MANAGEMENT'S STATEMENT OF RESPONSIBILITY FOR FINANCIAL REPORTING

Management is responsible for the preparation and presentation of the consolidated financial statements and the financial information presented in this annual report. This responsibility includes the selection of accounting policies and practices and making judgments and estimates necessary to prepare the consolidated financial statements in accordance with generally accepted accounting principles.

Management has also prepared the financial information presented elsewhere in this annual report and has ensured that it is consistent with the consolidated financial statements.

Management maintains systems of internal control designed to provide reasonable assurance that assets are safeguarded and that relevant and reliable financial information is being produced.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is responsible for reviewing and approving the consolidated financial statements. The Board of Directors carries out this responsibility principally through its Audit Committee, which is comprised solely of independent directors. The Audit Committee meets periodically with management and the external auditors to discuss internal controls, auditing matters and financial reporting issues. It also reviews the annual report, the consolidated financial statements and the external auditors' report. The Audit Committee recommends the external auditors for appointment by the shareholders. The external auditors have unrestricted access to the Audit Committee. The consolidated financial statements have been audited by the external auditors Deloitte & Touche LLP, whose report follows.

(signed)

Lino Saputo, Jr.
President and
Chief Executive Officer

(signed)

Louis-Philippe Carrière, CA
Executive Vice President,
Finance and Administration,
and Secretary

AUDITORS' REPORT TO THE SHAREHOLDERS OF SAPUTO INC.

We have audited the consolidated balance sheets of Saputo Inc. as at March 31, 2005 and 2004 and the consolidated statements of earnings, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed)

Deloitte & Touche LLP
Chartered Accountants
Laval, Québec
May 27, 2005

CONSOLIDATED STATEMENTS OF EARNINGS

Years ended March 31 (in thousands of dollars, except per share amounts)	2005	2004
Revenues	$ 3,883,069	$ 3,570,190
Cost of sales, selling and administrative expenses	3,475,310	3,166,933
Earnings before interest, depreciation and income taxes	407,759	403,257
Depreciation of fixed assets (Note 3)	66,065	66,038
Operating income	341,694	337,219
Interest on long-term debt	28,026	34,792
Other interest (Note 11)	1,064	1,218
Earnings before income taxes	312,604	301,209
Income taxes (Note 12)	80,459	88,844
Net earnings	$ 232,145	$ 212,365
Earnings per share (Note 13)		
Net earnings		
Basic	$ 2.23	$ 2.05
Diluted	$ 2.20	$ 2.03

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

Years ended March 31 (in thousands of dollars)	2005	2004
Retained earnings, beginning of year	$ 711,371	$ 546,667
Net earnings	232,145	212,365
Dividends	(59,462)	(47,661)
Retained earnings, end of year	$ 884,054	$ 711,371

CONSOLIDATED BALANCE SHEETS

As at March 31

(in thousands of dollars)	2005	2004
ASSETS		
Current assets		
Cash	$ 41,477	$ 7,874
Receivables	299,828	287,012
Inventories	452,814	420,660
Income taxes	14,381	9,348
Future income taxes	10,711	14,877
Prepaid expenses and other assets	16,795	13,838
	836,006	753,609
Portfolio investment (Note 2)	53,991	53,991
Fixed assets (Note 3)	648,584	661,183
Goodwill (Note 4)	507,200	524,856
Trademarks (Note 4)	24,054	26,076
Other assets (Note 5)	53,437	46,422
Future income taxes	9,800	3,411
	$ 2,133,072	$ 2,069,548
LIABILITIES		
Current liabilities		
Bank loans (Note 6)	$ 15,083	$ 82,367
Accounts payable and accrued liabilities	291,197	295,124
Income taxes	67,438	26,020
Future income taxes	9,653	8,927
Current portion of long-term debt (Note 7)	-	43,969
	383,371	456,407
Long-term debt (Note 7)	302,521	327,942
Other liabilities (Note 8)	19,139	13,941
Future income taxes	112,191	114,429
	817,222	912,719
SHAREHOLDERS' EQUITY		
Share capital (Note 9)	483,896	469,262
Contributed surplus (Note 10)	8,095	4,411
Retained earnings	884,054	711,371
Foreign currency translation adjustment	(60,195)	(28,215)
	1,315,850	1,156,829
	$ 2,133,072	$ 2,069,548

On behalf of the Board

(signed)

Lino Saputo, Director

(signed)

