenues from the F&A Dairy Acquisition and a more favourable dairy ingredients market was offset by lower sales volumes, decreasing revenues by approximately $27 million. The weakening of the Canadian dollar increased revenues by approximately $17 million.

EBITDA

For the quarter ended December 31, 2009, EBITDA totalled $63.7 million, an increase of $28.0 million in comparison to $35.7 million for the same quarter last fiscal year. During the current quarter, the average block market per pound of cheese increased steadily, positively affecting the realization of inventories. However, the average block market per pound of cheese declined during the last week of the current quarter, and continued into the beginning of the fourth quarter, negatively affecting the net realizable value of inventories, resulting in an inventory write-down of $2.1 million in the quarter. In comparison, during the corresponding quarter of last fiscal year, the average block market per pound of cheese decreased towards the latter stages of the quarter, negatively affecting our inventory realization and resulting in an inventory write-down of $11.1 million. A more favourable dairy ingredients market in comparison to the same quarter last fiscal year increased EBITDA. The relationship between the average block market per pound of cheese and the cost of milk as raw material was less favourable in the current quarter in comparison to the same period last fiscal year. The average block market per pound of cheese decreased from US$1.79 in the third quarter of last fiscal year to US$1.52 in the third quarter of fiscal 2010. This decrease created a negative effect on the absorption of our fixed costs. These market factors combined had a positive impact of approximately $16 million on EBITDA.

The inclusion of the F&A Dairy Acquisition, initiatives undertaken in the prior and current fiscal years with regards to improved operational efficiencies, and lower ingredients and energy costs offset increased promotional costs incurred in the current quarter in comparison to the same quarter last fiscal year, increasing EBITDA by approximately $10 million. The EBITDA in the third quarter of fiscal 2009 included a rationalization charge of approximately $2 million for the closure of our Hinesburg, Vermont facility. The appreciation of the Canadian dollar eroded approximately $9 million in EBITDA.

Since the beginning of the fiscal year, EBITDA totalled $163.2 million, an increase of $50.3 million in comparison to the $112.9 million for the corresponding period last fiscal year. Additional EBITDA from the F&A Dairy Acquisition, positive changes in the product-price formula, as well as initiatives undertaken in the prior and current fiscal years with regards to improved operational efficiencies, more than offset increased operational and promotional costs. These factors combined increased EBITDA by approximately $45 million in comparison to the same period last fiscal year which offset an inventory write-down of $2.1 million at the end of our third quarter. The EBITDA of the nine-month period ended December 31, 2008 included a rationalization charge for the closure of our Hinesburg, Vermont facility as well as an inventory write-down due to the sudden drop in the block market per pound of cheese, totalling $13.1 million. Market factors combined decreased EBITDA by approximately $6 million for the nine-month period ended December 31, 2009 in comparison to the same period last fiscal year.

Grocery Products Sector

(in millions of dollars)

Fiscal years	2010			2009				2008
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenues	$ 39.0	$ 41.8	$ 42.2	$ 39.0	$ 41.7	$ 42.0	$ 42.4	$ 38.1
EBITDA	4.3	4.3	4.6	4.5	3.2	4.0	5.3	3.1

Revenues

Revenues for the Grocery Products Sector totalled $39.0 million for the quarter, a $2.7 million decrease compared to the same quarter last fiscal year. This decrease is due to lower sales volumes from our US co-packing activities combined with the closing of thrift stores in Quebec and Ontario in the second quarter of the current fiscal year. Brand support continued in the quarter to maintain our market share.

Since the beginning of fiscal 2010, revenues for the Grocery Products Sector totalled $123.0 million, a $3.1 million decrease as compared to the corresponding period last fiscal year.

EBITDA

EBITDA for the Grocery Products Sector amounted to $4.3 million, a $1.1 million increase as compared to the same quarter last fiscal year. EBITDA margin increased from 7.7% in the third quarter of fiscal 2009 to 11.0% this quarter. The positive effect on EBITDA was the result of better product mix and a reduction of operating costs.

Since the beginning of fiscal 2010, the EBITDA amounted to $13.2 million, a $0.8 million increase as compared to the same period last fiscal year. EBITDA margin went from 9.8% last fiscal year to 10.7% this fiscal year. The Division benefitted from better product mix and improvement over operating costs, offsetting increased costs related to brand support and rationalization costs.

