

INTERIM REPORT

2<sup>nd</sup> quarter

FOR THE THREE MONTHS  
ENDING SEPTEMBER 30, 1998



MESSAGE TO THE  
*Shareholders*

Revenues for the second quarter ending September 30, 1998, rose to \$ 481.8 million, an increase of 291.1 % compared to the corresponding period in 1997. For the first six months, revenues totaled \$ 887.9 million, an increase of \$ 647.1 million over 1997.

Income from American acquisitions, Stella and Saputo Cheese USA<sup>(1)</sup>, represents 95.9 % of the increase in revenues for the second quarter and 94.3 % for the six-month period ending September 30, 1998.

Earnings before interest, taxes, depreciation and amortization (EBITDA) reached \$ 46.8 million in the second quarter, an increase of 141.2 % over \$ 19.4 million for the second quarter of 1997. In terms of percentages, the EBITDA margin represented 9.7 % of revenues compared to 15.8 % in 1997. EBITDA margins for American operations, though they continue to increase, remain lower than those for Canadian operations, and this explains the shorter EBITDA margins overall compared to 1997. Over the next few months, we will continue to apply our know-how and working methods in our American plants so as to maximize our operational efficiency and gradually achieve our EBITDA objectives in the United States.

Net earnings of \$ 18.4 million in the second quarter represent an increase of 67.3 % compared to \$ 11.0 million in 1997. For the first six months of the year, net earnings were up 58.8 % over the same period in 1997, rising from \$ 21.6 million to \$ 34.3 million. The net profit margin, on the other hand, went from 9.0 % in 1997 to 3.9 % in 1998. However, owing to the activities of Stella and Saputo Cheese USA, net earnings increased significantly during the second quarter and the Company anticipates that this trend will continue.

Cash flow generated by operations before changes in non-cash operating working capital items rose to \$ 59.4 million for the six months ending September 30, 1998, up 130.2 % from \$ 25.8 million for the same period in 1997.

Saputo Group completed the acquisitions of Riverside Cheese & Butter Inc. on September 1, 1998, and of Bari Cheese Ltd. on September 16, 1998. These acquisitions enhance the geographical diversity of the Company's asset base in Canada, while consolidating its position in the Ontario and British Columbia markets.

The Company's efforts to solve any Year 2000 problems that might arise are continuing. All phases of the Year 2000 compliance program will be completed before March 31, 1999. The arrival of the new millennium should not have any major financial or operational impact on the Company.

In conclusion, we wish to state that the results of the second quarter clearly indicate that the ongoing integration of the Company's operations is successful. The best evidence of this lies in the 8.1 % rise in EBITDA and 15.7 % increase in net earnings between the first and second quarters of the current year.

  
**Lino Saputo**  
Chairman of the Board  
and Chief Executive Officer

  
**Camillo Lisio**  
President and  
Chief Operating Officer

November 11, 1998

(1) Formerly Avonmore Cheese Inc. and Waterford Food Products, Inc.

CONSOLIDATED STATEMENTS OF EARNINGS

(unaudited)

(in thousands of dollars except for earnings per share)	For the three months ended September 30		For the six months ended September 30	
	1998	1997	1998	1997
<b>Revenue</b>	\$ 481 812	\$ 123 181	\$ 887 922	\$ 240 758
<b>Cost of sales, selling and administrative expenses</b>	434 998	103 751	797 855	202 638
<b>Earnings before the undernoted expenses</b>	46 814	19 430	90 067	38 120
Depreciation and amortization of fixed assets	7 840	1 976	14 987	3 897
Amortization of goodwill	1 619	75	3 172	150
<b>Earnings before interest and income taxes</b>	37 355	17 379	71 908	34 073
Interest on long term debt	7 601	-	15 837	-
Other interest, net of interest income	279	68	681	22
<b>Earnings before income taxes</b>	29 475	17 311	55 390	34 051
<b>Income taxes</b>	11 045	6 353	21 050	12 412
<b>Net earnings</b>	\$ 18 430	\$ 10 958	\$ 34 340	\$ 21 639
<b>Earnings per share</b>				
Basic (1)	\$ 0.38	\$ 0.37	\$ 0.71	\$ 0.72
Fully diluted (2)	\$ 0.37	\$ 0.70		

(1) Basic earnings per share for the six months period ending September 30, 1998, have been calculated using the weighted average number of common shares outstanding (48 570 948 common shares, 30 000 000 in 1997).

(2) Fully diluted earnings per share have been calculated using 49 382 430 shares, being 48 594 010 common shares currently outstanding and 788 420 common shares that may be issued under the Company's share option plan.

CONSOLIDATED STATEMENTS OF CHANGES  
IN FINANCIAL POSITION

(unaudited)

(in thousands of dollars)	For the six months ended September 30	
	1998	1997
<b>Net inflow (outflow) of cash related to the following activities:</b>		
<b>Operating</b>		
Net earnings	\$ 34 340	\$ 21 639
Items not affecting cash		
Depreciation and amortization	18 159	4 047
Deferred income taxes	6 823	-
Loss on disposal of fixed assets	54	97
	59 376	25 783
Changes in non-cash operating working capital items	(14 278)	(6 224)
	45 098	19 559
<b>Investing</b>		
Business acquisition	(64 597)	(4 290)
Cash of acquired businesses	989	-
Additions to fixed assets	(23 452)	(8 659)
Proceeds from disposal of fixed assets	411	-
Disposal of investments	-	1 595
Other assets - net change	(79)	208
Advances to companies controlled by shareholders	-	20 944
Foreign currency translation adjustment	(6 079)	40
	(92 807)	9 838
<b>Financing</b>		
Increase in long-term debt	50 014	-
Repayment of long-term debt	(25 625)	(64)
Advances from a shareholder corporation	-	(3 775)
Issuance of common shares	1 070	-
Dividends	(5 829)	(28 044)
	19 630	(31 883)
<b>Decrease in bank cash</b>	(28 079)	(2 486)
<b>Bank indebtedness, beginning of period</b>	(9 689)	(11 643)
<b>Bank indebtedness, end of period</b>	\$ (37 768)	\$ (14 129)

CONSOLIDATED BALANCE SHEETS

(unaudited)

(in thousands of dollars)	As at September 30	
	1998	1997
<b>ASSETS</b>		
<b>Current assets</b>		
Receivables	\$ 183 020	\$ 36 599
Inventories	201 918	37 363
Prepaid expenses and other assets	1 975	1 996
	386 913	75 958
<b>Investments, at cost</b>	-	750
<b>Fixed assets</b>	403 705	86 352
<b>Goodwill, unamortized portion</b>	268 497	1 143
<b>Other assets</b>	5 913	1 105
	\$ 1 065 028	\$ 165 308
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Bank indebtedness	\$ 37 768	\$ 14 129
Accounts payable and accrued liabilities	176 611	30 077
Income taxes	3 811	1 199
Current portion of long-term debt	51 000	181
	269 190	45 586
<b>Long-term debt</b>	371 340	1 400
<b>Deferred income taxes</b>	10 687	10 497
	651 217	57 483
<b>SHAREHOLDER'S EQUITY</b>		
<b>Share capital</b>	348 859	15 287
<b>Retained earnings</b>	50 734	92 538
<b>Foreign currency translation adjustment</b>	14 218	-
	413 811	107 825
	\$ 1 065 028	\$ 165 308