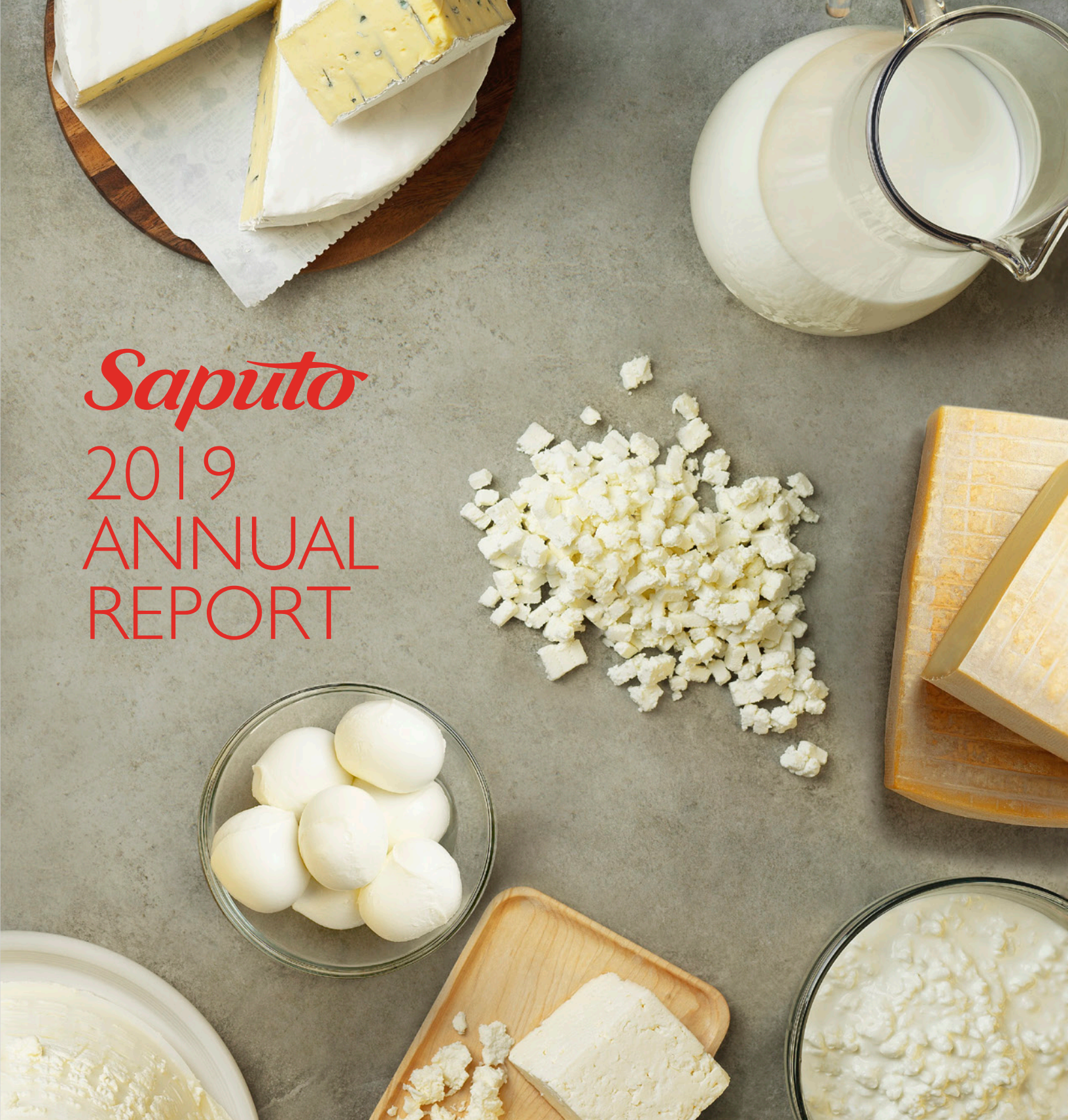


Saputo
2019
ANNUAL
REPORT



Saputo

Saputo produces, markets, and distributes a wide array of dairy products of the utmost quality, including cheese, fluid milk, extended shelf-life milk and cream products, cultured products and dairy ingredients. Saputo is one of the top ten dairy processors in the world, a leading cheese manufacturer and fluid milk and cream processor in Canada, the top dairy processor in Australia and the second largest in Argentina. In the USA, Saputo ranks among the top three cheese producers and is one of the largest producers of extended shelf-life and cultured dairy products. In the United Kingdom, Saputo is the largest manufacturer of branded cheese and a top manufacturer of dairy spreads. Our products are sold in several countries under well-known brand names such as *Saputo*, *Alexis de Portneuf*, *Armstrong*, *Cathedral City*, *Clover*, *COON*, *Cracker Barrel**, *Dairyland*, *DairyStar*, *Devondale*, *Friendship Dairies*, *Frigo Cheese Heads*, *Joyya*, *La Paulina*, *Liddells*, *Milk2Go/Lait's Go*, *Montchevre*, *Murray Goulburn Ingredients*, *Neilson*, *Nutralait*, *Scotsburn**, *Stella*, *Sungold*, *Treasure Cave* and *Woolwich Goat Dairy*. Saputo Inc. is a publicly traded company and its shares are listed on the Toronto Stock Exchange under the symbol "SAP".

FINANCIAL HIGHLIGHTS

Fiscal years ended March 31 (in millions of CDN dollars)

| | REVENUES | ADJUSTED EBITDA* | NET EARNINGS | ADJUSTED NET EARNINGS* |
|--------------------------------|---------------|------------------|---------------|------------------------|
| 2019 | \$13,501.9 | \$1,221.3 | \$755.3 | \$623.6 |
| 2018 | \$ 11,542.5 | \$ 1,264.7 | \$ 852.5 | \$ 704.2 |
| 2017 | \$ 11,162.6 | \$ 1,289.5 | \$ 731.1 | \$ 731.1 |
| Fiscal 2019 ⁽¹⁾ | +17.0% | -3.4% | -11.4% | -11.4% |
| Since 2017 CAGR ⁽²⁾ | +10.0% | -2.7% | +1.6% | -7.6% |

For the fiscal year ended March 31, 2019

| SECTOR | NUMBER OF PLANTS** | NUMBER OF EMPLOYEES** | % OF TOTAL REVENUES |
