CONSOLIDATED FINANCIAL STATEMENTS

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 International Financial Reporting Standards.

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 independent auditors to discuss internal controls, auditing matters and financial reporting issues. It also reviews the annual report, the consolidated financial statements and the independent auditors' report. The Audit Committee recommends the independent auditors for appointment by the shareholders. The independent auditors have unrestricted access to the Audit Committee. The consolidated financial statements have been audited by the independent auditors Deloitte LLP, whose report follows.

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

(signed) Louis-Philippe Carrière
Louis-Philippe Carrière, FCPA, FCA
Executive Vice President
Finance and Administration, and Secretary

June 5, 2013

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Saputo Inc.

We have audited the accompanying consolidated financial statements of Saputo Inc., which comprise the consolidated balance sheets as at March 31, 2013 and 2012, and the consolidated statements of earnings, statements of comprehensive income, statements of shareholders' equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Saputo Inc. as at March 31, 2013 and 2012, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

(signed) Deloitte LLP [1]

June 5, 2013
Montréal, Québec

[1] CPA auditor, CA, public accountancy permit No. A116207

CONSOLIDATED STATEMENTS OF **EARNINGS**

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

Years ended March 31		2013		2012
Revenues	**$**	**7,297,677**	$	6,930,370
Operating costs excluding depreciation, amortization, acquisition and restructuring (Note 5)		**6,436,905**		6,099,439
Earnings before interest, depreciation, amortization, acquisition, restructuring, impairment and income taxes		**860,772**		830,931
Depreciation and amortization (Notes 6 and 7)		**116,629**		101,943
Acquisition costs (Note 16)		**9,646**		-
Restructuring costs (Note 22)		**32,631**		-
Impairment of goodwill (Note 7)		-		125,000
Interest on long-term debt		**29,896**		23,081
Other financial charges (Note 13)		**4,203**		1,569
Earnings before income taxes		**667,767**		579,338
Income taxes (Note 14)		**185,846**		198,498
Net earnings	**$**	**481,921**	$	380,840
Earnings per share (Note 15)				
Net earnings				
Basic	**$**	**2.44**	$	1.89
Diluted	**$**	**2.41**	$	1.86

CONSOLIDATED STATEMENTS OF **COMPREHENSIVE INCOME**

(in thousands of CDN dollars)

Years ended March 31		2013		2012
Net earnings	**$**	**481,921**	$	380,840
Other comprehensive income (loss):				
Exchange differences arising from foreign currency translation		**24,134**		31,066
Unrealized loss on cash flow hedges[1] (Note 20)		**(3,660)**		-
Actuarial losses[2] (Note 17)		**(11,514)**		(21,248)
Other comprehensive income (loss)		**8,960**		9,818
Comprehensive income	**$**	**490,881**	$	390,658

[1] Net of income taxes of $1,272 (2012 - nil).
[2] Net of income taxes of $4,093 (2012 - $7,661).

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(in thousands of CDN dollars, except common shares)

For the year ended March 31, 2013	Share capital		Reserves					
	Common Shares (in thousands)	Amount	Foreign Currency Translation	Cash Flow Hegdes	Stock Option Plan	Total Reserves	Retained Earnings	Total Shareholders' Equity
Balance, beginning of year	**199,038**	**$ 629,606**	**$ (29,864)**	**$ -**	**$ 38,836**	**$ 8,972**	**$ 1,467,108**	**$ 2,105,686**
Net earnings	**-**	**-**	**-**	**-**	**-**	**-**	**481,921**	**481,921**
Other comprehensive income	**-**	**-**	**24,134**	**(3,660)**	**-**	**20,474**	**(11,514)**	**8,960**
Comprehensive income								**490,881**
Dividends declared	**-**	**-**	**-**	**-**	**-**	**-**	**(161,651)**	**(161,651)**
Stock option plan (Note 12)	**-**	**-**	**-**	**-**	**13,701**	**13,701**	**-**	**13,701**
Shares issued under stock option plan	**1,842**	**38,468**	**-**	**-**	**-**	**-**	**-**	**38,468**
Amount transferred from reserves to share capital upon exercise of options	**-**	**9,003**	**-**	**-**	**(9,003)**	**(9,003)**	**-**	**-**
Excess tax benefit that results from the excess of the deductible amount over the compensation cost recognized	**-**	**-**	**-**	**-**	**3,905**	**3,905**	**-**	**3,905**
Shares repurchased and cancelled	**(4,261)**	**(13,802)**	**-**	**-**	**-**	**-**	**(171,516)**	**(185,318)**
Balance, end of year	**196,619**	**$ 663,275**	**$ (5,730)**	**$ (3,660)**	**$ 47,439**	**$ 38,049**	**$ 1,604,348**	**$ 2,305,672**

For the year ended March 31, 2012	Share capital		Reserves				
	Common Shares (in thousands)	Amount	Foreign Currency Translation	Stock Option Plan	Total Reserves	Retained Earnings	Total Shareholders' Equity
Balance, beginning of year	203,830	$ 617,675	$ (60,930)	$ 33,384	$ (27,546)	$ 1,482,506	$ 2,072,635
Net earnings	-	-	-	-	-	380,840	380,840
Other comprehensive loss	-	-	31,066	-	31,066	(21,248)	9,818
Comprehensive income							390,658
Dividends declared	-	-	-	-	-	(147,053)	(147,053)
Stock option plan (Note 12)	-	-	-	9,288	9,288	-	9,288
Shares issued under stock option plan	1,270	25,266	-	-	-	-	25,266
Amount transferred from reserves to share capital upon exercise of options	-	5,506	-	(5,506)	(5,506)	-	-
Excess tax benefit that results from the excess of the deductible amount over the compensation cost recognized	-	-	-	1,670	1,670	-	1,670
Shares repurchased and cancelled	(5,944)	(18,468)	-	-	-	(223,224)	(241,692)
Shares repurchased and not cancelled	(118)	(373)	-	-	-	(4,713)	(5,086)
Balance, end of year	199,038	$ 629,606	$ (29,864)	$ 38,836	$ 8,972	$ 1,467,108	$ 2,105,686

CONSOLIDATED **BALANCE SHEETS**

(in thousands of CDN dollars)

As at		**March 31, 2013**		March 31, 2012
ASSETS				
Current assets				
Cash and cash equivalents	**$**	**43,177**	$	144,137
Receivables		**624,553**		487,502
Inventories (Note 4)		**770,158**		712,885
Income taxes (Note 14)		**2,786**		364
Prepaid expenses and other assets		**71,882**		54,576
		1,512,556		1,399,464
Property, plant and equipment (Note 6)		**1,617,195**		1,105,205
Goodwill (Note 7)		**1,569,592**		733,527
Trademarks and other intangibles (Note 7)		**454,876**		335,452
Other assets (Note 8)		**29,962**		18,031
Deferred income taxes (Note 14)		**9,459**		7,441
	$	**5,193,640**	$	3,599,120
LIABILITIES				
Current liabilities				
Bank loans (Note 9)	**$**	**181,865**	$	166,631
Accounts payable and accrued liabilities		**748,318**		571,814
Income taxes (Note 14)		**144,064**		163,996
Current portion of long-term debt (Note 10)		**152,400**		-
		1,226,647		902,441
Long-term debt (Note 10)		**1,395,900**		379,875
Other liabilities (Note 11)		**74,101**		54,486
Deferred income taxes (Note 14)		**191,320**		156,632
		2,887,968		1,493,434
SHAREHOLDERS' EQUITY				
Share capital		**663,275**		629,606
Reserves		**38,049**		8,972
Retained earnings		**1,604,348**		1,467,108
		2,305,672		2,105,686
	$	**5,193,640**	$	3,599,120

On behalf of the Board,

(signed) Emanuele (Lino) Saputo
Emanuele (Lino) Saputo, C.M., O.Q., D[r] h.c.
Director

(signed) Tony Meti
Tony Meti
Director

CONSOLIDATED **STATEMENTS OF CASH FLOWS**

(in thousands of CDN dollars)

Years ended March 31	**2013**	2012
Cash flows related to the following activities:		
Operating		
Net earnings	**$ 481,921**	$ 380,840
Adjustments for:		
Stock-based compensation	**17,537**	10,744
Interest and other financial charges	**34,099**	24,650
Income tax expense	**185,846**	198,498
Depreciation and amortization	**116,629**	101,943
Gain on disposal of property, plant and equipment	**(53)**	(3,313)
Restructuring charges related to plant closures	**23,820**	-
Impairment of goodwill	**-**	125,000
Funding of employee plans in excess of costs	**(12,485)**	(7,437)
	847,314	830,925
Changes in non-cash operating working capital items	**(4,425)**	(76,192)
Cash generated from operating activities	**842,889**	754,733
Interest paid	**(34,953)**	(25,435)
Income taxes paid	**(162,144)**	(206,311)
Net cash generated from operating activities	**645,792**	522,987
Investing		
Business acquisition	**(1,433,945)**	(10,325)
Proceeds on disposal of portfolio investment	**-**	27,720
Additions to property, plant and equipment	**(178,237)**	(118,587)
Proceeds on disposal of property, plant and equipment	**901**	12,871
Other assets and other liabilities	**(13,719)**	1,204
	(1,625,000)	(87,117)
Financing		
Bank loans	**21,884**	(5,349)
Proceeds from issuance of long-term debt	**1,198,565**	-
Repayment of long-term debt	**(38,100)**	-
Issuance of share capital	**38,468**	25,266
Repurchase of share capital	**(190,404)**	(241,692)
Dividends	**(161,651)**	(147,053)
	868,762	(368,828)
(Decrease) increase in cash and cash equivalents	**(110,446)**	67,042
Effect of exchange rate changes on cash and cash equivalents	**9,486**	(396)
Cash and cash equivalents, beginning of year	**144,137**	77,491
Cash and cash equivalents, end of year	**$ 43,177**	$ 144,137

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended March 31, 2013 and 2012
(Tabular amounts are in thousands of CDN dollars except information on options, units and shares.)

NOTE 1 CORPORATE INFORMATION

Saputo Inc. (the Company) is a publicly traded company incorporated and domiciled in Canada. The Company's shares are listed on the Toronto Stock Exchange under the symbol "SAP." The Company produces, markets and distributes a wide array of dairy products in Canada, the United States and Argentina as well as bakery products in Canada. The address of the Company's head office is 6869, Metropolitain Blvd. East, St-Léonard, Québec, Canada, H1P 1X8. The consolidated financial statements (financial statements) of the Company for the year ended March 31, 2013 comprise the financial results of the Company and its subsidiaries.

The financial statements for the year ended March 31, 2013 have been authorized for issuance by the Board of Directors on June 5, 2013.

NOTE 2 BASIS OF PRESENTATION

STATEMENT OF COMPLIANCE
The consolidated annual financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS).

BASIS OF MEASUREMENT
The Company's financial statements have been prepared on a going concern basis and applied based on the historical cost principle except for certain assets and liabilities as described in the significant account policies section.