Louis A. Tanguay, Director

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended March 31 (in thousands of dollars)	2005	2004
Cash flows related to the following activities:		
Operating		
Net earnings	$ 232,145	$ 212,365
Items not affecting cash		
Stock based compensation	4,774	2,936
Depreciation of fixed assets	66,065	66,038
Gain on disposal of fixed assets	(2,576)	(680)
Future income taxes	4,860	20,630
	305,268	301,289
Changes in non-cash operating working capital items	(28,783)	(13,717)
	276,485	287,572
Investing		
Business acquisitions (Note 14)	-	(99,994)
Portfolio investment	-	2,000
Additions to fixed assets	(81,786)	(90,446)
Proceeds on disposal of fixed assets	5,441	5,926
Other assets	(7,278)	(4,677)
	(83,623)	(187,191)
Financing		
Bank loans	(68,844)	63,945
Repayment of long-term debt	(43,965)	(110,099)
Issuance of share capital for a cash consideration	13,544	4,931
Employee future benefits	442	4
Dividends	(59,462)	(47,661)
	(158,285)	(88,880)
Increase in cash	34,577	11,501
Effect of exchange rate changes on cash	(974)	(2,391)
Cash (bank overdraft), beginning of year	7,874	(1,236)
Cash, end of year	$ 41,477	$ 7,874
Supplemental information		
Interest paid	$ 27,565	$ 33,889
Income taxes paid	$ 37,896	$ 70,095

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended March 31
(tabular amounts are in thousands of dollars except information on options)

1. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with generally accepted accounting principles used in Canada and include the following significant accounting policies:

Use of estimates

In the course of the preparation of financial statements in conformity with generally accepted accounting principles, management must make estimates such as the useful life and depreciation of fixed assets, the valuation of goodwill, portfolio investments, trademarks and future income taxes and certain actuarial and economic assumptions used in determining defined benefit pension costs, accrued pension benefits obligation and pension plan assets, and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the revenues and expenses for the period. Actual results could differ from these estimates.

Consolidated financial statements

Investments over which the Company has effective control are consolidated. The interest in a joint venture (Note 14), that is jointly controlled is accounted for by the proportionate consolidation method. The operating results of acquired businesses, from their respective acquisition dates, are included in the consolidated statements of earnings.

Inventories

Finished goods and goods in process are valued at the lower of average cost and net realizable value. Raw materials are valued at the lower of cost and replacement value, cost being determined under the first-in, first-out method.

Income taxes

The Company follows the liability method of income tax allocation. Under this method, future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted or substantially enacted tax rates that will be in effect when the differences are expected to reverse. Future income tax assets are recognized only to the extent that, in the opinion of management, it is more likely than not that the future income tax asset will be realized.

Fixed assets

Fixed assets are stated at cost and are depreciated using the straight-line method over their estimated useful lives or by using the following methods:

Buildings	20 years to 40 years
Furniture, machinery and equipment	3 years to 15 years
Rolling stock	5 years to 10 years or based on kilometers traveled

Goodwill and trademarks

Goodwill and trademarks are not amortized; however they are tested for impairment annually, or more frequently if events or changes in circumstances indicate that the assets might be impaired. The carrying values of goodwill and trademarks are compared with their respective fair values, and an impairment loss is recognized for the excess, if any.

Employee future benefits

The cost of pension and other post-retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on services and using estimates of expected return on plan assets, rates of compensation increase, retirement ages of employees and expected health care costs and other post-retirement benefits. Current service costs are expensed in the year. In accordance with generally accepted accounting principles, past service costs and the excess of the net actuarial gains or losses related to defined benefit

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

pension plans over 10% of the greater of the benefit obligation or fair value of plan assets are amortized over the expected average remaining service period of active employees entitled to receive benefits under the plans. The Company uses five-year asset smoothing to determine the defined benefit pension costs. On January 1, 2000, the Company prospectively adopted the new employees future benefit accounting standards. It amortizes on a straight-line basis the transitional obligation over the expected average remaining service life of the employee groups for each of the plans at January 1, 2000. In the case where a plan restructuring entails both a plan curtailment and settlement of obligations from the plan, the curtailment is recorded before the settlement.

Revenue recognition

The Company recognizes revenue, net of sales incentives, upon shipment of goods when the title and risk of loss are transferred to customers.

Foreign currency translation

The balance sheet accounts of the self-sustaining companies operating in the United States and Argentina 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 fiscal years. The foreign currency translation adjustment account presented in shareholders' equity represents accumulated foreign currency gains or losses on the Company's net investments in self-sustaining companies operating in the United States and Argentina. The change in the foreign currency translation account during the year ended March 31, 2005 principally resulted from the increase 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 end of the year for monetary assets and liabilities and the prevailing exchange rates at the time of transactions for income and expenses. Gains or losses resulting from this translation are included in the statement of earnings.