OUTLOOK

In our Dairy Products Division (Canada), we will focus on finalizing the integration of Neilson's operations and information systems into Saputo's existing structure. We will also pursue the analysis of our cost structure from a manufacturing, distribution and warehousing stand point in an effort to identify additional efficiencies within our existing facilities in Canada. We will continue to maximize our visibility through our partnership with the 2010 Vancouver Olympic and Paralympic Winter Games. The legal challenge filed in the Federal Court of Canada with two other dairy processors in 2008, regarding the amended regulations establishing new standards for cheese manufactured in and imported to Canada, was dismissed by the Court on October 7, 2009. However, together with another dairy processor, we filed an appeal and the matter is still pending.

In our Dairy Products Division (Europe), since the beginning of the fiscal year, we reduced significantly our milk intake due to the non-competitive high cost of milk in relation to the low selling price of cheese in the market, resulting in lower sales volumes. Our focus will be to re-establish the necessary milk supply at competitive prices.

In the Dairy Products Division (Argentina), selling prices in the export market are starting to increase but have not yet reached the levels that would compensate for the high milk price as raw material. We anticipate that this situation will continue to improve in the upcoming quarters.

The USA Dairy Products Division will continue to focus on improving operational efficiencies and pursue with the integration of F&A Dairy activities. On December 16, 2009, the California Department of Food and Agriculture decided to increase the Class 4b milk pricing formula by approximately US$0.10 per hundredweight for the period of January 1, 2010 to March 31, 2010. This change will not have a significant effect on our results for the remainder of the current fiscal year. The US dairy market continued the positive momentum from the second quarter. Both the block market per pound of cheese as well as dairy ingredient markets increased. Towards the latter stages of the third quarter and the early stages of the fourth quarter, the block market per pound of cheese decreased. We will continue to monitor these movements and will take appropriate actions to minimize the impact on our operations.

In the Bakery Division, we will launch in the fourth quarter a new line of products geared towards the frozen cake category. We expect to complete the review of different aspects, such as low volume SKU's and the standardization of packaging and ingredients. We are also evaluating all aspects of the operations in the Ontario and Western regions with the objective of improving their efficiencies.

We intend to maintain our sound approach and continue to maximize our efficiency. Our goal remains to pursue growth internally and through acquisitions.

(signed)	(signed)
Lino Saputo	**Lino A. Saputo, Jr.**
Chairman of the Board	President and
	Chief Executive Officer

February 2, 2010

NOTICE

The consolidated financial statements of Saputo Inc. for the three-month and the nine-month periods ended December 31, 2009 and 2008 have not been reviewed by an external auditor.

CONSOLIDATED STATEMENTS OF EARNINGS

(in thousands of dollars, except per share amounts)
(unaudited)

	For the three-month periods ended December 31		For the nine-month periods ended December 31	
	2009	2008	**2009**	2008
Revenues	**$ 1,497,272**	$ 1,517,457	**$ 4,426,399**	$ 4,332,911
Cost of sales, selling and administrative expenses	**1,313,782**	1,391,802	**3,909,781**	3,926,993
Earnings before interest, depreciation, amortization and income taxes	**183,490**	125,655	**516,618**	405,918
Depreciation and amortization (Note 5)	**27,342**	34,090	**83,705**	79,447
Operating income	**156,148**	91,565	**432,913**	326,471
Interest on long-term debt	**7,606**	5,573	**23,777**	15,004
Other interest, net	**1,243**	3,212	**3,803**	7,226
Earnings before income taxes	**147,299**	82,780	**405,333**	304,241
Income taxes	**42,969**	25,021	**121,730**	94,491
Net earnings	**$ 104,330**	$ 57,759	**$ 283,603**	$ 209,750
Earnings per share (Note 10)				
Net earnings				
Basic	**$ 0.50**	$ 0.28	**$ 1.37**	$ 1.02
Diluted	**$ 0.50**	$ 0.28	**$ 1.36**	$ 1.01

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(in thousands of dollars, except common shares)
(unaudited)