FUNCTIONAL AND PRESENTATION CURRENCY
The Company's financial statements are presented in Canadian dollars, which is also the consolidated entity's functional currency. All financial information has been rounded to the nearest thousand unless stated otherwise.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES

CONSOLIDATED FINANCIAL STATEMENTS
The consolidated financial statements include the accounts of the Company and entities under its control. Control is defined as the power (either directly or indirectly) to govern the financial and operating policies of an entity so as to obtain benefits from its activities. All intercompany transactions and balances have been eliminated. Investments over which the Company has effective control are consolidated. The operating results of acquired businesses, from their respective acquisition dates, are included in the consolidated statements of earnings.

CASH AND CASH EQUIVALENTS
Cash and cash equivalents consist primarily of cash and short-term investments having an initial maturity of three months or less at the time of acquisition.

INVENTORIES
Finished goods, raw materials and work in process are valued at the lower of cost and net realizable value, cost being determined under the first in, first out method. Borrowing costs are allocated to qualifying inventory where inventory takes a substantial period of time to reach finished goods status.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses and are depreciated using the straight-line method over their estimated useful lives as described below:

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

Where components of an item of building or furniture, machinery and equipment are individually significant, they are accounted for separately within the categories described above.

Assets held for sale are recorded at the lower of their carrying amount or fair value less costs to sell, and no depreciation is recorded. Assets under construction are not depreciated. Borrowing costs are capitalized to qualifying property, plant and equipment where the period of construction of those assets takes a substantial period of time to get ready for their intended use. Borrowing costs, if incurred, are added to the cost of those assets until such time as the assets are substantially ready for their intended use.

For the purposes of impairment testing, property, plant and equipment are tested at the cash-generating unit (CGU) level. Write-downs are included in "depreciation and amortization" presented on the consolidated statements of earnings.

GOODWILL, TRADEMARKS AND OTHER INTANGIBLES

Goodwill represents the excess of the consideration transferred in a given acquisition over the fair value of the identifiable net assets acquired and is initially recorded at that value. Goodwill is subsequently carried at cost less any impairment. Trademarks and other intangibles are initially recorded at their transaction fair values. Trademarks are subsequently carried at cost less any impairment losses. Other intangibles are subsequently carried at cost less accumulated amortization and less impairment losses, if any.

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. When testing goodwill, the carrying values of the CGU's or group of CGU's including goodwill are compared with their respective recoverable amounts (higher of fair value less costs to sell and value in use) and an impairment loss, if any, is recognized for the excess.

When testing trademarks and indefinite life intangibles for impairment, the carrying values (including the carrying value of the related CGU's or group of CGU's excluding goodwill) are also compared to their recoverable amounts.

Other intangibles are amortized using the straight-line method over their useful lives which vary from 5 to 15 years and are reviewed for indicators of impairment prior to each reporting period.

Refer to "Impairment Testing of Cash-Generating Units" in Note 7 for a discussion of the CGU levels at which goodwill, trademarks and other intangibles are tested.

IMPAIRMENT OF OTHER LONG-LIVED ASSETS

Other long-lived assets are subject to an "indicators of impairment" test at each reporting period. In the event of an indication of impairment, the asset or group of assets (referred to as CGU's), for which identifiable cash flows that are largely independent of the cash inflows from other assets or group of assets exist, are tested for impairment. An impairment loss is recorded in net earnings when the carrying value exceeds the recoverable amount. The recoverable amount is defined as the greater of fair value less costs to sell and value in use.

BUSINESS COMBINATIONS

The Company accounts for its business combinations using the acquisition method of accounting. Under this method, the Company allocates the purchase price to tangible and intangible assets acquired and liabilities assumed based on estimated fair values at the date of acquisition, with the excess of the purchase price amount allocated to goodwill.

Significant debt issuance costs directly related to the funding of business acquisitions are included in the carrying value of the debt and are amortized over the related debt term using the effective interest rate method. Transaction costs are expensed as incurred.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

EMPLOYEE FUTURE BENEFITS

The cost of pension and other post-retirement benefits is actuarially determined annually on March 31 using the projected benefit method prorated based on years of service and using Management's best estimates of expected return on plan assets, which are based on market values, rates of compensation increases, retirement ages of employees and expected health care costs. Current service costs, interest on obligations offset by expected return on assets are expensed in the year. Actuarial gains or losses, the effect of an adjustment, if any, on the maximum amount recognized as an asset and the impact of the minimum funding requirements, are recorded in other comprehensive income (loss) and immediately recognized in retained earnings without subsequent reclassification to the consolidated statements of earnings. The net pension expenditure under defined contribution pension plans is generally equal to the contributions made by the employer.

REVENUE RECOGNITION

The Company recognizes revenue when the title and risk of loss are transferred to customers, price is determinable, collection is reasonably assured and when persuasive evidence of an arrangement exists. Revenues are recorded net of sales incentives including volume rebates, shelving or slotting fees and advertising rebates.

FOREIGN CURRENCY TRANSLATION

The Company's functional currency is the Canadian dollar. Accordingly, the balance sheet accounts of foreign operations are translated into Canadian dollars using the exchange rates at the balance sheet dates and statements of earnings accounts are translated into Canadian dollars using the average monthly exchange rates in effect during the periods. The foreign currency translation adjustment (CTA) reserve presented in the consolidated statements of comprehensive income and the consolidated statements of shareholders' equity, 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 foreign operations for the periods presented 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 at 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 operating costs.

STOCK-BASED COMPENSATION

The Company offers an equity settled stock option plan to certain employees within the organization pursuant to which options are granted over a five-year vesting period with a ten-year expiration term. The fair value of each instalment of an award is determined separately and recognized over the vesting period. When stock options are exercised, any consideration paid by employees and the related compensation expense recorded as a stock option plan reserve are credited to share capital.

The Company allocates deferred share units (DSU) to eligible Directors of the Company which are based on the market value of the Company's common shares. DSU are granted on a quarterly basis, vest upon award and entitle Directors to receive a cash payment for the value of the DSU they hold following cessation of functions as a Director of the Company. The Company recognizes an expense in its consolidated statements of earnings and a liability in its consolidated balance sheets for each grant. The liability and related expense is subsequently re-measured at each reporting period.

The Company offers performance share units (PSU) to senior management which are based on the market value of the Company's common shares. The PSU plan is non-dilutive and is settled in cash. These awards are considered cash-settled share-based payment awards. A liability is recognized for the employment service received and is measured initially, on the grant date, at the fair value of the liability. The liability is then subsequently remeasured at each reporting period with any change in value recorded in net earnings. The compensation expense is recognized over the three-year performance cycle.

EARNINGS PER SHARE

Basic earnings per share are based on the weighted average number of shares outstanding during the period. In calculating the diluted earnings per share, the weighted average number of outstanding shares is adjusted to reflect the impact of the conversion of potential shares that may have a dilutive impact and is determined independently for each reporting period presented.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

RESEARCH AND DEVELOPMENT TAX CREDITS

The Company benefits from research and development tax credits related to operating costs and property, plant and equipment. These credits are accounted for either as a reduction of operating costs or property, plant and equipment.

INCOME TAXES

Income tax expense represents the sum of current and deferred income tax and is recognized in the consolidated statements of earnings with the exception of items that are recognized in the consolidated statements of comprehensive income or directly in equity.

Current income taxes are determined in relation to taxable earnings for the year and incorporate any adjustments to current taxes payable in respect of previous years.

The Company follows the liability method of accounting for income taxes. Under this method, deferred income tax assets and liabilities are determined based on temporary differences between the carrying amount of an asset or liability in the consolidated balance sheets and its tax basis. They are measured using the enacted or substantively enacted tax rates that are expected to apply when the asset is realized or the liability is settled. A deferred income tax asset is recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be used.

NON-CURRENT ASSETS HELD FOR SALE

The Company classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through their continuing use. Furthermore, to meet the requirements to be presented as held for sale, the non-current asset or disposal group must be immediately available for sale in its present condition subject only to terms that are usual and customary for sales of such assets or disposal groups and its sale must be highly probable. In order for a sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset or disposal group, and an active program to locate a buyer and complete the plan must have been initiated. Furthermore, the asset or disposal group must be actively marketed for sale at a price that is reasonable in relation to its current fair value.

Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell and any depreciation or amortization normally taken on those items of property, plant and equipment or intangibles is halted.

FINANCIAL INSTRUMENTS

Financial assets and liabilities are initially measured at fair value. Subsequently, financial instruments classified as financial assets available for sale, held for trading and derivative financial instruments, part of a hedging relationship or not, continue to be measured at fair value on the balance sheet at each reporting date, whereas other financial instruments are measured at amortized cost using the effective interest method.

The Company has made the following classifications:

- Cash and cash equivalents are classified as financial assets held for trading and are measured at fair value.
- Receivables are classified as loans and receivables and are measured at amortized cost.
- Other assets that meet the definition of a financial asset are classified as loans and receivables and are initially measured at fair value and subsequently at amortized cost.
- Bank loans, accounts payable and accrued liabilities, other liabilities and long-term debt are classified as other liabilities and are measured at amortized cost, with the exception of the liability related to DSU's and PSU's which is measured at the fair value of shares on the balance sheet dates.

Certain derivative instruments are utilized by the Company to manage exposure to variations in interest rate payments associated with its unsecured bank term loan facility and to manage foreign exchange rate risks, including foreign exchange forward contracts and interest rate swaps. Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is immediately recognized in net earnings unless the derivative is designated as a hedging instrument.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Hedging

The Company designates certain hedging instruments as cash flow hedges. At the inception of the hedging relationship, the Company formally documents its risk management objective, strategy, term, nature of risk being hedged and identifies both the hedged item and hedging instrument.

Variations in the fair value of cash flow hedges representing gains or losses on the effective portion are recorded in other comprehensive income until the hedged item affects net earnings. Variations in the fair value of cash flow hedges representing gains or losses on the ineffective portion are recorded in net earnings.

The Company formally assesses at inception and quarterly thereafter, the effectiveness of the hedging instruments ability to offset variations in the cash flow risks associated with the hedged item. Where a hedging relationship is no longer effective, hedge accounting is discontinued and any subsequent change in the fair value of the hedging instrument is recognized in net earnings.

Fair value hierarchy

All financial instruments measured at fair value are categorized into one of three hierarchy levels, described below, for disclosure purposes.

Each level reflects the inputs used to measure the fair values of assets and liabilities:

Level 1 – Inputs are unadjusted quoted prices of identical instruments in active markets.
Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3 – One or more significant inputs used in a valuation technique are not based on observable market data in determining fair values of the instruments.

Determination of fair value and the resulting hierarchy requires the use of observable market data whenever available. The classification of a financial instrument in the hierarchy is based upon the lowest level of input that is significant to the measurement of fair value.

USE OF ESTIMATES AND JUDGEMENTS IN THE APPLICATION OF ACCOUNTING POLICIES

The preparation of the Company's financial statements requires Management to make certain judgements and estimates about transactions and carrying values that are fulfilled at a future date. Judgements and estimates are subject to fluctuations due to changes in internal and/or external factors and are continuously monitored by Management. A discussion of the judgements and estimates that could have a material effect on the financial statements is provided below.

SIGNIFICANT ESTIMATES AND JUDGEMENTS

Allowance for Doubtful Accounts

Management reviews its accounts receivable at the end of each reporting period and estimates balances which may be deemed to be uncollectible in the future. This review requires the use of assumptions and takes into consideration certain factors, such as historical collection trends and past due amounts for each customer balance. In the event that future collections differ from estimated provisions, future earnings will be affected.