	2005	2004
Foreign currency gain	$ 562	$ 315

Stock based compensation

The fair value based method of accounting is used to expense stock based compensation awards. This method consists of recording compensation cost to earnings over the vesting period of options granted. When stock options are exercised, any consideration paid by employees and the related compensation expense recorded as contributed surplus are credited to share capital.

New accounting standards

On May 1, 2003, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants (CICA) regarding "Disposal of long-lived assets and discontinued operations", which establish standards for the recognition, measurement, presentation and disclosure of the disposal of long-lived assets and discontinued operations. This new standard was applied prospectively. (See Note 3 for the required disclosure)

Effective April 1, 2004, the Company adopted the following new recommendations of the CICA regarding "Asset retirement obligations", which requires the recognition of liabilities for legal obligations, whether they are of a legal, prescribed, contractual or other nature, and normally when these obligations arise; "Hedging relationships", which specifies the circumstances in which hedge accounting is appropriate, and examines in particular the identification, documentation, designation and effectiveness of hedging relationships for the purpose of hedge accounting, as well as the discontinuance of hedge accounting; and "Employee future benefits", which expands the disclosure requirements in both annual and interim financial statements. These new recommendations had no significant impact on the Company's consolidated financial statements.

Effective July 1, 2004, the Company adopted the following new recommendation of the CICA regarding "Accounting by a Customer for Certain Consideration Received from a Vendor", which provides guidance on how a customer of a vendor's products should account for a cash consideration received from a vendor. This new recommendation had no significant impact on the Company's consolidated financial statements.

Effective January 1, 2005, the Company adopted the following new recommendation of the CICA regarding "Consolidation of Variable Interest Entities", which requires enterprises to identify variable interest entities in which they have an interest, to determine if they are the primary beneficiary of such entities, and, if so, to consolidate them. This new recommendation had no impact on the Company's consolidated financial statements.

2. PORTFOLIO INVESTMENT

	2005	2004
21% share capital interest in Dare Holdings Ltd.	$ 53,991	$ 53,991

The portfolio investment is recorded at cost less the excess of dividends received over the Company's share in accumulated earnings. No dividends were received during fiscal 2005. The dividend of $2,000,000 received during fiscal 2004 was accounted for as a reduction of the cost of the investment.

3. FIXED ASSETS

	2005			2004		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Land	$ 27,872	$ -	$ 27,872	$ 33,932	$ -	$ 33,932
Buildings	246,887	53,657	193,230	253,394	56,013	197,381
Furniture, machinery and equipment	707,965	290,014	417,951	677,945	258,036	419,909
Rolling stock	11,817	5,378	6,439	10,714	4,375	6,339
Held for sale	3,092	-	3,092	3,622	-	3,622
	$ 997,633	$ 349,049	$ 648,584	$ 979,607	$ 318,424	$ 661,183

During the year, a gain on disposal of fixed assets held for sale totalling $2,576,000 was recorded in cost of sales, selling and administrative expenses. These assets relate to the activities of the Canadian dairy products sector.

During the year, a $6,000,000 write-down to fair value of certain machinery and equipment was recorded. This charge is included in depreciation of fixed assets.

Fixed assets held for sale represent mainly machinery, equipment and buildings of the Canadian dairy products sector that will be disposed of as a result of certain plant closures. A $1,000,000 write-down to fair value of these assets was recorded in 2004. This charge is included in depreciation of fixed assets.

The net book value of fixed assets under construction, that are not being amortized, amounts to $47,921,000 as at March 31, 2005 ($71,030,000 as at March 31, 2004).

4. GOODWILL AND TRADEMARKS

	2005			2004		
	Dairy products sector	Grocery products sector	Total	Dairy products sector	Grocery products sector	Total
Goodwill						
Balance, beginning of year	$ 360,343	$ 164,513	$ 524,856	$ 386,117	$ 164,513	$ 550,630
Foreign currency translation adjustment	(17,656)	-	(17,656)	(27,123)	-	(27,123)
Business acquisitions (Note 14)	-	-	-	1,349	-	1,349
Balance, end of year	$ 342,687	$ 164,513	$ 507,200	$ 360,343	$ 164,513	$ 524,856
Trademarks						
Balance, beginning of year	$ 26,076	$ -	$ 26,076	$ -	$ -	$ -
Business acquisitions (Note 14)	-	-	-	27,330	-	27,330
Foreign currency translation adjustment	(2,022)	-	(2,022)	(1,254)	-	(1,254)
Balance, end of year	$ 24,054	$ -	$ 24,054	$ 26,076	$ -	$ 26,076