|----------------------|--------------------|-----------------------|---------------------|
| Canada Sector | 21 | 5,600 | 30% |
| USA Sector | 27 | 6,400 | 48% |
| International Sector | 12 | 3,700 | 22% |
| Europe Sector*** | 5 | 1,100 | n/a |



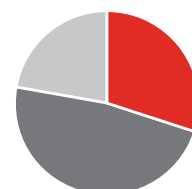
Products sold
in over
50
countries



65
plants



Approx.
16,800
employees



| SEGMENT | % OF TOTAL REVENUES | CLIENTELE |
|--------------------|---------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| RETAIL | 47% | Sales are made to supermarket chains, mass-merchandisers, convenience stores, independent retailers, warehouse clubs and specialty cheese boutiques under Company-owned or customer brand names. |
| FOODSERVICE | 35% | Sales are made to broadline distributors, as well as to restaurants, hotels and institutions, under Company-owned or customer brand names. |
| INDUSTRIAL | 18% | Sales are made to manufacturers and processors who use Saputo's products as ingredients in the preparation of other food items or nutritional products. |

* Non-IFRS measures described in the "Glossary" section on page 37 of the Management's Discussion and Analysis.

** Taking into account the Dairy Crest Acquisition completed on April 15, 2019.

*** Starting in fiscal 2020, Saputo intends to report the business of Dairy Crest, now known as the Dairy Division (UK), under a new Europe Sector.

(1) As compared to fiscal 2018.

(2) CAGR, Compound Annual Growth Rate is defined as the year-over-year growth rate over a specified amount of time.

THE SAPUTO PROMISE

The Saputo Promise is our commitment to live up to the values on which our business was founded in 1954. It consists of 7 Pillars, forming the backbone to our approach to social, environmental and economic performance.

We believe the future is created by what we do today. And our promise is to never stop building the future we believe in. Here is a summary report of our Promise for the 2019 fiscal year (FY2019).

Our FY2019 Saputo Promise Factsheet – including further details on our non-financial performance – will be published in August 2019.