For the nine-month period ended December 31, 2009

	Retained earnings	Accumulated Other Comprehensive Income (Loss)	Share capital: Common Shares (in thousands)	Share capital: Amount	Contributed Surplus	**Total Shareholders' Equity**
Balance at beginning of period	$ 1,373,856	$ 16,219	207,087	$ 555,529	$ 26,744	$ 1,972,348
Comprenhensive income:						
Net income	283,603	-	-	-	-	283,603
Net change in currency translation of financial statements of self-sustaining foreign operations	-	(169,207)	-	-	-	(169,207)
Net change on derivative financial instruments designated as cash flow hedges, net of tax	-	1,149	-	-	-	1,149
Total comprehensive income						115,545
Dividends declared	(88,926)	-	-	-	-	(88,926)
Stock based compensation (Note 11)	-	-	-	-	5,955	5,955
Shares issued under stock option plans	-	-	1,196	18,101	-	18,101
Amount transferred from contributed surplus to share capital upon exercise of options	-	-	-	4,896	(4,896)	-
Excess tax benefit that results from the excess of the deductible amount over the compensation cost recognized	-	-	-	-	373	373
Shares redeemed and cancelled	(25,125)	-	(1,084)	(2,929)	-	(28,054)
Balance at end of period[1]	$ 1,543,408	$ (151,839)	$ 207,199	$ 575,597	$ 28,176	$ 1,995,342

For the nine-month period ended December 31, 2008

	Retained earnings	Accumulated Other Comprehensive Loss	Share capital: Common Shares (in thousands)	Share capital: Amount	Contributed Surplus	**Total Shareholders' Equity**
Balance at beginning of period	$ 1,206,568	$ (146,414)	$ 205,963	$ 536,921	$ 22,085	$ 1,619,160
Comprenhensive income:						
Net income	209,750	-	-	-	-	209,750
Net change in currency translation of financial statements of self-sustaining foreign operations	-	138,478	-	-	-	138,478
Total comprehensive income						348,228
Dividends declared	(82,677)	-	-	-	-	(82,677)
Stock based compensation (Note 11)	-	-	-	-	5,759	5,759
Shares issued under stock option plans	-	-	932	12,844	-	12,844
Amount transferred from contributed surplus to share capital upon exercise of options	-	-	-	1,524	(1,524)	-
Excess tax benefit that results from the excess of the deductible amount over the compensation cost recognized	-	-	-	-	524	524
Balance at end of period[2]	$ 1,333,641	$ (7,936)	206,895	$ 551,289	$ 26,844	$ 1,903,838

[1] Retained Earnings and Accumulated Other Comprehensive Income total is $ 1,391,569.

[2] Retained Earnings and Accumulated Other Comprehensive Income total is $ 1,325,705.

CONSOLIDATED BALANCE SHEETS

(in thousands of dollars)

	December 31, 2009 *(unaudited)*	March 31, 2009 *(audited)*
ASSETS		
Current assets		
Cash and cash equivalents	$ 17,043	$ 43,884
Receivables	383,961	427,227
Inventories (Note 4)	558,830	583,594
Income taxes	9,180	9,585
Future income taxes	23,221	23,881
Prepaid expenses and other assets	27,712	37,501
	1,019,947	1,125,672
Portfolio investment	41,343	41,343
Fixed assets (Note 5)	1,062,356	1,149,662
Goodwill	726,320	760,283
Trademarks and other intangibles	318,757	327,516
Other assets (Note 6)	81,808	88,326
Future income taxes	6,413	6,301
	$ 3,256,944	$ 3,499,103
LIABILITIES		
Current liabilities		
Bank loans (Note 7)	$ 118,363	$ 139,399
Accounts payable and accrued liabilities	469,059	484,866
Income taxes	123,429	113,910
Future income taxes	14,815	6,348
Current portion of long-term debt (Note 8)	–	214,421
	725,666	958,944
Long-term debt (Note 8)	382,550	403,065
Other liabilities	9,613	22,180
Future income taxes	143,773	142,566
	1,261,602	1,526,755
SHAREHOLDERS' EQUITY	1,995,342	1,972,348
	$ 3,256,944	$ 3,499,103

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands of dollars)
(unaudited)