5. OTHER ASSETS

	2005	2004
Net accrued pension plan asset (Note 15)	$ 45,505	$ 37,517
Other	7,932	8,905
	$ 53,437	$ 46,422

6. BANK LOANS

The Company has available short-term bank credit facilities providing for bank loans up to a maximum of approximately $234,000,000. These bank loans are available in Canadian dollars or the equivalent in other currencies and bear interest at rates based on lenders' prime rates plus a maximum of 0.6% or LIBOR or bankers' acceptances rate plus 0.55% up to a maximum of 1.6%, depending on the interest-bearing debt to the earnings before interest, depreciation and amortization and income taxes ratio of the Company.

7. LONG-TERM DEBT

	2005	2004
Term bank loan, repaid during year	$ -	$ 43,870
Senior notes		
7.97%, due in November 2006 (US$30,000,000)	36,288	39,339
8.12%, due in November 2009 (US$170,000,000)	205,632	222,921
8.41%, due in November 2014 (US$50,000,000)	60,480	65,565
Other loans, repayable up to 2008	121	216
	302,521	371,911
Current portion	-	43,969
	$ 302,521	$ 327,942

Estimated principal payments required in future years are as follows:

2006	$ -
2007	36,388
2008	21
2009	-
2010	205,632
2011 and subsequent years	60,480
	$ 302,521

8. OTHER LIABILITIES

	2005	2004
Employee future benefits (Note 15)	$ 14,383	$ 13,941
Other	4,756	-
	$ 19,139	$ 13,941

9. SHARE CAPITAL

Authorized

The authorized share capital of the Company consists of an unlimited number of common and preferred shares. The common shares are voting and participating. The preferred shares may be issued in one or more series, the terms and privileges of each series to be determined at the time of their creation.

	2005	2004
Issued		
104,527,282 common shares (103,777,730 in 2004)	$ 483,896	$ 469,262

749,552 common shares (317,725 in 2004) for an amount of $13,544,000 ($4,931,000 in 2004) were issued during the year ended March 31, 2005 pursuant to the share option plan. For share options granted since April 1, 2002, the amount previously accounted for as an increase to contributed surplus was also transferred to share capital upon the exercise of options. For the year ended March 31, 2005, the amount transferred from contributed surplus was $1,090,000.

Share option plan

The Company established a share option plan to allow for the purchase of common shares by key employees, officers and directors of the Company. The total number of common shares which may be issued pursuant to this plan cannot exceed 14,000,000 common shares. Options may be exercised at a price equal to the closing quoted value of the shares on the day preceding the grant date. The options vest at 20% per year and expire ten years from the grant date.

Options issued and outstanding as at the year-ends are as follows:

		2005		2004	
Granting period	Exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
1998	$ 8.50	77,420	$ 8.50	125,249	$ 8.50
1999	from $16.13 to $18.75	160,602	$ 18.34	226,180	$ 18.28
2000	$ 19.70	272,403	$ 19.70	400,164	$ 19.70
2001	$ 13.50	582,608	$ 13.50	793,069	$ 13.50
2002	from $19.00 to $23.00	814,073	$ 19.09	994,783	$ 19.13
2003	$ 30.35	815,518	$ 30.35	891,072	$ 30.35
2004	$ 22.50	1,174,625	$ 22.50	1,315,063	$ 22.50
2005	$ 33.05	900,666	$ 33.05	-	-
		4,797,915	$ 23.62	4,745,580	$ 20.96
Options exercisable at end of year		1,778,646	$ 19.71	1,566,785	$ 18.12

Changes in the number of options are as follows:

	2005		2004	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance at beginning of year	4,745,580	$ 20.96	3,784,944	$ 19.99
Options granted	984,055	$ 33.05	1,338,396	$ 22.50
Options exercised	(749,552)	$ 18.07	(317,725)	$ 15.52
Options cancelled	(182,168)	$ 28.01	(60,035)	$ 23.31
Balance at end of year	4,797,915	$ 23.62	4,745,580	$ 20.96

9. SHARE CAPITAL (cont'd)

The fair value of share purchase options granted was estimated at $9.86 per option ($6.31 in 2004), using the Black-Scholes option pricing model with the following assumptions:

	2005	2004
Risk-free interest rate:	3.5%	4.9%
Expected life of options:	6 1/2 years	7 1/2 years
Volatility:	28%	27%
Dividend rate:	1.8%	1.7%

The exercise price of these options is $33.05 ($22.50 in 2004), which corresponds to the closing quoted value of the shares on the day preceding the grant date.

