SECOND
QUARTER

FISCAL 2000

SAPUTO GROUP INC.

INTERIM REPORT

Message
TO SHAREHOLDERS

We are proud to present the results of the quarter ended September 30, 1999. In this quarter, net earnings jumped 28.8% compared to the same period a year ago, reaching $23.7 million. Certainly the high point of this quarter was our acquisition, on September 15, of Culinar Inc., the largest manufacturer of snack cakes and fine bread products and the second-largest cookie manufacturer in Canada. This acquisition is part of a carefully planned diversification strategy. However, we certainly have no intention of deserting our roots, and we intend to remain forever faithful to our tradition of master cheesemakers. Culinar, with its large portfolio of well-established national and regional brands, offers an additional platform on which we could grow our business. The acquisition of this company at a price of $283 million was financed through a bank loan of $180 million and the issuance of about $100 million in Saputo Group Inc. treasury stock.

Revenues for the second quarter of fiscal 2000, which ended September 30 and which includes Culinar earnings for a period of two weeks, totaled $495 million. This represents an increase of 2.7% compared to $481.8 million for the same period of fiscal 1999. In Canada, there was an increase of $24.7 million compared to the year before. This increase is due, among other things, to the acquisition of Culinar, which added $14.1 million in revenues. The September 1998 acquisitions of Riverside Cheese and Butter Inc. and Bari Cheese Ltd. as well as higher revenues in our international division accounted for $10.6 million in increased revenues. In the United States, sales decreased by $11.5 million in the second quarter compared to the same quarter of fiscal 1999. Further study of our markets, in the course of integrating and rationalizing our American operations, has led us to voluntarily let go of a certain volume of unprofitable sales. Despite lower sales, the outcome of rationalization shows itself in the substantial additional earnings coming in from our American operations. The favorable variation of the price of cheese in the United States, which amounted to $8.5 million, was countered by the unfavorable effect of a stronger Canadian dollar, which totaled $6.4 million. Over the first six months, revenues totaled $910 million, up $22.1 million from $887.9 million in the same period last year.

Second-quarter earnings before interest, taxes, depreciation and amortization (EBITDA) in fiscal 2000 rose 18.8% compared to $46.8 million in the second quarter of fiscal 1999, to reach $55.6 million. The EBITDA margin was 11.2% for the three months ended September 30, 1999, compared to 9.7% for the same period last year. In Canada, not counting a $1.5 million contribution by

Culinar to EBITDA, the second-quarter EBITDA margin in fiscal 2000 stood at 13.9% compared to 14.2% for the same period last year. This slight drop is attributable to the growth of international sales, a sector with a narrower margin. Overall, the majority of the increased EBITDA margin comes from our subsidiary Saputo Cheese USA, which, despite lower sales volume, still succeeded in increasing its EBITDA, going from $29.2 million to $35.4 million, an increase of 21.2%. The increase in our American EBITDA margin, which went from 8.2% in the second quarter of 1999 to 10.2% for the same period this year, speaks volumes about the steady push towards integration concentrated on our American division. It should be noted that a stronger Canadian dollar, combined with the fluctuating price of cheese in the United States, also accounted for a 0.1% drop in our American division's EBITDA margin during the second quarter.

Second quarter net earnings rose to $23.7 million or $0.49 per share. This is a 28.8% improvement over $18.4 million or $0.38 per share for the same period in 1998. After six months of operations, net earnings stood at $44.8 million, $10.5 million more than the same date a year earlier, which represents an increase of 30.6%. As expected, the activities of Saputo Cheese USA are contributing largely to these higher net earnings. We expect that this input will continue along the same lines in the quarters immediately ahead.

Net cash flow generated by operations before net variation of non-cash items in working capital was $76.5 million for the six months ended September 30, 1999, up 29% from $59.3 million for the same period last year. Funds generated by operations during the six months ended September 30, 1999 were used to pay down $24.2 million in long-term debt, pay $5.8 million in dividends and provide some $34 million in financing for fixed assets. In Canada, $8.8 million worth of net additions to fixed assets included $2.6 million for expansion of our head office, the balance being devoted to the continual improvement of our manufacturing processes. In the United States, net additions to fixed assets totaled $25.2 million. Of this amount, $11.7 million went for the modernization of our Hinesburg, Vermont plant. This state-of-the-art production facility is now in full operation. These additions will contribute toward greater profitability for our company in the future. We do not foresee any substantial net additions to fixed assets through the end of the current fiscal year. In fact, the revenues generated by the sale of certain locations which were put on the market as part of the rationalization process begun last year should cover part of the additions to fixed assets.

In the opinion of management, our company is unlikely to be affected by the arrival of the year 2000, given the comparative simplicity of our systems. The implementation of a Y2K compliance program in October 1997 has enabled us to locate possible problems and make the necessary corrections. Y2K impact on Culinar has likewise been reviewed with similar findings. All phases of the program have been completed and the Company is presently finalizing its contingency plan to offset any unforeseen developments. While we have made every reasonable effort to ensure compliance from our business partners, we cannot give any guarantees regarding third-party systems.