FOOD SAFETY AND QUALITY

Our safety-first culture includes our support for food safety training workshops, which we developed and executed in collaboration with Dairy Management Inc. and the International Dairy Foods Association. These workshops have taken place since 2011 across multiple Saputo locations.

Since their inception, approximately **1,900 dairy industry employees** have attended the training workshops.

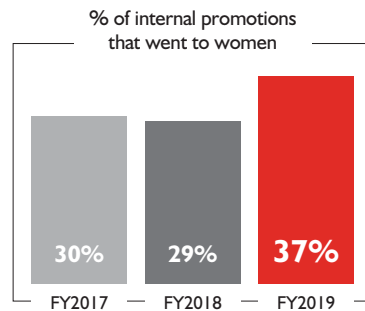


+ Read more at www.saputo.com/our-promise/case-studies

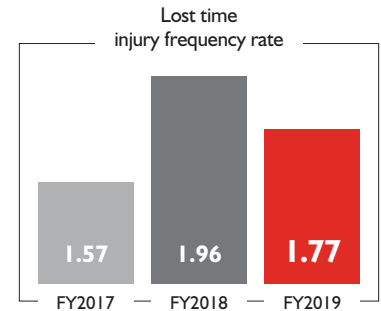


OUR PEOPLE

We are pleased to report a significant increase in the number of women promoted in FY2019.



Our global Health and Safety Committee, established in FY2018, helped ensure a consistent and global approach to safety, resulting in improved performance in FY2019.



BUSINESS ETHICS



We want the everyday conduct of our employees **to be driven by the values we share and promote.** Our Code of Ethics formalizes these values. We have started the periodic review process of our current Code of Ethics. A revamped version will be launched in FY2020.



RESPONSIBLE SOURCING

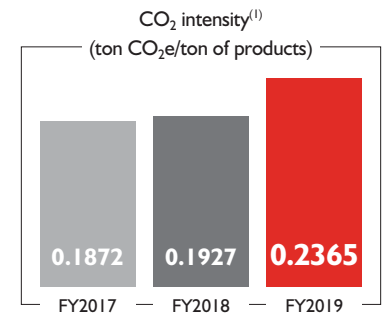
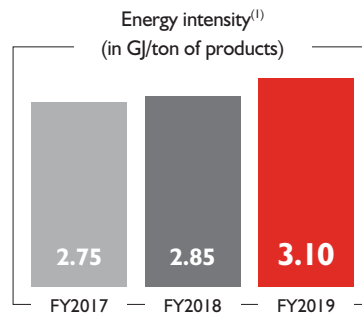
We launched our Saputo Supplier Code of Conduct in FY2019.

Our Code sets the minimum standards of business conduct we expect from our suppliers. Through aligned standards, we aim to create an environment where we can build strong, sustainable and long-term relationships with our suppliers.



ENVIRONMENT

As a result of the acquisition of the activities of Murray Goulburn, our energy intensity increased by 9% and our CO₂ intensity increased by 23%. This was mainly due to energy-intensive production and the fact that CO₂ emissions associated with electricity production are significantly higher in Australia as compared to the other countries where we operate.



NUTRITION AND HEALTHY LIVING



We continuously look for ways to enhance our products to help consumers make healthier choices. In FY2019, **our Dairy Foods Division (USA) successfully transitioned our Friendship Dairies cottage cheese to a 'clean label'**, simplifying its ingredients while maintaining the same taste and texture consumers love.

+ Read how at www.saputo.com/our-promise/case-studies



COMMUNITY

We delivered on our commitment to invest 1% of our annual pre-tax profits in the communities where we operate. Through our national partnerships, Legacy projects, volunteerism and local donations, **we contributed to building healthier communities globally.**



(1) Due to the timing of the Annual Report, these numbers are based on estimates. The final numbers will be published in August 2019, as part of the Saputo Promise Factsheet.

MESSAGE FROM THE CHAIR OF THE BOARD AND CHIEF EXECUTIVE OFFICER

Lino A. Saputo, Jr.



As added pressures weighed heavily on the industry and its players, a solid foundation allowed us to expand our business and solidify our position as a leading dairy processor.