A compensation expense of $4,774,000 ($4,173,000 after income taxes) relating to stock options was recorded in the statement of earnings for the year ended March 31, 2005 and $2,936,000 ($2,571,000 after income taxes) was recorded for the year ended March 31, 2004.

The effect of this expense on basic and diluted earnings per share was $0.04 for the year ended March 31, 2005, and $0.025 for the year ended March 31, 2004.

Options to purchase 914,952 common shares at a price of $36.15 were also granted on April 1, 2005.

Deferred share units plan for directors

Effective April 1, 2004, all eligible directors of the Company were allocated a fixed amount of deferred share units which were granted on a quarterly basis in accordance with the deferred share units plan. The directors have a choice to receive either cash or deferred units for their compensation. The number of units issued to each director is based on the market value of the Company's common shares at each grant date. As directors cease their functions with the Company, a cash payment equal to the market value of the accumulated deferred share units will be disbursed. The number of units issued each year, multiplied by the market value of common shares at the Company's year-end, is recorded as an expense by the Company. During the year ended March 31, 2005, the expense recorded for the deferred share units was $488,000.

10. CONTRIBUTED SURPLUS

	2005	2004
Contributed surplus, beginning of year	$ 4,411	$ 1,475
Stock based compensation	4,774	2,936
Amount transferred to share capital	(1,090)	-
Contributed surplus, end of year	$ 8,095	$ 4,411

11. OTHER INTEREST

	2005	2004
Expense	$ 1,568	$ 1,586
Income	(504)	(368)
	$ 1,064	$ 1,218

12. INCOME TAXES

The provision for income taxes is comprised of the following:

	2005	2004
Current income taxes	$ 75,599	$ 68,214
Future income taxes	4,860	20,630
	$ 80,459	$ 88,844

Reconciliation of income taxes, calculated using statutory Canadian income tax rates, to the income tax provision presented in the statement of earnings:

	2005	2004
Income taxes, calculated using Canadian statutory income tax rates	$ 97,212	$ 101,454
Adjustments resulting from the following:		
Manufacturing and processing credit	(1,453)	(4,483)
Effect of tax rates of American subsidiaries	4,593	4,442
Changes in tax laws and rates	(3,816)	(1)
Utilization of tax benefit not previously recognized	(2,381)	(3,501)
Benefit arising from investment in subsidiaries	(9,118)	(9,819)
Other	(4,578)	752
Provision for income taxes	$ 80,459	$ 88,844

The tax effects of temporary differences that give rise to significant portions of the future tax asset and liability are as follows:

	2005	2004
Future income tax asset		
Accounts payable and accrued liabilities	$ 5,088	$ 5,773
Income tax losses	5,639	2,915
Other	3,634	2,306
	$ 14,361	$ 10,994
Future income tax liability		
Inventories	$ 7,350	$ 6,680
Fixed assets	95,677	94,624
Net assets of pension plans	4,979	7,259
Other assets	1,463	993
Portfolio investment	6,225	6,506
	$ 115,694	$ 116,062
Classified in the financial statements as:		
Current future income tax asset	$ 10,711	$ 14,877
Long-term future income tax asset	9,800	3,411
Current future income tax liability	(9,653)	(8,927)
Long-term future income tax liability	(112,191)	(114,429)
Net future income tax liability	$ (101,333)	$ (105,068)

Potential tax benefits

As of March 31, 2005, the Company has income tax losses of approximately $60,857,000 which may be used to reduce future years' taxable income of its subsidiaries in Argentina. The benefits resulting from these tax losses have not been recognized in the accounts. These losses expire as follows:

2006	$ 898,000
2007	$ 3,037,000
2008	$ 48,615,000
2009	$ 8,307,000

13. EARNINGS PER SHARE

Basic earnings per share have been calculated using the weighted average number of common shares outstanding during each fiscal year: 104,257,660 shares in 2005 (103,589,621 in 2004).

Diluted earnings per share for the year ended March 31, 2005 have been calculated using 105,698,700 (104,817,272 in 2004) common shares by applying the treasury stock method.