Income Taxes

The Company is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the consolidated provision for income taxes. During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters differs from the amounts that were initially recorded, such differences will impact the results for the reporting period and the respective current income tax and deferred income tax provisions in the reporting period in which such determination is made.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Deferred Income Taxes

The Company follows the liability method of accounting for deferred income taxes. Deferred income tax assets and liabilities are measured using enacted or substantively enacted income tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. As a result, a projection of taxable income is required for those years, as well as an assumption of the ultimate recovery or settlement period for temporary differences. The projection of future taxable income is based on Management's best estimates and may vary from actual taxable income. On an annual basis, the Company assesses its need to establish a valuation allowance for its deferred income tax assets. Canadian, US and international tax rules and regulations are subject to interpretation and require judgement on the part of the Company that may be challenged by taxation authorities. The Company believes that it has adequately provided for deferred tax obligations that may result from current facts and circumstances. Temporary differences and income tax rates could change due to fiscal budget changes and/or changes in income tax laws.

Goodwill, Trademarks and Other Intangibles and Business Combinations

Goodwill, trademarks and other intangibles have principally arisen as a result of business combinations. The acquisition method, which also requires significant estimates and judgements, is used to account for these business combinations. As part of the allocation process in a business combination, estimated fair values are assigned to the net assets acquired, including trademarks and other intangibles. These estimates are based on forecasts of future cash flows, estimates of economic fluctuations and an estimated discount rate. The excess of the purchase price over the estimated fair value of the net assets acquired is then assigned to goodwill. In the event that actual net assets fair values are different from estimates, the amounts allocated to the net assets, and specifically to trademarks and other intangibles, could differ from what is currently reported. This would then have a pervasive impact on the carrying value of goodwill. Differences in estimated fair values would also have an impact on the amortization of definite life intangibles.

Property, Plant and Equipment

Critical judgement is necessary in the selection and application of accounting policies and useful lives as well as the determination of which components are significant and how they are allocated. Management has determined that the use of the straight-line method of amortization is the most appropriate as its facilities are operating at a similar output potential on a year to year basis, which indicates that production is constant (please refer to the estimated useful lives table for further details on the useful lives of productive assets). It is Management's best estimate that the useful lives and policies adopted adequately reflect the flow of resources and the economic benefits required and derived in the use and servicing of these long-lived productive assets.

Impairment of Assets

Significant estimates and judgements are required in testing goodwill, trademarks and other intangibles and other long-lived assets for impairment. Management uses estimates or exercises judgement in assessing indicators of impairment, defining a CGU, forecasting future cash flows and in determining other key assumptions such as discount rates and earnings multipliers used for assessing fair value (less selling costs) or value in use. Estimates made for goodwill, trademarks and other intangibles can be found in Note 7. Other long-lived assets are tested only when indicators of impairment are present.

Employee Future Benefits

The Company is the sponsor to both defined benefit and defined contribution plans, which provide pension and other post-employment benefits to its employees. Several estimates and assumptions are required with regards to the determination of the defined benefit expense and its related obligation, such as the expected return on assets available to fund the obligation, the discount rate used in determining the carrying value of the obligation, the expected health care cost trend rate, the expected mortality rate, etc. Actual results will normally differ from expectations. These gains or losses are presented in the consolidated statements of comprehensive income.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

EFFECT OF NEW ACCOUNTING STANDARDS NOT YET IMPLEMENTED

The International Accounting Standards Board (IASB) made several revisions as part of its continuing improvements project. Below is a summary of the relevant standards affected and a discussion of the amendments.

IFRS 7, Financial Instruments Disclosures and IAS 32 Financial Instruments Presentation

The IASB issued amendments to IFRS 7 and IAS 32 in December 2011 which clarifies the requirements for offsetting financial assets and financial liabilities including revised disclosure requirements for financial assets and liabilities that are offset. The amendments to IFRS 7 and IAS 32 are effective for annual reporting periods beginning on or after January 1, 2013 and January 1, 2014 respectively.

The amendments made under these standards are not expected to materially affect the Company's financial statements due to the lack of offsetting arrangements contemplated within these requirements.

IFRS 9, Financial Instruments

The IASB issued IFRS 9 in November 2009 with the long-term goal of replacing IAS 39 Financial Instruments: Recognition and Measurement, and is effective for annual reporting periods beginning on or after January 1, 2015. The issuance of this IFRS represents the first phase of the long-term project and provides guidance on the classification and measurement of financial assets and liabilities.

Management has not yet evaluated the impact of this standard on the Company's financial statements.

IFRS 10, Consolidated Financial Statements

The IASB issued IFRS 10 in May 2011 which replaces portions of IAS 27 Consolidated and Separate Financial Statements. This new standard will be effective for annual reporting periods on or after January 1, 2013 and must be applied retroactively. IFRS 10 establishes principles for the preparation and presentation of consolidated financial statements and specifically identifies the criteria for the inclusion of another entity into the set of consolidated financial statements by establishing control as the most relevant basis for consolidation.

This standard will not have a material impact on the Company's financial statements given that the Company wholly-owns the equity and voting interests of its subsidiaries.

IFRS 12, Disclosure of Interests in Other Entities

The IASB issued IFRS 12 in May 2011 and is effective for annual reporting periods on or after January 1, 2013. This new standard requires an entity to disclose information that enables users of its financial statements to evaluate the nature of, and risks associated with, its interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities along with the effects of those interests on its financial position, financial performance and cash flows.

Management does not expect these disclosures to have a material impact on the Company's financial statements.

IFRS 13, Fair Value Measurement

The IASB issued IFRS 13 in May 2011 and is effective for annual reporting periods beginning on or after January 1, 2013. This IFRS defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures regarding fair value measurements.

Management does not expect the implementation of this standard to have a material impact on the Company's financial statements.

IAS 1, Presentation of Financial Statements

The IASB amended IAS 1 in June 2011 incorporating revisions to reflect new requirements for the presentation of earnings and other comprehensive income within their respective statements. IAS 1 now requires items within other comprehensive income be classified separately within that statement where they will be subsequently reclassified to the statement of earnings. These revisions are effective for annual reporting periods beginning on or after July 1, 2012.

The adoption of this standard will result in the statement of comprehensive income being classified into items that will be reclassified into net earnings and those that will permanently remain in comprehensive income.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

IAS 16, Property, Plant and Equipment

The IASB amended IAS 16 in May 2012 effective for annual reporting periods on or after January 1, 2013 requiring the presentation of spare parts, servicing equipment and stand-by equipment as property, plant and equipment when they meet the definition of property, plant and equipment in accordance with IAS 16. In the event they do not meet the definition, they are required to be presented as inventory.

Management does not expect the implementation of this standard to have a material impact on the Company's financial statements.

IAS 19 (Revised), Employee Benefits

The IASB revised IAS 19 in June 2011 in order to require a company to use the same discount rate in both its calculation of the defined benefit obligation and the expected return on plan assets. The amendment also requires the inclusion of administrative expenses in current service costs. Disclosure requirements were also amended to require additional disclosures for defined benefit pension plans in order to improve disclosure of risks that are assumed by a company that offers these types of plans. These revisions are effective for annual reporting periods beginning on or after January 1, 2013.

The impact to the Company's March 31, 2013 financial statements had the revised IAS 19 been adopted on April 1, 2012 would be an increase of approximately $4,200,000 to employee benefits expenses included in "Operating costs excluding depreciation, amortization, acquisition and restructuring".

NOTE 4 INVENTORIES

		March 31, 2013		March 31, 2012
Finished goods	$	551,733	$	467,578
Raw materials, work in progress and supplies		220,971		249,098
Inventory write-down		(2,546)		(3,791)
	$	770,158	$	712,885

The amount of inventories recognized as an expense in operating costs for the year ended March 31, 2013 is $5,816,940,000 ($5,523,298,000 for the year ended March 31, 2012).

For fiscal 2013, a write-down of $2,546,000 ($3,791,000 at March 31, 2012) was included as an expense in "Operating costs excluding depreciation, amortization, acquisition and restructuring" under the caption "Changes in inventories of finished goods and work in process" in Note 5.

NOTE 5 OPERATING COSTS EXCLUDING DEPRECIATION, AMORTIZATION, ACQUISITION AND RESTRUCTURING

		2013		2012
Changes in inventories of finished goods and work in process	$	(73,306)	$	(28,895)
Raw materials and consumables used		5,209,598		4,947,166
Foreign exchange gain		(779)		(1,549)
Employee benefits expense		745,975		666,400
Selling costs		240,363		247,565
Other general and administrative costs		315,054		268,752
Total operating costs	$	6,436,905	$	6,099,439

NOTE 6 PROPERTY, PLANT AND EQUIPMENT

For the year ended March 31, 2013											
		Land		**Buildings**		**Furniture, machinery and equipment**		**Rolling stock**		**Held for sale**		**Total**
Cost												
As at March 31, 2012	**$**	**35,841**	**$**	**422,822**	**$**	**1,397,380**	**$**	**7,278**	**$**	**-**	**$**	**1,863,321**
Business acquisition (Note 16)		**9,879**		**100,287**		**347,252**		**-**		**-**		**457,418**
Additions		**10,878**		**62,618**		**104,531**		**210**		**-**		**178,237**
Disposals		**(145)**		**(1,598)**		**(3,561)**		**(1,938)**		**-**		**(7,242)**
Transfers		**(634)**		**(2,657)**		**(22,819)**		**(118)**		**26,228**		**-**
Foreign currency adjustments		**367**		**3,785**		**7,683**		**(102)**		**(1,675)**		**10,058**
As at March 31, 2013	**$**	**56,186**	**$**	**585,257**	**$**	**1,830,466**	**$**	**5,330**	**$**	**24,553**	**$**	**2,501,792**
Accumulated depreciation												
As at March 31, 2012		**-**		**142,577**		**611,989**		**3,550**		**-**		**758,116**
Depreciation		**-**		**24,630**		**84,115**		**771**		**-**		**109,516**
Disposals		**-**		**(1,225)**		**(3,466)**		**(1,703)**		**-**		**(6,394)**
Transfers				**(655)**		**(9,343)**		**(118)**		**10,116**		**-**
Impairment		**-**		**-**		**6,035**		**-**		**15,674**		**21,709**
Foreign currency adjustments		**-**		**879**		**2,048**		**(40)**		**(1,237)**		**1,650**
As at March 31, 2013	**$**	**-**	**$**	**166,206**	**$**	**691,378**	**$**	**2,460**	**$**	**24,553**	**$**	**884,597**
Net book value at March 31, 2013	**$**	**56,186**	**$**	**419,051**	**$**	**1,139,088**	**$**	**2,870**	**$**	**-**	**$**	**1,617,195**

For the year ended March 31, 2012												
		Land		Buildings		Furniture, machinery and equipment		Rolling stock		Held for sale		Total
Cost												
As at March 31, 2011	$	35,543	$	394,883	$	1,295,769	$	7,538	$	11,917	$	1,745,650
Additions		-		23,208		94,775		604		-		118,587
Disposals		(1)		(15)		(8,986)		(848)		(11,917)		(21,767)
Foreign currency adjustments		299		4,746		15,822		(16)		-		20,851
As at March 31, 2012	$	35,841	$	422,822	$	1,397,380	$	7,278	$	-	$	1,863,321
Accumulated depreciation												
As at March 31, 2011		-		125,405		535,187		3,603		2,372		666,567
Depreciation		-		15,837		80,205		800		-		96,842
Disposals		-		(3)		(8,986)		(848)		(2,372)		(12,209)
Foreign currency adjustments		-		1,338		5,583		(5)		-		6,916
As at March 31, 2012	$	-	$	142,577	$	611,989	$	3,550	$	-	$	758,116
Net book value at March 31, 2012	$	35,841	$	280,245	$	785,391	$	3,728	$	-	$	1,105,205

The net book value of property, plant and equipment under construction amounts to $93,147,000 as at March 31, 2013 ($62,386,000 as at March 31, 2012), and consists mainly of machinery and equipment.