Our results over recent quarters clearly show the effectiveness of the energy we have expended to ensure the success of our rationalization and integration process of the companies we acquired over the past two years. We are convinced that we will be able to put our manufacturing expertise to good use in the Culinar Inc. operations, and obtain the full benefit of the synergies from integration that we will be able to apply to these operations.

LINO SAPUTO
Chairman of the Board
and Chief Executive Officer

CAMILLO LISIO
President and
Chief Operating Officer

Novembre 22, 1999

Consolidated statements of earnings

(unaudited)	For the three months ended September 30		For the six months ended September 30	
(in thousands of dollars, except per share amounts)	**1999**	1998	**1999**	1998
Revenue	**$495,031**	$ 481,812	**$909,962**	$ 887,922
Cost of sales, selling and administrative expenses	**439,428**	434,998	**804,192**	797,855
Earnings before the undernoted expenses	**55,603**	46,814	**105,770**	90,067
Depreciation and amortization of fixed assets	**8,779**	7,840	**16,779**	14,987
Amortization of goodwill	**2,109**	1,619	**3,939**	3,172
Earnings before interest and income taxes	**44,715**	37,355	**85,052**	71,908
Interest on long-term debt	**6,655**	7,101	**12,973**	14,537
Other interest, net of interest income	**1,584**	779	**3,101**	1,981
Earnings before income taxes	**36,476**	29,475	**68,978**	55,390
Income taxes	**12,766**	11,045	**24,142**	21,050
Net earnings	**$ 23,710**	$ 18,430	**$ 44,836**	$ 34,340
Earnings per share				
Basic	**$ 0.49**	$ 0.38	**$ 0.92**	$ 0.71
Fully diluted	**$ 0.45**		**$ 0.86**	

Selected segmented information

(unaudited)	For the three months ended September 30		For the six months ended September 30	
(in thousands of dollars)	**1999**	1998	**1999**	1998
Revenue				
Canada	**$148,107**	$ 123,425	**$ 278,766**	$ 245,511
United States	**346,924**	358,387	**631,196**	642,411
	$495,031	$ 481,812	**$909,962**	$ 887,922
Earnings before interest, income taxes, depreciation and amortization				
Canada	**$ 20,156**	$ 17,585	**$ 39,924**	$ 35,915
United States	**35,447**	29,229	**65,846**	54,152
	$ 55,603	$ 46,814	**$ 105,770**	$ 90,067
Depreciation and amortization				
Canada	**$ 3,034**	$ 2,050	**$ 5,591**	$ 4,051
United States	**7,854**	7,409	**15,127**	14,108
	$ 10,888	$ 9,459	**$ 20,718**	$ 18,159
Operating income				
Canada	**$ 17,122**	$ 15,516	**$ 34,333**	$ 31,845
United States	**27,593**	21,839	**50,719**	40,063
	$ 44,715	$ 37,355	**$ 85,052**	$ 71,908
Net additions to fixed assets				
Canada	**$ 5,639**	$ 2,114	**$ 8,839**	$ 5,161
United States	**11,648**	10,384	**25,226**	17,826
	$ 17,287	$ 12,498	**$ 34,065**	$ 22,987

Consolidated statements of changes in financial position

(unaudited)

For the six months ended September 30 *(in thousands of dollars)*	1999	1998
Net inflow (outflow) of cash related to the following activities:		
Operating		
Net earnings	**$ 44,836**	$ 34,340
Items not affecting cash		
Depreciation and amortization	**20,718**	18,159
Deferred income taxes	**10,900**	6,823
	76,454	59,322
Changes in non-cash operating working capital items	**(20,787)**	(10,220)
	55,667	49,102
Investing		
Business acquisitions	**(283,836)**	(64,597)
Cash of the acquired businesses	**14,017**	989
Net additions to fixed assets	**(34,065)**	(22,987)
Other assets — Net	**1,628**	(79)
Foreign currency translation adjustment	**13,895**	(40,972)
	(288,361)	(127,646)
Financing		
Increase in long-term debt	**180,000**	50,014
Repayment of long-term debt	**(24,200)**	(25,625)
Issuance of share capital	**100,467**	1,070
Dividends	**(5,837)**	(5,829)
Foreign currency translation adjustment	**(8,830)**	30,835
	241,600	50,465
Decrease in cash	**8,906**	(28,079)
Bank indebtedness, beginning of period	**(69,514)**	(9,689)
Bank indebtedness, end of period	**$ 60,608**	$ 37,768

Consolidated balance sheets

(unaudited)

As at September 30 *(in thousands of dollars)*	1999	1998
ASSETS		
Current assets	**$ 435,733**	$ 386,913
Fixed assets	**492,747**	403,705
Goodwill	**462,940**	268,497
Other assets	**7,688**	5,913
	$ 1,399,108	$ 1,065,028
LIABILITIES		
Current liabilities	**$ 321,058**	$ 269,190
Long-term debt	**457,662**	371,340
Deferred income taxes	**36,727**	10,687
	815,447	651,217
SHAREHOLDERS' EQUITY	**583,661**	413,811
	$ 1,399,108	$ 1,065,028