14. BUSINESS ACQUISITIONS

The Company acquired on May 1, 2003 a 51% voting share interest in Gallo Protein 2003, LLC (a joint venture) for a cash consideration of $3,546,000, and acquired on May 23, 2003 the commercial activities of the Treasure Cave and Nauvoo brands for a cash consideration of $36,510,000. Relating to the Gallo Protein acquisition, the fair values attributed to the assets acquired were $812,000 to working capital, $1,385,000 to fixed assets, and $1,349,000 to goodwill. The fair values attributed to the assets acquired for the commercial activities of the Treasure Cave and Nauvoo brands were $5,361,000 to working capital, $3,819,000 to fixed assets and $27,330,000 to trademarks. Gallo Protein 2003, LLC operates in the United States and manufactures and markets whey protein isolates and related products from whey protein concentrate. The commercial activities of the Treasure Cave and Nauvoo brands are related to the manufacturing and commercialization of blue cheese in the United States.

On November 28, 2003, the Company acquired 100% of the voting shares of Molfino Hermanos S.A. (Molfino). Molfino is a cheese and dairy products manufacturer operating in Argentina. Total acquisition costs for Molfino amounted to $66,162,000 including cash of $4,395,000 and related acquisition costs of $1,829,000 for a net consideration paid of $59,938,000. The fair values attributed to the assets acquired were $40,092,000 to fixed assets, $2,166,000 to other assets, and the remainder of $19,509,000 to working capital. The operating results of Molfino are included in the Canada and other dairy products sector.

15. EMPLOYEE PENSION AND OTHER BENEFIT PLANS

The Company provides defined 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.

Under the terms of the defined benefit pension plans, pensions are based on years of service and the average salary of the last employment years or the career salary. Contributions are paid by employees and contributions by the Company are based on recommendations from independent actuaries. Actuarial valuations were performed as at December 2002 and 2003. The measurement date of pension plan assets and liabilities is December 31.

The defined contribution pension plans entitle participating employees to an annual contribution giving right to a pension.

Plan assets are principally comprised of shares of Canadian and foreign companies, mutual funds and fixed income investments.

15. EMPLOYEE PENSION AND OTHER BENEFIT PLANS (cont'd)

Financial position of the plans

	2005		2004	
	Defined benefit pension plans	Other benefit plans	Defined benefit pension plans	Other benefit plans
Changes in accrued benefits obligation				
Benefits obligation at beginning of year	$ 165,460	$ 17,614	$ 154,890	$ 20,683
Current service cost	5,214	680	4,188	914
Interest cost	10,099	1,173	10,187	1,216
Benefits paid	(12,962)	(1,175)	(11,767)	(1,172)
Actuarial losses (gains)	8,085	3,013	8,295	(826)
Amendments and divestitures	-	205	-	(2,049)
Foreign currency gain	(261)	(924)	(333)	(1,152)
Benefits obligation at end of year	175,635	20,586	165,460	17,614
Changes in fair value of plan assets				
Fair value of plan assets at beginning of year	152,730	-	142,145	-
Actual return on plan assets	13,584	-	15,914	-
Employer contributions	9,175	1,046	5,548	1,061
Employee contributions	1,170	129	1,129	111
Benefits paid	(12,962)	(1,175)	(11,767)	(1,172)
Foreign currency loss	(210)	-	(239)	-
Fair value of plan assets at end of year	163,487	-	152,730	-
Deficit	(12,148)	(20,586)	(12,730)	(17,614)
Unamortized actuarial losses	66,461	4,561	60,797	2,260
Unamortized past service cost	680	35	761	(344)
Adjustment to recognize obligation	14	-	-	-
Unamortized transitional obligation	(11,059)	1,561	(12,215)	1,757
Asset (liability) as at the measurement date	43,948	(14,429)	36,613	(13,941)
Employer contributions made from the measurement date to the end of the year	1,557	46	904	-
Net asset (liability) recognized in the balance sheet	$ 45,505	$ (14,383)	$ 37,517	$ (13,941)

All defined benefit pension plans present an accumulated benefits obligation in excess of plan assets.

15. EMPLOYEE PENSION AND OTHER BENEFIT PLANS (cont'd)

Employee benefit plans expense

	2005		2004	
	Pension plans	Other benefit plans	Pension plans	Other benefit plans
Defined benefit plans				
Employer current service cost	$ 4,044	$ 550	$ 3,058	$ 584
Interest cost on benefits obligation	10,099	1,173	10,187	1,216
Actual return on plan assets	(13,584)	-	(15,914)	-
Actuarial losses (gain)	8,085	3,013	8,295	(826)
Plan amendments	-	205	-	-
Curtailment and settlement of plans	70	-	(1,146)	(2,049)
Unadjusted benefits expense taking into account the long-term nature of the cost	8,714	4,941	4,480	(1,075)
Difference between expected return and actual return on plan assets	175	-	2,392	-
Difference between amortized past service costs and plan amendments for the year	78	(109)	91	1,999
Difference between net actuarial loss recognized and actual actuarial loss on benefits obligation	(5,995)	(2,779)	(7,614)	521
Transitional obligation amortization	(1,155)	196	(1,156)	377
Defined benefit plans expense	1,817	2,249	(1,807)	1,822
Defined contribution plans expense	10,278	-	8,712	-
Total benefit plans expense	$ 12,095	$ 2,249	$ 6,905	$ 1,822