The assets held for sale relate mainly to land and buildings in Canada and Europe as a result of the closure of certain facilities and have been recorded at lower of carrying value and fair value less costs to sell.

NOTE 7 GOODWILL, TRADEMARKS AND OTHER INTANGIBLES

	2013			2012		
	Dairy Products Sector	**Grocery Products Sector**	**Total**	Dairy Products Sector	Grocery Products Sector	Total
Goodwill						
Balance, beginning of year	**$ 689,097**	**$ 44,430**	**$ 733,527**	$ 674,432	$ 169,430	$ 843,862
Foreign currency translation adjustment	**23,831**	**-**	**23,831**	11,868	-	11,868
Business acquisition (Note 16)	**812,234**	**-**	**812,234**	2,797	-	2,797
Impairment	**-**	**-**	**-**	-	(125,000)	(125,000)
Balance, end of year	**$ 1,525,162**	**$ 44,430**	**$ 1,569,592**	$ 689,097	$ 44,430	$ 733,527
Trademarks						
Balance, beginning of year	**$ 262,199**	**$ 2,000**	**$ 264,199**	$ 261,229	$ 2,000	$ 263,229
Foreign currency translation adjustment	**662**	**-**	**662**	970	-	970
Business acquisition (Note 16)	**4,724**	**-**	**4,724**	-	-	-
Balance, end of year	**$ 267,585**	**$ 2,000**	**$ 269,585**	$ 262,199	$ 2,000	$ 264,199
Other intangibles						
Balance, beginning of year	**$ 71,253**	**$ -**	**$ 71,253**	$ 75,809	$ -	$ 75,809
Foreign currency translation adjustment	**2,697**	**-**	**2,697**	545	-	545
Business acquisition (Note 16)	**118,454**	**-**	**118,454**	-	-	-
Amortization	**(7,113)**	**-**	**(7,113)**	(5,101)	-	(5,101)
Balance, end of year	**$ 185,291**	**$ -**	**$ 185,291**	$ 71,253	$ -	$ 71,253
Total trademarks and other intangibles	**$ 452,876**	**$ 2,000**	**$ 454,876**	$ 333,452	$ 2,000	$ 335,452

As a result of the acquisition of Morningstar Foods, LLC (Morningstar Acquisition) on January 3, 2013, the Company acquired $118,454,000 of customer relationships and $4,724,000 of trade names. The customer relationships have a finite life and are included in other intangibles, while trade names, which have an indefinite life, are included in trademarks. Customer relationships are amortized over 15 years and consist of contractual or long-standing existing relationships between the acquired company and its customers representing possible future business opportunities. Refer to Note 16 for further details on the Morningstar Acquisition.

As at March 31, 2013, the gross carrying amount of other intangibles is $210,613,000 ($89,342,000 as at March 31, 2012) and the accumulated amortization is $25,322,000 ($18,089,000 as at March 31, 2012). From this amount, the gross carrying value of the customer relationships in Morningstar is $120,845,000 and the accumulated depreciation is $2,032,000.

IMPAIRMENT TESTING OF CASH-GENERATING UNITS

Goodwill

In determining whether goodwill is impaired, the Company is required to estimate the recoverable amount of CGUs or groups of CGUs to which goodwill is allocated. Management considers the sectors below to be CGUs or groups of CGUs as they represent the lowest levels at which goodwill is monitored for internal management purposes. Accordingly, goodwill has been allocated to each CGU or group of CGUs as follows:

Allocation of goodwill	**March 31, 2013**	March 31, 2012
CEA Dairy Products[1]	**$ 269,064**	$ 269,410
USA Dairy Products[2]	**1,256,098**	419,687
Grocery Products	**44,430**	44,430
	$ 1,569,592	$ 733,527

[1] Canada, Europe and Argentina.
[2] Includes goodwill from the acquisition of Morningstar Foods LLC. Refer to Note 16 for further details.

NOTE 7 GOODWILL, TRADEMARKS AND OTHER INTANGIBLES (CONT'D)

The recoverable amounts for the CEA Dairy Products Sector and USA Dairy Products Sector have been estimated using an earnings multiplier valuation model (fair value less costs to sell). The key assumptions used in this model include earnings multipliers of market comparables applied to the Company's most recent results. For the Grocery Products operating sector, the recoverable amount has been estimated using a discounted cash flow model (value in use) which includes key assumptions of forecasted cash flows (over a five-year period), estimated terminal growth rates, pre-tax discount rates and income tax rates.

The Company performed its annual goodwill impairment test at the CGU or group of CGUs level for CEA Dairy Products, USA Dairy Products and the Grocery Products Sectors on March 31, 2013. In all cases the recoverable amounts exceeded their respective carrying values including goodwill and therefore, no impairment has been recorded with the exception of $339,000 relating to the closure of the European Division. There are no reasonable possible changes in key assumptions within the CEA Dairy Products and USA Dairy Products Sectors that would lead to an impairment of goodwill.

On March 31, 2012, the goodwill impairment test performed on the Grocery Products Sector resulted in its carrying value including goodwill exceeding its recoverable amount. Accordingly, an impairment loss of $125,000,000 was recorded in net earnings and as a reduction to goodwill. The impairment loss reflected stagnating growth in market wide snack-cake sales. The impairment loss was calculated using a discounted cash flow model which required estimates of several key assumptions such as forecasted cash flows, terminal growth rates, pre-tax discount rates and income tax rates.

Trademarks and Other Intangibles

Trademarks and other intangibles are included in the following CGU or group of CGUs:

Allocation of trademarks and other intangibles		**March 31, 2013**		March 31, 2012
CEA Dairy Products [1]	**$**	**279,004**	$	283,223
USA Dairy Products [2]		**173,872**		50,229
Grocery Products		**2,000**		2,000
	$	**454,876**	$	335,452

[1] Canada, Europe and Argentina.
[2] Includes trademarks and other intangibles from the acquisition of Morningstar Foods LLC. Refer to Note 16 for further details.

For purposes of trademarks and other intangibles impairment testing (for those items not subject to amortization), recoverable amounts of the CGU or group of CGUs to which they belong have been estimated using discounted cash flows (value in use) based on the following key assumptions:

- **Cash flows:** Cash flow forecasts for a given trademark are based on earnings before interest, income taxes, depreciation and amortization and are adjusted for a terminal growth rate and income tax rates. The cash flow forecast does not exceed a period of five years with a terminal value calculated as a perpetuity in the final year.
- **Terminal growth rate**: Management uses a terminal growth rate to adjust its forecasted cash flows based on expected increases in inflation and revenue for the products under trademark.
- **Discount rate:** Cash flows are discounted using pre-tax discount rates.

The Company tested its trademarks and other intangibles for impairment on March 31, 2013 using value in use (discounted cash flows) to establish recoverable amounts. The recoverable amounts for each trademark and other intangibles not subject to amortization were then compared to their carrying values. In all circumstances, the recoverable amounts exceeded carrying values and therefore no impairment losses were necessary. For definite life intangibles subject to amortization, no indicators of impairment were present for fiscal 2013.

NOTE 8 OTHER ASSETS

		2013		2012
Taxes receivable	**$**	**10,058**	$	10,180
Other		**19,904**		7,851
	$	**29,962**	$	18,031

NOTE 9 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		2013	2012
North America-US Currency	July 2017[1]	152,400	150,000	USD	$ -	$ -
North America-CDN Currency	July 2017[1]	375,920	370,000	USD	116,113	149,000
Argentina	Yearly[2]	135,439	683,000	ARS	61,950	16,958
Germany	Yearly[3]	6,521	5,000	EUR	2,976	673
United Kingdom	Yearly[3]	10,792	7,000	GPB	826	-
		681,072			$ 181,865	$ 166,631

[1] Bear monthly interest at rates ranging from lender's prime rates plus a maximum of 1.00% or LIBOR or banker's acceptance rate plus 0.85% up to a maximum of 2.00% depending on a financial ratio of the Company.
[2] Bear monthly interest at local rate and can be drawn in ARS or USD.
[3] Bear monthly interest at base rate plus 1.50% or LIBOR-EURIBOR plus 1.50%.

NOTE 10 LONG-TERM DEBT

	2013	2012
Unsecured bank term loan facility		
Obtained December 2012 and due in December 2016 (US tranche $350,000,000)	$ 317,500	$ -
Obtained December 2012 and due in December 2016 (CDN tranche $850,000,000)	850,000	-
Unsecured senior notes[1]		
8.41%, issued in November 1999 and due in November 2014 (US$50,000,000)	50,800	49,875
5.34%, issued in June 2009 and due in June 2014	110,000	110,000
5.82%, issued in June 2009 and due in June 2016	220,000	220,000
	$ 1,548,300	$ 379,875
Current portion	152,400	-
	$ 1,395,900	$ 379,875

Principal repayments are as follows:

	2013	2012
Less than 1 year	$ 152,400	$ -
1-2 years	313,200	-
2-3 years	150,000	159,875
3-4 years	932,700	-
4-5 years	-	220,000
More than 5 years	-	-
	$ 1,548,300	$ 379,875

[1] Interest payments are semi-annual.

UNSECURED BANK TERM LOAN FACILITY

Amounts of CDN$850,000,000 and US$350,000,000 were drawn down from a new bank term loan facility on January 3, 2013, in order to fund the Morningstar Acquisition. The facility requires quarterly repayments of $37,500,000 ($150,000,000 per year) and $600,000,000 due upon maturity on December 20, 2016. The facility bears interest at rates ranging from lender's prime plus a maximum of 1% or LIBOR or banker's acceptance rate plus a spread of 0.85% up to a maximum of 2% depending on a financial ratio of the Company.

Effective February 4, 2013, the Company entered into an interest rate swap to fix its rate for the total term of the unsecured bank term loan facility. The effective fixed interest rate is 1.58% (plus applicable spread) for the Canadian dollar tranche and 0.31% (plus applicable spread) on the US dollar tranche.

NOTE 11 OTHER LIABILITIES

		2013		2012
Employee benefits (Note 17)	$	56,110	$	51,777
Derivative swap liability (Note 20)		4,932		-
Other		13,059		2,709
	$	74,101	$	54,486

NOTE 12 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 issuance.