Fiscal 2019 was both an exciting and a challenging year. The difficult global dairy conditions that began in fiscal 2018 persisted throughout fiscal 2019, which inevitably impacted our results. However, with these obstacles came opportunities. As added pressures weighed heavily on the industry and its players, a solid foundation allowed us to expand our business and solidify our position as a leading dairy processor.

As always, we were able to count on the passion and loyalty of our employees and the knowledge of our leadership group, with oversight from our Board of Directors. As Chair of the Board, I am privileged to see first-hand their dedication and diligence. All directors – eight independent and two non-independent – were reelected in fiscal 2019, providing continuity of stewardship and maintaining gender parity. Our Board of Directors provides prudent guidance that complements the experience of our management team and ensures sound decision-making.

The Board firmly believes in applying corporate governance best practices and upholding a culture of integrity. After each Board meeting, the independent directors hold a separate meeting chaired by the Lead Director. Also, only independent directors sit on the Audit Committee and the Corporate Governance and Human Resources Committee. I invite you to refer to our Management Information Circular dated June 6, 2019 for additional information regarding our governance practices and Board nominees.

As part of its focus on profitability enhancement and shareholder value creation, the Board reviewed Saputo's dividend policy in fiscal 2019, increasing the quarterly dividend by 3.1% to \$0.165 per share.

In fiscal 2019, we announced changes to our management team aimed at further supporting our operations and growth strategy. As of April 1, 2019, Carl Colizza was appointed President and Chief Operating Officer (North America), having previously been responsible for our Dairy Divisions (Canada and Argentina). As such, Frank Guido, who has been with our Company since 2015, was appointed to oversee our Canadian operations while Kai Bockmann retained the Dairy Division (Argentina) as part of his role as President and Chief Operating Officer, Saputo Inc. and International Sector. Martin Gagnon, who has been at Saputo since 2016, was named Chief Acquisition and Strategic Development Officer. Lastly, as we further expanded our international presence in early fiscal 2020, we appointed Tom Atherton as President and Chief Operating Officer of our new Dairy Division (UK).

Growing through acquisitions is a fundamental part of our long-term strategy, underpinned by our financial flexibility and a disciplined approach. In fiscal 2019, we were well positioned to take advantage of the right opportunities at the right time.

We became the largest dairy processor in Australia following our acquisition of the activities of Murray Goulburn ("MG"). We also announced the now completed acquisition of Dairy Crest, becoming the UK's largest manufacturer of branded cheese and a top manufacturer of dairy spreads. Additionally, we broadened our product portfolio by acquiring the activities of Shepherd Gourmet in Canada and F&A Dairy Products in the USA, the latter of which gave us access to a new milk pool in New Mexico. Over the last two years, we have completed six acquisitions, bringing our total to 31 since our IPO in 1997, and our pipeline of potential acquisitions remains full. In fact,



fiscal 2020 started with an agreement to acquire the specialty cheese business of Lion-Dairy & Drinks Pty Ltd in Australia, pending foreign investment approval and clearance by the Australian Competition and Consumer Commission. As is our usual practice, we will seek to maintain a well-balanced capital structure in order to keep pursuing growth opportunities.

This year, we also continued to plan and execute capital expenditure projects to reinforce our position within the global dairy industry, including the ongoing implementation of our new enterprise resource planning (“ERP”) system. The Dairy Foods Division (USA) became the third of our divisions to implement ERP, following successful deployments in Argentina and within our Warrnambool Cheese and Butter platform in Australia. In fiscal 2020, we plan to migrate the rest of our Australian activities to ensure alignment under a single system. Afterwards, our Cheese Division (USA) and Dairy Division (Canada) will proceed with their ERP implementations, with completion expected in fiscal 2022. As a result of recent acquisitions, the scope and duration of this project has increased, which in turn has raised the expected total investment. While this may continue to vary as a function of our growth through acquisitions, the Dairy Division (UK) will keep operating under its current system and therefore is not included in the present scope of our ERP program. Although the global implementation has been one of the factors impacting our results, we remain certain it is the right investment to support our long-term growth.

Looking back on fiscal 2019, each of our platforms had its share of accomplishments, but we were not immune to the volatility and competition within our industry. We continued to face strong headwinds on a global scale. Weak dairy ingredient and cheese markets, competitive conditions, and elevated costs, such as those related to warehousing and logistics, put downward pressure on profitability.