For the year ended March 31, 2005, the Company's total expense for all its employee benefits plans was $14,344, 000 ($8,727,000 in 2004) and the total Company contributions to the employee benefits plans was $20,499,000 ($15,321,000 in 2004).

Weighted average assumptions				
To determine benefits obligation at end of year:				
Discount rate of obligation	6.00%	6.00%	6.25%	6.25%
Rate of increase of future compensation expense	3.50%	3.50%	3.50%	3.50%
To determine benefit plans expense:				
Discount rate of obligation	6.25%	6.25%	6.75%	6.75%
Expected long-term rate of return on plan assets	7.90%	N/A	7.90%	N/A
Rate of increase of future compensation expense	3.50%	3.50%	3.50%	3.50%

For measurement purposes, a 5.5% to 7% annual rate of increase was used for health, life insurance and dental plan costs for the year 2006 and this rate is assumed to decrease gradually to 5% in 2010 and remain at that level thereafter. In comparison, during the previous year, a 5.5% to 7% annual rate was used for the year 2005 and that rate was assumed to decrease gradually to 5.3% in 2007.

16. COMMITMENTS AND CONTINGENCIES

The Company carries some of its operations in leased premises and has also entered into lease agreements for equipment and rolling stock. The minimum annual lease payments required are as follows:

2006	$ 9,886
2007	8,322
2008	6,113
2009	5,066
2010	4,064
Subsequent years	5,424
	$ 38,875

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

The Company from time to time enters into agreements in the normal course of its business, such as service arrangements and leases, and in connection with business or asset acquisitions or dispositions, which agreements by their nature may provide for indemnifications of counterparties. These indemnification provisions may be in connection with breach of representations and warranties and for future claims for certain liabilities, including liabilities related to tax and environmental matters. The terms of these indemnification provisions vary in duration. Given the nature of such indemnifications, the Company is unable to reasonably estimate its maximum potential liability under these agreements.

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

a) Fair value of financial instruments

The fair value of cash, receivables, bank loans and accounts payable and accrued liabilities corresponds to their carrying value due to their short-term maturity.

The fair value of long-term debt, estimated by discounting expected cash flows at rates currently offered to the Company for debts of the same remaining maturities and conditions, is $345,285,000 ($445,133,000 in 2004).

b) Credit risk

The Company grants credit to its customers in the normal course of business. Credit valuations are performed on a regular basis and the financial statements take into account an allowance for bad debts. The Company does not have any credit risk concentration.

c) Interest rate risk

The short-term bank credit facilities bear interest at fluctuating rates.

The Company occasionally enters into interest swap contracts to hedge against exposures to increases in interest rates. As at March 31, 2005, the Company had no outstanding interest swap contracts.

d) Currency risk

In the normal course of Canadian operations, the Company enters into certain foreign currency transactions. The Company manages its currency risks by occasionally entering into foreign currency contracts. The Company had outstanding foreign currency contracts as at the balance sheet date for the purchase of 1,200,000 euros.

The Company realizes approximately 34% and 4% of its sales in the United States and Argentina, respectively, and is therefore exposed to currency exchange fluctuations.

The cash flows from US operations constitute a natural economic hedge against the exchange risk related to debt expressed in US dollars.

e) Price commodities risk

The Company occasionally enters into hedging contracts to hedge against fluctuations on the price of certain commodities. Outstanding contracts as at the balance sheet date had a fair value of $900,000.

18. SEGMENTED INFORMATION

The dairy products sector principally includes the production and distribution of cheeses and fluid milk. The activities of this sector are carried out in Canada, Argentina and the United States.

The grocery products sector consists of the production and marketing of snack cakes. Total assets of this sector include the portfolio investment.

These operating sectors are managed separately because each sector represents a strategic business unit that offers different products and serves different markets. The Company measures performance based on geographic operating income and sector operating income on a stand-alone basis.

The accounting policies of the sectors are the same as those described in Note 1 relating to significant accounting policies. The Company does not have any intersector sales.