		March 31, 2013		March 31, 2012
ISSUED				
196,619,440 common shares (199,037,565 common shares in 2012)	$	663,275	$	629,606

1,843,275 common shares (1,268,760 in 2012) were issued during the year ended March 31, 2013 for an amount of $38,468,000 ($25,266,000 in 2012) pursuant to the share option plan. For options granted since April 1, 2002, the amount previously accounted for as an increase to stock-based compensation reserve was also transferred to share capital upon the exercise of these options. For the year ended March 31, 2013, the amount transferred from stock-based compensation reserve was $9,003,000 ($5,506,000 in 2012).

Pursuant to the normal course issuer bid, which began on November 15, 2011, and expired on November 14, 2012, the Company was authorized to repurchase for cancellation up to 10,030,630 of its common shares. Under the new normal course issuer bid that became effective on November 15, 2012, and expiring on November 14, 2013, the Company is authorized to repurchase, for cancellation purposes, up to 9,850,532 of its common shares. During the year ended March 31, 2013, the Company repurchased 4,261,400 common shares, at prices ranging from $39.44 to $49.10 per share, relating to the normal course issuer bids. The excess of the purchase price over the carrying value of the shares in the amount of $171,516,000 was charged to retained earnings. During the year ended March 31, 2012, the Company repurchased 6,061,700 common shares, at prices ranging from $36.46 to $47.57 per share, relating to the normal course issuer bids. The excess of the purchase price over the carrying value of the shares in the amount of $227,937,000 was charged to retained earnings.

SHARE OPTION PLAN

The Company has an equity settled share option plan to allow for the purchase of common shares by key employees and officers of the Company. The total number of common shares which may be issued pursuant to this plan as at March 31, 2013 cannot exceed 19,637,095 common shares. As at March 31, 2013, 11,261,164 common shares are issuable under this plan in addition to the 8,375,931 common shares underlying options outstanding. Options granted prior to July 31, 2007 may be exercised at a price equal to the closing quoted value of the shares on the day preceding the grant date. Options granted thereafter may be exercised at a price not less than the weighted average market price for the five trading days immediately preceding the date of grant. The options vest at 20% per year and expire ten years from the grant date.

NOTE 12 SHARE CAPITAL (CONT'D)

Options issued and outstanding as at year end are as follows:

		March 31, 2013		March 31, 2012	
Granting period	Exercise price	**Number of options**	**Number of exercisable options**	Number of options	Number of exercisable options
2003	$ 15.18	**-**	**-**	16,660	16,660
2004	$ 11.25	**-**	**-**	245,064	245,064
2005	$ 16.53	**205,006**	**205,006**	307,307	307,307
2006	$ 18.08	**325,312**	**325,312**	479,490	479,490
2007	$ 16.35	**517,401**	**517,401**	788,778	788,778
2008	$ 23.09	**659,563**	**659,563**	999,514	702,348
2009	$ 27.81	**886,992**	**613,624**	1,129,998	562,368
2010	$ 21.40	**1,379,093**	**595,818**	1,714,527	487,065
2011	$ 29.32	**1,374,698**	**421,162**	1,586,001	262,600
2012	$ 43.22	**1,165,370**	**215,574**	1,217,185	-
2013	$ 42.96	**1,862,496**	**-**	-	-
		8,375,931	**3,553,460**	8,484,524	3,851,680

Changes in the number of outstanding options are as follows:

	2013		2012	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Balance, beginning of year	**8,484,524**	**$ 25.92**	8,674,238	$ 22.62
Options granted	**1,884,991**	**$ 42.96**	1,244,780	$ 43.22
Options exercised	**(1,843,275)**	**$ 20.87**	(1,268,760)	$ 19.91
Options cancelled	**(150,309)**	**$ 30.93**	(165,734)	$ 28.62
Balance, end of year	**8,375,931**	**$ 30.78**	8,484,524	$ 25.92

The exercise price of the options granted in fiscal 2013 is $42.96, which corresponds to the weighted average market price for the five trading days immediately preceding the date of grant ($43.22 in fiscal 2012).

The weighted average fair value of options granted in fiscal 2013 was estimated at $10.26 per option ($8.96 in fiscal 2012), using the Black Scholes option pricing model with the following assumptions:

	2013	2012
Weighted average:		
Risk-free interest rate	**1.63%**	2.65%
Expected life of options	**5.5 years**	5 years
Volatility	**28.28%**	21.66%
Dividend rate	**1.76%**	1.24%

A compensation expense of $13,701,000 ($12,029,000 net of taxes) relating to stock options was recorded in the statement of earnings for the year ended March 31, 2013 and $9,288,000 ($8,235,000 net of taxes) was recorded for the year ended March 31, 2012.

Options to purchase 2,065,269 common shares at a price of $51.10 per share were granted on April 1, 2013.

NOTE 12 SHARE CAPITAL (CONT'D)

DEFERRED SHARE UNIT PLAN FOR DIRECTORS

In accordance with the deferred share unit plan, all eligible Directors of the Company are allocated annually a fixed amount of deferred share units which are granted on a quarterly basis. Additionally, Directors receive quarterly remuneration either in cash or deferred share units, at the choice of each Director. If a Director elects to receive deferred share units, the number of deferred share units varies as it is based on the market value of the Company's common shares. Following cessation of functions as Director of the Company, a cash payment equal to the market value of the accumulated deferred share units will be disbursed. The liability relating to these units is adjusted by taking the number of units outstanding multiplied by the market value of common shares at the Company's year-end. The variation of the liability is recorded as an expense under "Operating costs excluding depreciation, amortization, acquisition and restructuring".

	2013		2012	
	Units	**Liability**	Units	Liability
Balance, beginning of year	**255,349**	**$ 11,533**	220,234	$ 10,077
Annual grant	**19,333**	**904**	18,666	795
Board compensation	**14,320**	**663**	16,449	698
Payment to directors	**(45,892)**	**(1,961)**	-	-
Variation due to change in stock price	**-**	**1,972**	-	(37)
Balance, end of year	**243,110**	**$ 13,111**	255,349	$ 11,533

In fiscal 2013, the Company renewed its equity forward contract on 220,000 Saputo Inc. common shares with a notional value of $11,348,436 ($8,957,989 in 2012) to mitigate the compensation costs associated with its deferred share unit plan. The Company recognized a gain of $1,632,389 (gain of $374,946 in fiscal 2012) reducing the expense associated with the deferred share unit plan upon the re-measurement of the equity forward contract ending in March 2013 and a gain of $130,724 on the equity forward contract renewed in March 2013.

PERFORMANCE SHARE UNIT PLAN

In fiscal 2013, the Company established a PSU plan to form part of long-term incentive compensation, together with the options for senior management. The PSU plan is non-dilutive and is settled in cash only. Under the PSU plan, each performance cycle shall consist of three fiscal years of the Company. At the time of grant of PSU, the Company determines the performance criteria which must be met. Following completion of a three-year performance cycle, the PSUs for which the performance criteria have been achieved will vest and the value that will be paid out is the price of the common shares at such time, multiplied by the number of PSUs for which the performance criteria have been achieved. The amount potentially payable to eligible employees is recognized as a payable and is revised at each reporting period. The expense is included in employee benefits under the "Operating costs excluding depreciation, amortization, acquisition and restructuring" caption.

	2013		2012	
	Units	**Liability**	Units	Liability
Balance, beginning of year	**-**	**$ -**	-	$ -
PSU grant	**67,392**	**2,120**	-	-
PSU cancelled	**(507)**	**(12)**	-	-
PSU paid	**-**	**-**	-	-
Balance, end of year	**66,885**	**$ 2,108**	-	$ -

On April 1, 2013, 80,126 PSU's were granted at a price of $51.10 per unit ($42.96 in 2012).

NOTE 13 OTHER FINANCIAL CHARGES

	2013	2012
Finance costs	**$ 4,719**	$ 2,387
Finance income	**(516)**	(246)
Unrealized loss on a foreign currency denominated intercompany advance	**-**	(572)
	$ 4,203	$ 1,569

NOTE 14 INCOME TAXES

Income tax expense is comprised of the following:

		2013		2012
Current tax expense	**$**	**150,127**	$	187,601
Deferred tax expense		**35,719**		10,897
Income tax expense	**$**	**185,846**	$	198,498

RECONCILIATION OF THE EFFECTIVE TAX RATE

The effective income tax rate was 27.8% in 2013 (34.3% in 2012). The Company's income tax expense differs from the one calculated by applying Canadian statutory rates for the following reasons:

		2013		2012
Earnings before income taxes	**$**	**667,767**	$	579,338
Income taxes, calculated using Canadian statutory income tax rates of 26.0% (26.0% in 2012)		**173,532**		150,635
Adjustments resulting from the following:				
Effect of tax rates for foreign subsidiaries		**30,103**		29,235
Changes in tax laws and rates		**143**		(293)
Benefit arising from investment in subsidiaries		**(14,781)**		(13,177)
Manufacturing and processing deduction		**(2,842)**		(3,968)
Impairment of goodwill		**-**		32,500
Stock-based compensation		**2,566**		1,868
Effect of the Canadian loss on write-off of European investments		**(7,154)**		-
Tax losses for which no deferred income tax assets was recognized		**7,043**		660
Adjustment in respect of prior years		**(2,670)**		3,325
Other		**(94)**		(2,287)
Income tax expense	**$**	**185,846**	$	198,498

During the year, there was no change in the statutory tax rate.

INCOME TAX RECOGNIZED IN OTHER COMPREHENSIVE INCOME

Income tax on items recognized in other comprehensive income in 2013 and 2012 were as follows:

		2013		2012
Deferred tax benefit on actuarial losses on employee benefit obligations	**$**	**4,093**	$	7,661
Deferred tax benefit on unrealized loss from cash flow hedges		**1,272**		-
Total income tax recognized in other comprehensive income	**$**	**5,365**	$	7,661

INCOME TAX RECOGNIZED IN EQUITY

Income tax on items recognized in equity in 2013 and 2012 were as follows:

		2013		2012
Excess tax benefit that results from the excess of the deductible amount over the compensation cost recognized	**$**	**3,905**	$	1,670
Total income tax recognized in equity	**$**	**3,905**	$	1,670

CURRENT TAX ASSETS AND LIABILITIES

		2013		2012
Current tax assets	**$**	**2,786**	$	364
Current tax liabilities		**(144,064)**		(163,996)
Current tax liabilities (net)	**$**	**(141,278)**	$	(163,632)

NOTE 14 INCOME TAXES (CONT'D)

DEFERRED TAX BALANCES

	2013	2012
Deferred tax assets	**$ 9,459**	$ 7,441
Deferred tax liabilities	**(191,320)**	(156,632)
Deferred tax liabilities (net)	**$ (181,861)**	$ (149,191)

DEFERRED TAX ASSETS AND LIABILITIES

The movement of deferred tax assets and liabilities are shown below:

	Balance April 1, 2012	Charged/ Credited to net earnings	Charged/ Credited to other comprehensive income or equity	Acquisitions	Translation and other	Balance March 31, 2013
Deferred tax asset						
Accounts payable and accrued liabilities	**$ 19,953**	**$ 5,396**	**$ -**	**$ 3,583**	**$ (557)**	**$ 28,375**
Income tax losses	**12,210**	**(7,058)**	**-**	**-**	**66**	**5,218**
Net assets of pension plans	**13,017**	**(3,462)**	**4,093**	**-**	**22**	**13,670**
	$ 45,180	**$ (5,124)**	**$ 4,093**	**$ 3,583**	**$ (469)**	**$ 47,263**
Deferred tax liabilities						
Inventories	**$ 5,099**	**$ 8,934**	**$ -**	**$ -**	**$ 76**	**$ 14,109**
Property, plant and equipment	**166,861**	**7,259**	**-**	**-**	**1,642**	**175,762**
Other	**19,911**	**14,402**	**(1,272)**	**3,583**	**129**	**36,753**
Long-term debt	**2,500**	**-**	**-**	**-**	**-**	**2,500**
	$ 194,371	**$ 30,595**	**$ (1,272)**	**$ 3,583**	**$ 1,847**	**$ 229,124**

	Balance April 1, 2011	Charged/ Credited to net earnings	Charged/ Credited to other comprehensive income or equity	Acquisitions	Translation and other	Balance March 31, 2012
Deferred tax asset						
Accounts payable and accrued liabilities	$ 15,144	$ 4,513	$ -	$ -	$ 296	$ 19,953
Income tax losses	21,425	(9,686)	-	-	471	12,210
Net assets of pension plans	7,167	(1,844)	7,661	-	33	13,017
	$ 43,736	$ (7,017)	$ 7,661	$ -	$ 800	$ 45,180
Deferred tax liabilities						
Inventories	$ 22,137	$ (17,426)	$ -	$ -	$ 388	$ 5,099
Property, plant and equipment	150,026	14,183	-	-	2,652	166,861
Other	15,087	7,123	-	-	(2,299)	19,911
Long-term debt	2,500	-	-	-	-	2,500
	$ 189,750	$ 3,880	$ -	$ -	$ 741	$ 194,371

NOTE 15 EARNINGS PER SHARE

		2013		2012
Net earnings	**$**	**481,921**	$	380,840
Weighted average number of common shares outstanding		**197,589,714**		201,614,933
Dilutive options		**2,731,407**		3,352,628
Weighted average diluted number of common shares outstanding		**200,321,121**		204,967,561
Basic earnings per share	**$**	**2.44**	$	1.89
Diluted earnings per share	**$**	**2.41**	$	1.86

When calculating diluted earnings per share for the year ended March 31, 2013, no options (1,217,185 options for the year ended March 31, 2012) were excluded from the calculation because their exercise price is lower than the average market value for the period.

Shares purchased under the normal course issuer bid were excluded from the calculation of earnings per share as of the date of purchase.

NOTE 16 BUSINESS ACQUISITIONS

On January 3, 2013, the Company completed the purchase of Morningstar for a total cash consideration of $1,433,945,000 pursuant to the terms and conditions of a Membership Interest Purchase Agreement.

Morningstar produces a variety of dairy and non-dairy extended shelf-life (ESL) products, including creams and creamers, ice cream mixes, whipping cream, aerosol whipped toppings, iced coffee, half and half, value-added milks, as well as cultured products such as sour cream and cottage cheese. These products are manufactured under a wide array of company-owned or customer brand names, and are sold throughout the US via an internal sales force and independent brokers. Morningstar serves the needs of retailers, national quick-serve restaurant chains, grocery stores, mass merchandisers and distributors across the United States.

The acquisition of Morningstar complements the activities of the Saputo Dairy Products Division (USA). Through this acquisition, the Company benefits from Morningstar's national manufacturing and distribution footprint. This transaction expands product offerings to customers in the United States and broadens the range of Saputo's future acquisition opportunities. These expected synergies, along with the benefits associated with an assembled workforce represent the major qualitative factors comprising goodwill.

The purchase price was allocated based on the fair values of the identifiable assets acquired and liabilities assumed as follows:

			Morningstar Foods, LLC
Assets acquired	Cash and cash equivalents	$	7
	Receivables		71,264
	Inventories		64,985
	Prepaid expenses and other assets		6,661
	Property, plant and equipment		457,418
	Goodwill		812,234
	Trademarks and other intangibles		123,178
	Other assets		3,200
Liabilities assumed	Accounts payable and accrued liabilities		(96,268)
	Other liabilities		(8,734)
Net assets acquired		$	1,433,945
Consideration	Cash	$	235,380
	Long-term debt		1,198,565
	Total consideration	$	1,433,945

The Company incurred acquisition costs of $9,646,000 ($6,115,000 after tax) in relation to the Morningstar Acquisition.

NOTE 16 BUSINESS ACQUISITIONS (CONT'D)

On an annual pro forma basis, had the acquisition taken place on April 1, 2012, the Company would have recorded $8,558,000,000 in revenues and $529,797,000 in net earnings. The annual pro forma results were derived from the Company's fiscal 2013 results and Morningstar's results over the same period. The annual pro forma results incorporate acquisition-based adjustments for the amortization of fair values assigned to acquired property, plant and equipment and intangible assets and also reflect interest expense on the debt related to the acquisition. Synergistic benefits, such as results of new agreements signed have not been reflected in these results. As a result, the annual pro forma revenues and net earnings are not necessarily indicative of the results of operations of the Company that may have actually resulted had the acquisition occurred on April 1, 2012 nor do they necessarily reflect the results that may be attainable in the future.

During fiscal 2012, an amount of $10,325,000 was paid to finalize the purchase price of the DCI Acquisition, completed on March 25, 2011.

NOTE 17 EMPLOYEE PENSION AND OTHER BENEFITS PLANS

The Company sponsors various post-employment benefit plans. These include pension plans, both defined contribution and defined benefit plans, and other post-employment benefits. In accordance with IAS 19, Employee Benefits, post-employment benefit plans are classified as either defined contribution plans or defined benefit plans.

Defined Contribution Plans

The Company offers and participates in defined contribution pension plans of which 92% of its active employees are members. The net pension expense under these types of plans is generally equal to the contributions made by the employer and constitutes an expense for the year in which they are due. For fiscal 2013, the defined contribution expenses for the Company amounted to $22,434,000 compared to $19,150,000 for fiscal 2012.

Defined Benefit Plans

The Company participates in defined benefit pension plans in which the remaining active employees are members. 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.

The cost of these pension benefits earned by employees is actuarially determined using the projected benefits method prorated on services and using a discount rate based on high quality corporate bonds and Management's assumptions bearing on, among other things, the expected return on plan assets, rates of compensation increase and retirement age of employees. All of these estimates and assessments are formulated with the help of external consultants. The plan assets and benefit obligations were valued as at March 31 with the assistance of the Company's external actuaries. The Company also offers complementary retirement benefits programs, such as health insurance, life insurance and dental plans to eligible employees and retired employees. The Company expects to contribute approximately $19,820,000 to its defined benefit plans in 2014. The Company's net liability for post-employment benefit plans comprises the following:

	Pension	**Other**	**March 31, 2013**	Pension	Other	March 31, 2012
Present value of funded obligation	**$ 251,003**	**$ -**	**$ 251,003**	$ 229,619	$ -	$ 229,619
Fair value of assets	**218,808**	**-**	**218,808**	193,221	-	193,221
Present value of net obligations for funded plans	**32,195**	**-**	**32,195**	36,398	-	36,398
Present value of unfunded obligations	**5,904**	**11,252**	**17,156**	4,170	10,666	14,836
Present value of net obligations	**38,099**	**11,252**	**49,351**	40,568	10,666	51,234
Asset ceilling test	**421**	**-**	**421**	283	-	283
Impact of minimum funding requirement	**6,338**	**-**	**6,338**	260	-	260
Accrued pension/benefit cost as at March 31	**44,858**	**11,252**	**56,110**	41,111	10,666	51,777
Employee benefit amounts on the balance sheet:						
Liabilities	**44,858**	**11,252**	**56,110**	41,111	10,666	51,777
Assets	**-**	**-**	**-**	-	-	-
Net liability	**$ 44,858**	**$ 11,252**	**$ 56,110**	$ 41,111	$ 10,666	$ 51,777

NOTE 17 EMPLOYEE PENSION AND OTHER BENEFITS PLANS (CONT'D)

The changes in the present value of the defined benefit obligations are as follows:

	Pension	Other	March 31, 2013	Pension	Other	March 31, 2012
Defined benefit obligation, beginning of year	$ 233,789	$ 10,666	$ 244,455	$ 209,873	$ 10,292	$ 220,165
Current service costs	5,204	24	5,228	4,075	19	4,094
Contribution by plan participants	789	-	789	776	-	776
Interest cost	10,905	488	11,393	11,234	547	11,781
Actuarial losses	17,292	765	18,057	23,745	449	24,194
Business acquisition	2,927	-	2,927	-	-	-
Exchange differences	177	8	185	98	10	108
Benefits paid	(14,176)	(699)	(14,875)	(16,012)	(651)	(16,663)
Defined benefit obligation, end of year	$ 256,907	$ 11,252	$ 268,159	$ 233,789	$ 10,666	$ 244,455

The changes in the fair value of plan assets are as follows:

	Pension	Other	March 31, 2013	Pension	Other	March 31, 2012
Fair value of plan assets, beginning of year	$ 193,221	$ -	$ 193,221	$ 196,719	$ -	$ 196,719
Expected return	12,657	-	12,657	13,092	-	13,092
Actuarial gains/(losses)	8,666	-	8,666	(10,991)	-	(10,991)
Contributions by employer	15,750	699	16,449	9,569	651	10,220
Contributions by participants	789	-	789	776	-	776
Business acquisition	1,780	-	1,780	-	-	-
Exchange differences	121	-	121	68	-	68
Benefits paid	(14,176)	(699)	(14,875)	(16,012)	(651)	(16,663)
Fair value of plan assets, end of year	$ 218,808	$ -	$ 218,808	$ 193,221	$ -	$ 193,221

Actual return on plans assets amounted to a gain of $21,323,000 in fiscal year 2013 compared to a gain of $2,101,000 in fiscal year 2012.