While we may not always have control over the challenges we face, we choose a proactive approach to mitigating this adversity. As such, we continued to carefully monitor the markets and explored additional opportunities to maximize efficiencies and control costs whenever possible.

In Canada, we maintained our commitment to profitable sales volumes and kept focusing on continuous improvement to leverage best practices and improve efficiency throughout our manufacturing and supply chain activities. As we look to uphold

a leadership position in an increasingly competitive Canadian market, we regularly review and invest in our operations to optimize our platform. To that end, we began the construction of a new state-of-the-art fluid milk manufacturing facility in Port Coquitlam (British Columbia) that will enable us to better serve the Western Canadian market. Accordingly, our Burnaby (British Columbia) property has been sold and will continue to operate under a lease agreement until activities can be transferred. We closed our Courtenay (British Columbia) facility, a difficult yet necessary step towards right-sizing our business. Fiscal 2019 also saw the launch of our JOYYA ultrafiltered milk, a line of innovative low-lactose protein-rich beverages designed to meet evolving consumer needs. Finally, we further expanded our product range in value-added categories by completing the integration of the activities of Shepherd Gourmet.

Our Cheese Division (USA) continued to contend with depressed dairy commodity prices and competitive market conditions, and was impacted by the Federal Milk Marketing Order implementation in California. Hence, we remained focused on reviewing our cost structure and our approach to customer pricing, and gaining operational efficiencies. As part of our plans to solidify our position within the blue cheese category, we have been intensifying efforts to achieve greater efficiencies at our newly-constructed Almena (Wisconsin) facility. We also completed the planned closure of our Fond du Lac (Wisconsin) facility with production successfully transferred to Almena. In fiscal 2019, we benefitted from the Montchevre platform being fully integrated and we began the integration of the activities of F&A Dairy Products, thereby broadening the Division’s offering in specialty cheeses and natural cheeses, respectively. Since the beginning of fiscal 2020, we took another step towards right-sizing our business with the closure of our Dresser (Wisconsin) facility, recently acquired as part of the F&A Acquisition. Production has already been redirected to other facilities and employees were given the opportunity to relocate within our network.

Our Dairy Foods Division (USA) continued to invest in new capabilities, innovative technology, and network enhancements aimed at delivering the production capacity needed to meet increased demand and growth. We further capitalized on our customer value proposition, working together to meet consumer demands in response to current market trends, including health and wellness, organic, and “clean labelling”. Concurrent to the ERP implementation, we focused on sustaining and optimizing our supply chain activities to ensure the satisfaction of our customers as we continue to prioritize these relationships.

The International Sector pursued additional sales volumes within existing markets and developed new international markets, while navigating ongoing volatility in the export landscape.

In Australia, we are in the final stages of the integration of MG with our Dairy Division (Australia) now operating as one platform known as Saputo Dairy Australia (“SDA”). We leveraged top talent from both groups to form a new leadership team capable of driving execution as SDA continues to grow. On the manufacturing side, following our review of SDA’s activities, operations remained active at our facility in Kiewa (Victoria). Pursuant to the undertaking entered into with the Australian Competition and Consumer Commission in connection with the MG acquisition, we completed the sale of the Koroit (Victoria) plant in August 2018. We stabilized our milk intake and continued to demonstrate our commitment to fostering long-term relationships with our farmer suppliers. Despite tough weather and economic conditions at the farm level, our focus remains to process more milk and optimize our expanded Australian network.

In Argentina, we commissioned key capital investments to boost our annual milk intake and production capacity. In fact, with an increased milk intake and investments in automation, the Division raised its industry-leading rate of litres processed. Despite a steep and sustained devaluation of the Argentine peso, we adapted to ever-changing economic conditions and successfully launched new products into the domestic market, including string cheese and blue cheese. We also optimized our product mix and customer portfolio, both domestically and internationally.

On the regulatory front, we are confident the Government of Canada’s interim decision to allocate a significant portion of dairy import licences under the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (“CPTPP”) to Canadian dairy stakeholders will have a positive outcome for consumers and the Canadian dairy industry. We intend to continue using our allocated quotas effectively to import dairy products that add to and complement our current offering while also seeking to take advantage of export opportunities within our network. As for the United States-Mexico-Canada Agreement (“USMCA”), which is still to be ratified and implemented by each signatory country, we do not foresee significant impacts on our operations once formalized, assuming the allocation of import licences is similar to that of the CPTPP.