	For the three-month periods ended December 31		For the nine-month periods ended December 31	
	2009	2008	2009	2008
Cash flows related to the following activities:				
Operating				
Net earnings	$ 104,330	$ 57,759	$ 283,603	$ 209,750
Items not affecting cash and cash equivalents				
Stock based compensation	2,060	1,947	5,955	5,759
Depreciation and amortization	27,342	34,090	83,705	79,447
Loss (gain) on disposal of fixed assets	112	42	(7)	(3,438)
Future income taxes	5,363	1,397	19,099	8,701
Deferred share units	677	172	2,125	986
Funding of employee plans in excess of costs	(1,190)	(483)	(3,571)	(1,473)
	138,694	94,924	390,909	299,732
Changes in non-cash operating working capital items	25,380	(20,025)	31,995	(41,534)
	164,074	74,899	422,904	258,198
Investing				
Business acquisition (Note 12)	132	(467,578)	(49,592)	(628,574)
Additions to fixed assets	(23,864)	(31,222)	(80,758)	(83,289)
Proceeds on disposal of fixed assets	127	895	436	7,964
Other liabilities	(4,874)	(5,222)	(8,338)	(7,822)
	(28,479)	(503,127)	(138,252)	(711,721)
Financing				
Bank loans	62,915	444,282	(16,390)	355,678
Proceeds from issuance of long-term debt	–	–	330,000	–
Repayment of long-term debt	(178,517)	–	(518,517)	–
Issuance of share capital	11,344	1,276	18,101	12,844
Repurchase of share capital	–	–	(28,054)	–
Dividends	(30,029)	(28,959)	(88,926)	(82,677)
	(134,287)	416,599	(303,786)	285,845
Increase (decrease) in cash and cash equivalents	1,308	(11,629)	(19,134)	(167,678)
Effect of exchange rate changes on cash and cash equivalents	(1,558)	(5,110)	(7,707)	157
Cash and cash equivalents, beginning of period	17,293	14,928	43,884	165,710
Cash and cash equivalents (bank indebtedness), end of period	$ 17,043	$ (1,811)	$ 17,043	$ (1,811)
Supplemental information				
Interest paid	$ 20,056	$ 14,312	$ 33,806	$ 26,609
Income taxes paid	$ 23,068	$ 19,702	$ 92,972	$ 99,083

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(tabular amounts are in thousands of dollars, except information on options and shares)
(unaudited)

1 — Significant Accounting Policies

Basis of presentation

The unaudited consolidated financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP) and applied in the same manner as the most recently audited financial statements. These financial statements do not include all the information and notes required according to GAAP for annual financial statements, and should therefore be read in conjunction with the audited consolidated financial statements and the notes included in the Company's Annual Report for the year ended March 31, 2009.

New accounting policies

During the nine-month period ended December 31, 2009, the Company adopted Section 3064 of the CICA Handbook, Goodwill and Intangible Assets, which supersedes Section 3062, Goodwill and Other Intangible Assets and Section 3450, Research and Development Costs. The Section establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets, including intangible assets developed internally. The adoption of this Section has no impact on the consolidated financial statements or on the carrying value of the goodwill and intangible assets.

Effect of new accounting standards not yet implemented

International Financial Reporting Standards (IFRS). In 2006, the Canadian Accounting Standards Board (AcSB) published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five-year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Accordingly, the Company's transition date of April 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ending March 31, 2011. The Company is currently in the Impact Analysis and Development Phase of its convergence plan and is progressing according to schedule. The effects of any Canadian GAAP to IFRS divergences noted during the Company's Phase 1 are currently being quantified and processes are consequentially under development to ensure compliance as of the date of the end of the third quarter of fiscal 2010.

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

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

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

2 — Foreign Currency Translation

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

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

	For the three-month periods ended December 31		For the nine-month periods ended December 31	
	2009	2008	**2009**	2008
Foreign exchange (loss) gain	**$ (27)**	$ 614	**$ 231**	$ 1,074

3 — Accumulated Other Comprehensive Income (Loss)

	December 31, 2009	March 31, 2009
Unrealized (losses) gains on currency translation of financial statements of foreign self-sustaining operations	**$ (151,725)**	$ 17,482
Losses on derivative financial instruments designated as cash flow hedges, net of tax	**(114)**	(1,263)
Accumulated other comprehensive income (loss)	**$ (151,839)**	$ 16,219

4 — Inventories

	December 31, 2009	March 31, 2009
Finished goods	**$ 357,801**	$ 368,456
Raw materials, work in process and supplies	**201,029**	215,138
	$ 558,830	$ 583,594

The amount of inventories recognized as an expense for the three- and nine-month periods ended December 31, 2009 are $1,180,720,000 and $3,506,257,000 respectively ($1,251,182,000 and $3,541,368,000 for the three- and nine-month periods ended December 31, 2008 respectively).

The Company recorded a write-down of inventory of $2,109,000 for the three-month period ended December 31, 2009 ($18,489,000 for the three-month period ended December 31, 2008) which was recognized as an expense in cost of sales for the period. The carrying amount of inventory at net realizable value is $19,940,000 ($76,974,000 as of December 31, 2008).