The fair value of plan assets, which do not include assets of the Company, consist of the following:

	March 31, 2013	March 31, 2012
Bonds	42%	46%
Equity instruments	55%	52%
Cash and short–term investments	3%	2%
	100%	100%

The expenses recognized below are included in "Operating costs excluding depreciation, amortization, acquisition and restructuring" within employee benefits expense (refer to Note 5) and are detailed as follows:

	Pension	Other	March 31, 2013	Pension	Other	March 31, 2012
Employer service cost	$ 5,204	$ 24	$ 5,228	$ 4,075	$ 19	$ 4,094
Interest cost	10,905	488	11,393	11,234	547	11,781
Expected return on plan assets	(12,657)	-	(12,657)	(13,092)	-	(13,092)
Defined benefits plans expense	$ 3,452	$ 512	$ 3,964	$ 2,217	$ 566	$ 2,783

The Company elected to recognize actuarial gains and losses in the period in which they occur, outside profit or loss, for all its defined benefit plans. These actuarial gains and losses are recognized in other comprehensive income and are presented below:

	Pension	Other	March 31, 2013	Pension	Other	March 31, 2011
Net losses during the year	$ (8,626)	$ (765)	$ (9,391)	$ (34,736)	$ (449)	$ (35,185)
Effect of the asset ceiling test	(138)	-	(138)	462	-	462
Effect of impact of additional liability arising from the minimum funding requirement	(6,078)	-	(6,078)	5,814	-	5,814
Amount recognized in other comprehensive income	(14,842)	(765)	(15,607)	(28,460)	(449)	(28,909)
Cumulative amount beginning of year	(33,461)	(940)	(34,401)	1,275	(491)	784
Net losses during the year	(8,626)	(765)	(9,391)	(34,736)	(449)	(35,185)
Cumulative amount at end of year	$ (42,087)	$ (1,705)	$ (43,792)	$ (33,461)	$ (940)	$ (34,401)

NOTE 17 EMPLOYEE PENSION AND OTHER BENEFITS PLANS (CONT'D)

Weighted average assumptions used in computing the benefit obligations at the balance sheet date are as follows:

	March 31, 2013	March 31, 2012
Discount rate	**4.22%**	4.74%
Future salary increases	**3.00%**	3.00%

Weighted average assumptions used in computing the net periodic pension cost for the year are as follows:

	March 31, 2013	March 31, 2012
Discount rate	**4.74%**	5.49%
Expected return on plan assets	**6.50%**	6.75%
Future salary increases	**3.00%**	3.00%

For measurement purposes, a 5.23% to 9.00% annual rate of increase was used for health, life insurance and dental plan costs for the year and this rate is assumed to decrease gradually to 5.03% in 2018. In comparison, during the previous year, a 4.87% to 10.00% annual rate was used for the year and that rate was assumed to decrease gradually to 4.87% in 2017.

Several factors are considered in developing the estimate for long-term expected return on plan assets. For the defined benefit plans, these include historical rates of return of broad equity and bond indices and projected long-term rates of return from pension investment consultants.

Assumed medical cost trend rates have an effect on the amounts recognized in profit or loss. A one percentage point change in the assumed medical cost trend rates would have marginal impact on cost and obligations.

The history of the present value of the defined benefit obligations, the fair value of the plan assets, the deficit in the plans and any experience adjustments are the following:

	March 31, 2013	March 31, 2012	March 31, 2011
Present value of the defined benefit obligations	**(268,159)**	(244,455)	(220,165)
Fair value of plan assets	**218,808**	193,221	196,719
Deficit	**(49,351)**	(51,234)	(23,446)
Experience adjustments: increase plan liabilities	**(1,836)**	(2,937)	(359)
Experience adjustments: increase/(decrease) plan assets	**8,666**	(10,991)	4,544

NOTE 18 COMMITMENTS AND CONTINGENCIES

LEASES

The Company carries on 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 for the next fiscal years are as follows:

Less than 1 year	**$**	**21,736**
1-2 years		**16,103**
2-3 years		**12,549**
3-4 years		**8,520**
4-5 years		**6,890**
More than 5 years		**18,615**
	$	**84,413**

The Company guarantees to certain lessors a portion of the residual value of certain leased assets with respect to operations which mature until 2017. If the market value of leased assets, at the end of the respective operating lease term, is inferior to the guaranteed residual value, the Company is obligated to indemnify the lessors, specific to certain conditions, for the shortfall up to a maximum value. The Company believes that the potential indemnification will not have a significant effect on the consolidated financial statements.

NOTE 18 COMMITMENTS AND CONTINGENCIES (CONT'D)

CLAIMS

The Company is defendant to certain claims arising from the normal course of its business. The Company is also defendant in certain claims and/or assessments from tax authorities in various jurisdictions. The Company believes that the final resolution of these claims and/or assessments will not have a material adverse effect on its earnings or financial position.

INDEMNIFICATIONS

The Company from time to time offers indemnifications to third parties in the normal course of its business, in connection with business or asset acquisitions or dispositions. 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. At March 31, 2013, given that the nature and amount of such indemnifications depend on future events, the Company is unable to reasonably estimate its maximum potential liability under these agreements. The Company has not made any significant indemnification payments in the past, and as at March 31, 2013 and March 31, 2012, the Company has not recorded a liability associated with these indemnifications.

NOTE 19 RELATED PARTY TRANSACTIONS

The Company receives and provides goods and services which consist of rent, travel, transport, lodging and management services from and to companies subject to control or significant influence through ownership by its principal shareholder. These transactions, which are not significant to the Company's financial position or financial results, are made in the normal course of business and have been recorded at the fair value, consistent with market value for similar transactions.

Transactions with key management personnel (salaries, bonuses, options, and payments under the PSU and DSU plans) are also considered related party transactions. Management defines key management personnel as named executive officers: the CEO, CFO and the three most highly compensated executive officers of the Company whom are among those persons having responsibility and authority for controlling, overseeing and planning the activities of the Company, as well as the Company's Directors.

Transactions with related parties are as follows:

	2013	2012
Entities subject to control or significant influence through ownership by its principal shareholder	**$ 19,497**	$ 2,587
Key management personnel		
Directors	**2,355**	2,293
Named Executive Officers	**11,944**	10,043
	$ 33,796	$ 14,923

Included in the transactions with related parties for fiscal 2013 is a purchase of land and building from a related party totalling $16,400,000. The acquired property will be the site for the consolidated distribution activities of the Greater Montreal area as well as the administrative offices of the Dairy Products Division (Canada). The transaction was recorded at fair value.

Dairy products and other services provided by the Company were the following:

	2013	2012
Entities subject to control or significant influence through ownership by its principal shareholder	**$ 370**	$ 405

NOTE 19 RELATED PARTY TRANSACTIONS (CONT'D)

Outstanding receivables and accounts payable and accrued liabilities for the transactions above are the following:

	Receivables		Accounts payable and accrued liabilities	
	March 31, 2013	March 31, 2012	**March 31, 2013**	March 31, 2012
Entities subject to control or significant influence through ownership by its principal shareholder	**$ 43**	$ 29	**$ 32**	$ 33
Key management personnel				
Directors	**-**	-	**13,111**	11,534
Named executive officers	**-**	-	**9,397**	7,359
	$ 43	$ 29	**$ 22,540**	$ 18,926

The amounts payable to the Directors consist entirely of balances payable under the Company's DSU plan. Refer to Note 12 for further details. The amounts payable to named executive officers consist of short-term employee benefits, share-based awards and post-retirement benefits.

The following information summarizes the significant subsidiaries of Saputo Inc.:

	Percentage Owned
Saputo Cheese USA Inc.	100%
Saputo Dairy Products Canada G.P.	100%
Saputo Dairy Foods USA, LLC	100%
Molfino Hermanos S.A.	100%

KEY MANAGEMENT PERSONNEL COMPENSATION

The compensation expense for transactions with the Company's key management personnel consists of the following:

	2013	2012
Directors		
Cash-settled payments	**$ 788**	$ 800
Share-based awards	**1,567**	1,493
	$ 2,355	$ 2,293
Named executive officers		
Short-term employee benefits	**7,931**	7,928
Post-employment benefits	**808**	1,001
Share-based awards	**3,205**	1,114
	$ 11,944	$ 10,043
Total compensation	**$ 14,299**	$ 12,336

NOTE 20 FINANCIAL INSTRUMENTS

In the normal course of business, the Company uses various financial instruments which by their nature involve risk, including credit risk, liquidity risk and market risk. Market risk consists of price risk (including commodity price risk), foreign exchange risk and interest rate risk. These financial instruments are subject to normal credit conditions, financial controls, risk management as well as monitoring procedures.

The Company enters into derivative financial instrument transactions in order to mitigate or hedge risks in accordance with its risk objectives and strategies. The Company does not enter into these arrangements for speculative purposes.

NOTE 20 FINANCIAL INSTRUMENTS (CONT'D)

CREDIT RISK

Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash equivalents and receivables.

The cash equivalents consist mainly of short-term deposits. None of the cash equivalents are in asset backed commercial paper products. The Company has deposited the cash equivalents with reputable financial institutions.

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.

Due to its large and diverse customer base and its geographic diversity, the Company has low exposure to credit risk concentration with respect to customer's receivables. There are no receivables from any individual customer that exceeded 10% of the total balance of receivables as at March 31, 2013 and March 31, 2012. However two customers represented more than 10% of total consolidated sales for the year ended March 31, 2013, with 11.2% and 10.7% (12.1% and 10.1% in 2012).

Allowance for doubtful accounts and past due receivables are reviewed by Management at each balance sheet date. The Company updates its estimate of the allowance for doubtful accounts based on the evaluation of the recoverability of receivable balances from each customer taking into account historic collection trends of past due accounts. Receivables are written off once determined not to be collectible.

On average, the Company will generally have 10% of receivables that are due beyond normal terms, but are not impaired. The carrying amount of receivables is reduced by an allowance account and the amount of the loss is recognized in the statement of earnings within operating costs. Subsequent recoveries of amounts previously written off are credited against operating costs in the statement of earnings. However, Management does not believe that these allowances are significant.

LIQUIDITY RISK

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure and financial leverage, as outlined in Note 21 relating to capital disclosures. It also manages liquidity risk by continuously monitoring actual and projected cash flows. The Board of Directors reviews and approves the Company's operating and capital budgets, as well as any material transactions out of the normal course of business.

INTEREST RATE RISK

The Company is exposed to interest rate risks through its financial obligations that bear variable interest rates.

Bank loans bear interest at fluctuating rates and thereby expose the Company to interest rate risk on cash flows associated to interest payments. The Senior Notes bear interest at fixed rates and, as a result, no interest rate risk exists on these cash flows.

The bank term loan bears interest at variable rates and thereby exposes the Company to interest rate risk on cash flows associated to interest payments. As a result of such interest rate risk, the Company entered into interest rate swap agreements on February 4, 2013 for the total term of the bank term loan facility in which the Company agreed to exchange variable interest payments for fixed rate payments at specified intervals. The notional amount upon which the swaps are based represent equal amounts to those outstanding with regards to the unsecured bank term loan facility. The effective fixed interest rate is 1.58% (plus applicable spread) for the Canadian dollar tranche and 0.31% (plus applicable spread) on the US dollar tranche. Refer to Note 10 for further details on the unsecured bank term loan facility. The Company has designated these interest rate swaps as cash flow hedges of interest rate risk in accordance with its risk management strategy.

On March 31, 2013, the cash flow hedges of interest rate risk were assessed to be highly effective and accordingly, an unrealized loss of $3,660,000 (net of tax of $1,272,000) was recorded in other comprehensive income. The amounts recorded in the statement of comprehensive income are transferred to the statement of net earnings to offset interest on long-term debt when the interest expense is recorded in net earnings.

For the fiscal year ended March 31, 2013, the interest expense on long-term debt totalled $29,896,000 ($23,081,000 in March 31, 2012). The interest accrued on March 31, 2013 was $6,836,000 ($6,683,000 at March 31, 2012).

NOTE 20 FINANCIAL INSTRUMENTS (CONT'D)

As at March 31, 2013, the net amount exposed to short-term rates fluctuations was approximately $181,865,000. Based on this exposure, an assumed 1 percentage point increase in interest rate would have an unfavourable impact of approximately $1,313,000 on net earnings with an equal but opposite effect for an assumed 1 percentage point decrease.