Information on operating sectors

	2005			2004		
	Canada and other	United States	Total	Canada and other	United States	Total
Revenues						
Dairy products	$ 2,415,541	$ 1,308,735	$ 3,724,276	$ 2,161,852	$ 1,240,954	$ 3,402,806
Grocery products	158,793	-	158,793	167,384	-	167,384
	$ 2,574,334	$ 1,308,735	$ 3,883,069	$ 2,329,236	$ 1,240,954	$ 3,570,190
Earnings before interest, depreciation and income taxes						
Dairy products	$ 244,161	$ 137,043	$ 381,204	$ 209,855	$ 160,887	$ 370,742
Grocery products	26,555	-	26,555	32,515	-	32,515
	$ 270,716	$ 137,043	$ 407,759	$ 242,370	$ 160,887	$ 403,257
Depreciation of fixed assets						
Dairy products	$ 29,743	$ 31,175	$ 60,918	$ 29,854	$ 31,550	$ 61,404
Grocery products	5,147	-	5,147	4,634	-	4,634
	$ 34,890	$ 31,175	$ 66,065	$ 34,488	$ 31,550	$ 66,038
Operating income						
Dairy products	$ 214,418	$ 105,868	$ 320,286	$ 180,001	$ 129,337	$ 309,338
Grocery products	21,408	-	21,408	27,881	-	27,881
	$ 235,826	$ 105,868	341,694	$ 207,882	$ 129,337	337,219
Interest			29,090			36,010
Earnings before income taxes			312,604			301,209
Income taxes			80,459			88,844
Net earnings			$ 232,145			$ 212,365

18. SEGMENTED INFORMATION (cont'd)

Geographic information

	2005				2004			
	Canada	Argentina	United States	Total	Canada	Argentina	United States	Total
Revenues								
Dairy products	$2,265,277	$ 150,264	$ 1,308,735	$ 3,724,276	$2,117,390	$ 44,462	$ 1,240,954	$ 3,402,806
Grocery products	158,793	-	-	158,793	167,384	-	-	167,384
	$2,424,070	$ 150,264	$ 1,308,735	$ 3,883,069	$2,284,774	$ 44,462	$ 1,240,954	$ 3,570,190
Total assets								
Dairy products	$ 1,017,031	$ 100,696	$ 716,395	$ 1,834,122	$ 932,552	$ 89,138	$ 756,236	$ 1,777,926
Grocery products	298,950	-	-	298,950	291,622	-	-	291,622
	$1,315,981	$ 100,696	$ 716,395	$ 2,133,072	$1,224,174	$ 89,138	$ 756,236	$2,069,548
Net book value of fixed assets								
Dairy products	$ 315,260	$ 51,601	$ 240,984	$ 607,845	$ 305,134	$ 41,805	$ 274,368	$ 621,307
Grocery products	40,739	-	-	40,739	39,876	-	-	39,876
	$ 355,999	$ 51,601	$ 240,984	$ 648,584	$ 345,010	$ 41,805	$ 274,368	$ 661,183
Additions to fixed assets								
Dairy products	$ 38,856	$ 18,134	$ 18,786	$ 75,776	$ 63,713	$ 315	$ 21,295	$ 85,323
Grocery products	6,010	-	-	6,010	5,123	-	-	5,123
	$ 44,866	$ 18,134	$ 18,786	$ 81,786	$ 68,836	$ 315	$ 21,295	$ 90,446
Goodwill								
Dairy products	$ 132,698	$ -	$ 209,989	$ 342,687	$ 132,698	$ -	$ 227,645	$ 360,343
Grocery products	164,513	-	-	164,513	164,513	-	-	164,513
	$ 297,211	$ -	$ 209,989	$ 507,200	$ 297,211	$ -	$ 227,645	$ 524,856

19. SUBSEQUENT EVENTS

On April 18, 2005 the Company acquired the activities of Fromage Coté S.A. and Distributions Kingsey Inc. (a cheese manufacturer operating in Canada) for a cash consideration of $52,900,000, subject to adjustments. The preliminary purchase price allocation is as follows; working capital: $10,900,000, fixed assets: $11,375,000 and intangible assets: $30,625,000. The final allocation of the purchase price will be completed in the next fiscal year.

On May 27, 2005 the Company acquired the activities of Schneider Cheese, Inc. (a cheese manufacturer operating in the United States) for a cash consideration of US$24,400,000, subject to adjustments. The preliminary purchase price allocation is as follows; working capital: US$2,400,000, fixed assets: US$4,350,000 and intangible assets: US$17,650,000. The final allocation of the purchase price will be completed in the next fiscal year.