5 — Fixed Assets

	December 31, 2009			March 31, 2009		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Land	$ 39,585	$ –	$ 39,585	$ 42,243	$ –	$ 42,243
Buildings	389,563	94,695	294,868	417,335	90,675	326,660
Furniture, machinery and equipment	1,268,590	551,247	717,343	1,321,468	548,676	772,792
Rolling stock	13,107	8,179	4,928	13,329	7,864	5,465
Held for sale	5,632	–	5,632	2,502	–	2,502
	$ 1,716,477	$ 654,121	$ 1,062,356	$ 1,796,877	$ 647,215	$ 1,149,662

During the three- and nine-month periods ended December 31, 2009, the depreciation expense related to fixed assets totalled $26,013,000 and $79,732,000 respectively ($24,845,000 and $69,740,000 for the three- and nine-month periods ended December 31, 2008 respectively). No gain on disposal of fixed assets held for sale was recorded in the nine-month period ended December 31, 2009 ($3,530,000 for the nine-month period ended December 31, 2008). These amounts were recorded in cost of sales, selling and administrative expenses in the nine-month period ended December 31, 2008. The assets held for sale relate mainly to land and buildings in the United States and in Canada as a result of certain plant closures.

An impairment of fixed assets in the amount of $8,649,000 was recorded in the three-month period ended December 31, 2008 as a result of a plant closure in the USA Dairy Products Sector and is included in depreciation and amortization.

The net book value of fixed assets under construction, that are not being amortized, amounts to $69,036,000 as at December 31, 2009 ($67,707,000 as at March 31, 2009), and consists mainly of machinery and equipment.

6 — Other Assets

	December 31, 2009	March 31, 2009
Net accrued pension plan asset	$ 63,738	$ 61,040
Taxes receivable	10,580	18,993
Other	7,490	8,293
	$ 81,808	$ 88,326

7 — Bank Loans

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

		Available for Use		Amount Drawn	
Credit Facilities	Maturity	Canadian Currency Equivalent	Base Currency	December 31, 2009	March 31, 2009
North America-US Currency	December 2012	136,630	130,000 USD	$ 5,255	$ –
North America-CDN Currency	December 2012	388,870	370,000 USD	90,000	390,000
Canada	May 2009	–	–	–	40,000
Argentina	Yearly	70,484	259,804 ARS[1]	18,401	47,927
Germany	Yearly	7,500	5,000 EUR	–	1,472
United Kingdom	Yearly	11,843	7,000 BPS	4,707	–
		615,327		118,363	479,399
Amount classified as long-term debt				–	(340,000)
				$ 118,363	$ 139,399

[1] Can be drawn in ARS or USD

8 — Long-Term Debt

	December 31, 2009	March 31, 2009
Unsecured senior notes		
8.12%, issued in November 1999 and due in November 2009 (US$170,000,000)	$ –	$ 214,421
8.41%, issued in November 1999 and due in November 2014 (US$50,000,000)	52,550	63,065
5.34%, issued in June 2009 and due in June 2014	110,000	–
5.82%, issued in June 2009 and due in June 2016	220,000	–
Bank loan - long-term portion (Note 7)	–	340,000
	382,550	617,486
Current portion	–	214,421
	$ 382,550	$ 403,065

Estimated principal repayments are as follows:		
Less than 1 year	$ –	$ 214,421
1-2 years	–	200,000
2-3 years	–	140,000
3-4 years	–	–
4-5 years	162,550	–
Subsequent years	220,000	63,065
	$ 382,550	$ 617,486

9 — Employee Pension and Other Benefit Plans

The Company provides benefit and defined contribution pension plans as well as other benefit plans such as health insurance, life insurance and dental plans to eligible employees and retired employees. Pension and other benefit plan obligations are affected by factors such as interest rates, adjustments arising from plan amendments, changes in assumptions and experience gains or losses. The costs are based on a measurement of the pension and other benefit plan obligations and the pension fund assets.