FOREIGN EXCHANGE RISK

The Company operates internationally and is exposed to foreign exchange risk resulting from various foreign currency transactions. Foreign exchange transaction risk arises primarily from future commercial transactions that are denominated in a currency that is not the functional currency of the Company's business unit that is party to the transaction. The Company had outstanding foreign currency contracts as at the balance sheet date for the purchase of 700,000 Euros (5,500,000 US dollars in 2012).

The Company is mainly exposed to US dollar fluctuations. The following table details the Company's sensitivity to a 1% weakening of the Canadian dollar against the US dollar on net earnings and comprehensive income. For a 1% appreciation of the Canadian dollar against the US dollar, there would be an equal and opposite impact on net earnings and comprehensive income.

	2013	2012
Change in net earnings	**$ 1,599**	$ 1,485
Change in comprehensive income	**$ 22,852**	$ 12,817

COMMODITY PRICE RISK

The Company occasionally enters into contracts to hedge against fluctuations in the price of commodities. Outstanding contracts as at the balance sheet date had a positive fair value of approximately $175,000 (negative fair value of approximately $782,000 at March 31, 2012). The Company does not use hedge accounting for these transactions.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company has determined that the fair value of its financial assets and financial liabilities with short-term maturities approximates their carrying value. These financial instruments include cash and cash equivalents, receivables, bank loans, accounts payable and accrued liabilities. The table below shows the fair value and the carrying value of other financial instruments as at March 31, 2013 and March 31, 2012. Since estimates are used to determine fair value, they must not be interpreted as being realizable in the event of a settlement of the instruments.

	March 31, 2013		March 31, 2012	
	Fair value	**Carrying value**	Fair value	Carrying value
Other assets that meet the definition of a financial asset	**$ 198**	**$ 204**	$ 1,550	$ 1,620
Long-term debt	**1,583,380**	**1,548,300**	427,428	379,875
Derivative swap designated as cash flow hedge	**(4,932)**	**(4,932)**	-	-

The following table summarizes the financial instruments measured at fair value in the consolidated balance sheet as at March 31, 2013, classified using the fair value hierarchy described in Note 3.

	Level 1	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents	**$ 43,177**	**$ -**	**$ -**	**$ 43,177**
Derivative swap liability	**-**	**-**	**(4,932)**	**(4,932)**
	$ 43,177	**$ -**	**$ (4,932)**	**$ 38,245**

Fair values of other assets, long-term debt and derivative financial instruments are determined using discounted cash flow models based on market inputs prevailing at the balance sheet date and are also obtained from financial institutions. Where applicable, these models use market-based observable inputs including interest-rate-yield curves, volatility of certain prices or rates and credit spreads. If market based observable inputs are not available, judgement is used to develop assumptions used to determine fair values. The Company does not use unobservable inputs that are significant to the fair value measurements in their entirety. The fair value estimates are significantly affected by assumptions including the amount and timing of estimated future cash flows and discount rates. The Company's derivatives transactions are accounted for on a fair value basis.

NOTE 21 CAPITAL DISCLOSURES

The Company's objective in managing capital is to ensure sufficient liquidity to pursue its growth strategy and undertake selective acquisitions, while at the same time taking a conservative approach towards financial leverage and management of financial risk. An additional objective is to provide an adequate return to its shareholders. Furthermore, the Company believes that the purchases of its own shares may, under appropriate circumstances, be a responsible use of its capital.

The Company's capital is composed of net debt and shareholders' equity. Net debt consists of long-term debt and bank loans, net of cash and cash equivalents. The Company's primary use of capital is to finance acquisitions.

The primary measure used by the Company to monitor its financial leverage is its ratio of net debt to shareholders' equity. The net debt-to-equity ratios as at March 31, 2013 and March 31, 2012 are as follows:

	2013	2012
Bank loans	**$ 181,865**	$ 166,631
Long-term debt	**1,548,300**	379,875
Cash and cash equivalents	**(43,177)**	(144,137)
Net debt	**$ 1,686,988**	$ 402,369
Shareholders' equity	**$ 2,305,673**	$ 2,105,686
Net debt-to-equity	**0.73:1**	0.19:1

The Company has existing credit facilities which require a quarterly review of financial ratios and the Company is not in violation of any such ratios as at March 31, 2013.

The Company is not subject to capital requirements imposed by a regulator.

NOTE 22 RESTRUCTURING COSTS

As part of continuing efforts to improve operational efficiencies and to restructure its activities, the Company announced, in fiscal 2013, the closure of certain facilities located in Canada and Europe.

On February 25, 2013, the Company announced the closure of its cheese manufacturing facilities in Heiden, Germany and Newcastle Emlyn, Wales (European facilities) expected for early fiscal 2014. The facility located in Germany manufactured Italian specialty cheeses for the retail market segment and the facility located in the United Kingdom produced mozzarella for the food service market segment. As a result of this restructuring, the Company has incurred $3,372,000 due on scheduled closings in severance costs, $2,807,000 in other closure costs, $15,674,000 in impairment charges to property, plant and equipment and $339,000 in impairment charges to goodwill in order to record the assets at their lower of carrying value and fair value less costs to sell.

The Company also completed restructuring initiatives in Canada. In November 2012, the Company informed its employees at its facility in Winkler, Manitoba of the plant's scheduled closure in January 2014. On March 14, 2013, the Company announced the closure of its cheese manufacturing facility in Warwick, Québec scheduled for June 2014. Production from the Warwick facility will be integrated into other facilities in Quebec. In connection with this restructuring, the Company incurred severances costs of $4,404,000 as well as impairment charges of $6,035,000 related to the value of its property, plant and equipment at the lower of carrying value and fair value less costs to sell.

The restructuring and other closure expenses discussed above represent Management's best estimates of the expenses required to restructure these operations. Liabilities related to severance expenditures have been classified as provisions and grouped within current and non-current liabilities on the balance sheet.

NOTE 23 SEGMENTED INFORMATION

The Company has two operating sectors: Dairy Products and Grocery Products.

The Dairy Products Sector principally includes the production and distribution of cheeses, fluid milk and dairy ingredients. The activities of this sector are carried out in Canada, Europe and Argentina (CEA) and in the United States (USA).

The Grocery Products Sector consists of the production and distribution mainly of snack-cakes.

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 3 relating to significant accounting policies. The Company does not have any intersector sales.

Information on operating sectors

	2013			2012		
	CEA	**USA**	**Total**	CEA	USA	Total
Revenues[1]						
Dairy products	**$ 4,091,356**	**$ 3,069,179**	**$ 7,160,535**	$ 4,054,516	$ 2,741,813	$ 6,796,329
Grocery products	**137,142**	**-**	**137,142**	134,041	-	134,041
	$ 4,228,498	**$ 3,069,179**	**$ 7,297,677**	$ 4,188,557	$ 2,741,813	$ 6,930,370
Earnings before interest, depreciation, amortization, acquisition restructuring, impairment and income taxes						
Dairy products	**$ 498,967**	**$ 347,859**	**$ 846,826**	$ 514,786	$ 303,405	$ 818,191
Grocery products	**13,946**	**-**	**13,946**	12,740	-	12,740
	$ 512,913	**$ 347,859**	**$ 860,772**	$ 527,526	$ 303,405	$ 830,931
Depreciation and amortization						
Dairy products	**$ 55,822**	**$ 53,901**	**$ 109,723**	$ 52,574	$ 43,670	$ 96,244
Grocery products	**6,906**	**-**	**6,906**	5,699	-	5,699
	$ 62,728	**$ 53,901**	**$ 116,629**	$ 58,273	$ 43,670	$ 101,943
Acquisition costs			**9,646**			-
Restructuring costs			**32,631**			-
Impairment of goodwill			**-**			125,000
Financial charges, net			**34,099**			24,650
Earnings before income taxes			**667,767**			579,338
Income taxes			**185,846**			198,498
Net earnings			**$ 481,921**			$ 380,840

[1] Revenues are attributable to countries based upon manufacturing origin.

NOTE 23 SEGMENTED INFORMATION (CONT'D)

Geographic information

	2013				2012			
	Canada	Argentina & Europe	United States	Total	Canada	Argentina & Europe	United States	Total
Revenues[1]								
Dairy products	$ 3,595,881	$ 495,475	$ 3,069,179	$ 7,160,535	$ 3,547,218	$ 507,298	$ 2,741,813	$ 6,796,329
Grocery products	137,142	-	-	137,142	134,041	-	-	134,041
	$ 3,733,023	$ 495,475	$ 3,069,179	$ 7,297,677	$ 3,681,259	$ 507,298	$ 2,741,813	$ 6,930,370
Changes to non-current assets								
Dairy products	$ 27,341	$ 15,767	$ 1,436,995	$ 1,480,103	$ 1,068	$ 5,259	$ 26,710	$ 33,037
Grocery products	1,325	-	-	1,325	(119,914)	-	-	(119,914)
	$ 28,666	$ 15,767	$ 1,436,995	$ 1,481,428	$ (118,846)	$ 5,259	$ 26,710	$ (86,877)

[1] Revenues are attributable to countries based upon manufacturing origin.

	March 31, 2013				March 31, 2012			
	Canada	Argentina & Europe	United States	Total	Canada	Argentina & Europe	United States	Total
Total assets								
Dairy products	$ 1,641,628	$ 269,649	$ 3,151,454	$ 5,062,731	$ 1,721,018	$ 255,647	$ 1,494,602	$ 3,471,267
Grocery products	130,909	-	-	130,909	127,853	-	-	127,853
	$ 1,772,537	$ 269,649	$ 3,151,454	$ 5,193,640	$ 1,848,871	$ 255,647	$ 1,494,602	$ 3,599,120
Net book value of property, plant and equipment								
Dairy products	$ 462,776	$ 87,683	$ 1,005,942	$ 1,556,401	$ 437,192	$ 74,037	$ 534,507	$ 1,045,736
Grocery products	60,794	-	-	60,794	59,469	-	-	59,469
	$ 523,570	$ 87,683	$ 1,005,942	$ 1,617,195	$ 496,661	$ 74,037	$ 534,507	$ 1,105,205
Total liabilities								
Dairy products	$ 1,854,804	$ 140,988	$ 850,468	$ 2,846,260	$ 1,131,368	$ 106,467	$ 208,405	$ 1,446,240
Grocery products	41,708	-	-	41,708	47,194	-	-	47,194
	$ 1,896,512	$ 140,988	$ 850,468	$ 2,887,968	$ 1,178,562	$ 106,467	$ 208,405	$ 1,493,434
Goodwill								
Dairy products	$ 269,064	$ -	$ 1,256,098	$ 1,525,162	$ 269,064	$ 346	$ 419,687	$ 689,097
Grocery products	44,430	-	-	44,430	44,430	-	-	44,430
	$ 313,494	$ -	$ 1,256,098	$ 1,569,592	$ 313,494	$ 346	$ 419,687	$ 733,527

NOTE 24 DIVIDENDS

During the year ended March 31, 2013, the Company paid dividends totalling $161,651,170, or $0.84 per share ($147,052,820, or $0.76 per share for the year ended March 31, 2012).