Total benefit costs for the three- and nine-month periods ended December 31 are as follows:

	For the three-month periods ended December 31		For the nine-month periods ended December 31	
	2009	2008	2009	2008
Pension plans	$ 4,825	$ 5,456	$ 14,491	$ 15,845
Other benefits plans	270	324	820	948
	$ 5,095	$ 5,780	$ 15,311	$ 16,793

10 — Earnings per Share

	For the three-month periods ended December 31		For the nine-month periods ended December 31	
	2009	2008	2009	2008
Net earnings	$ 104,330	$ 57,759	$ 283,603	$ 209,750
Weighted average number of common shares outstanding	207,017,579	206,856,281	206,857,035	206,611,800
Dilutive options	1,662,516	2,172,312	1,662,516	2,172,312
Weighted average dilutive number of common shares outstanding	208,680,095	209,028,593	208,519,551	208,784,112
Basic earnings per share	$ 0.50	$ 0.28	$ 1.37	$ 1.02
Diluted earnings per share	$ 0.50	$ 0.28	$ 1.36	$ 1.01

When calculating dilutive earnings per share for the three-month period ended December 31, 2009, no options (1,589,442 in 2008) were excluded from the calculation because their exercise price is higher than the average market value.

11 — Stock option compensation

Changes in the number of outstanding options are as follows:

	For the nine-month periods ended			
	December 31, 2009		December 31, 2008	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance at beginning of period	9,128,841	$ 16.93	8,893,428	$ 16.52
Options granted	2,232,039	$ 21.40	1,634,393	$ 27.81
Options exercised	(1,195,706)	$ 15.13	(932,361)	$ 13.78
Options cancelled	(147,854)	$ 20.53	(230,785)	$ 20.48
Balance at end of period	10,017,320	$ 18.35	9,364,675	$ 16.79

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

The fair value of options granted in fiscal 2010 was estimated at $3.24 per option ($4.98 in 2009), using the Black Scholes option pricing model with the following assumptions:

	December 31, 2009	March 31, 2009
Risk-free interest rate:	1.9%	3.0%
Expected life of options:	5 years	5 years
Volatility:	19%	19%
Dividend rate:	2.0%	1.7%

A compensation expense of $2,060,000 ($1,851,000 after income taxes) and $5,955,000 ($5,329,000 after income taxes) relating to stock options was recorded in the statement of earnings for the three- and nine-month periods ended December 31, 2009, respectively. A compensation expense of $1,947,000 ($1,715,000 after income taxes) and $5,759,000 ($5,064,000 after income taxes) was recorded for the three- and nine-month periods ended December 31, 2008 respectively.

12 — Business Acquisition

On July 20, 2009, the Company completed the acquisition of the activities of F&A Dairy of California, Inc. in the United States. The final allocation of the purchase price will be completed in the next fiscal year.

			December 31, 2009 F&A Dairy of California Inc
Assets acquired	Inventories	$	3,860
	Fixed assets		24,902
	Goodwill		20,719
	Trademarks and other intangibles		111
		$	49,592
Consideration	Cash paid	$	49,592

13 — Segmented Information

	For the three-month periods ended December 31		For the nine-month periods ended December 31	
	2009	2008	2009	2008
Revenues				
Dairy Products				
CEA[1]	$ 960,179	$ 854,132	$ 2,869,385	$ 2,419,202
USA	498,123	621,623	1,434,024	1,787,645
	1,458,302	1,475,755	4,303,409	4,206,847
Grocery Products	38,970	41,702	122,990	126,064
	$ 1,497,272	$ 1,517,457	$ 4,426,399	$ 4,332,911
Earnings before interest, depreciation amortization and income taxes				
Dairy Products				
CEA	$ 115,429	$ 86,684	$ 340,222	$ 280,578
USA	63,729	35,746	163,162	112,901
	179,158	122,430	503,384	393,479
Grocery Products	4,332	3,225	13,234	12,439
	$ 183,490	$ 125,655	$ 516,618	$ 405,918
Depreciation and amortization				
Dairy Products				
CEA	$ 13,027	$ 10,050	$ 39,334	$ 28,895
USA	12,061	22,173	37,614	44,951
	25,088	32,223	76,948	73,846
Grocery Products	2,254	1,867	6,757	5,601
	$ 27,342	$ 34,090	$ 83,705	$ 79,447
Operating income				
Dairy Products				
CEA	$ 102,402	$ 76,634	$ 300,888	$ 251,683
USA	51,668	13,573	125,548	67,950
	154,070	90,207	426,436	319,633
Grocery Products	2,078	1,358	6,477	6,838
	$ 156,148	$ 91,565	$ 432,913	$ 326,471
Interest	8,849	8,785	27,580	22,230
Earnings before income taxes	147,299	82,780	405,333	304,241
Income taxes	42,969	25,021	121,730	94,491
Net earnings	$ 104,330	$ 57,759	$ 283,603	$ 209,750

[1] Canada, Europe and Argentina