As a global dairy processor with a proven track record, it is incumbent upon us to ensure we create value for all our stakeholders while demonstrating good corporate citizenship in everything we do. We have a responsibility to lead by example and have made great strides under the Saputo Promise this year.

Our people have always been the driving force behind our success. Therefore, we ramped up our efforts to improve employee health and safety and launched the Saputo Diversity and Inclusion Global Council to further promote a diverse work environment where all employees feel valued. We continued to lead the charge in regards to animal welfare. Most notably, we funded an expert-led dairy goat welfare research project at Iowa State University’s College of Veterinary Medicine to improve practices and procedures within the industry. Beyond the farm, our new Supplier Code of Conduct outlines our expectations for suppliers across the value chain, engaging them to achieve our objectives in promoting good business practices. Giving back to the communities in which we operate remains an important commitment. In fiscal 2019, we invested 1% of our annual pre-tax profits through healthy living partnerships and programs.

Looking ahead, we will build on the successes of the past year and face the market-driven challenges that remain by applying our high standards of execution and responsible approach to both our existing operations and our newly acquired businesses.

I firmly believe the dairy industry still provides an abundance of growth opportunities for us to capture as we continue to develop our complementary platforms.

With fiscal 2020 now underway, I am optimistic about what we can further achieve, by growing organically and through acquisitions.

Lino A. Saputo, Jr.

Chair of the Board and Chief Executive Officer
Saputo Inc.

Saputo

MANAGEMENT'S
DISCUSSION AND ANALYSIS

—

CONSOLIDATED
FINANCIAL STATEMENTS

2019

June 6, 2019

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Management's Discussion and Analysis

The goal of the management report is to analyze the results of, and the financial position of Saputo Inc. (Saputo or the Company), for the year ended March 31, 2019. It should be read while referring to the audited consolidated financial statements and accompanying notes. The accounting policies of the Company for financial years ended March 31, 2019, 2018 and 2017, are in accordance with International Financial Reporting Standards (IFRS). All dollar amounts are in Canadian dollars, unless otherwise indicated. This report takes into account material elements between March 31, 2019 and June 6, 2019, the date on which this report was approved by Saputo's Board of Directors. The information in this MD&A is being presented as of March 31, 2019, unless otherwise specified. Additional information about the Company, including the annual information form for the year ended March 31, 2019, can be obtained on SEDAR at www.sedar.com.

NON-IFRS MEASURES

The Company reports its financial results in accordance with IFRS. However, in this Management's Discussion and Analysis, the following non-IFRS measures are used by the Company: adjusted EBITDA; adjusted net earnings; and adjusted net earnings per share. These measures are defined in the "Glossary" section on page 37 of this Management's Discussion and Analysis. Refer to "Measurement of Results not in Accordance with International Financial Reporting Standards" on page 35 of this Management's Discussion and Analysis for the reconciliations to IFRS measures.

Management of the Company believes that these non-IFRS measures provide useful information to investors regarding the Company's financial condition and results of operations as they provide key metrics of its performance. These non-IFRS measures are not recognized under IFRS, do not have any standardized meaning prescribed under IFRS and may differ from similar computations as reported by other issuers, and accordingly may not be comparable. These measures should not be viewed as a substitute for the related financial information prepared in accordance with IFRS.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This report contains statements which are forward-looking statements within the meaning of applicable securities laws. These forward-looking statements include, among others, statements with respect to the Company's objectives, outlook, business projects and strategies to achieve those objectives, statements with respect to the Company's beliefs, plans and expectations, and statements other than historical facts. The words "may", "should", "will", "would", "believe", "plan", "expect", "intend", "anticipate", "estimate", "foresee", "objective", "continue", "propose" or "target", or the negative of these terms or variations of them, the use of conditional or future tense or words and expressions of similar nature, are intended to identify forward-looking statements. All statements other than statements of historical facts included in this report may constitute forward-looking statements within the meaning of applicable securities laws.

These statements are based, among other things, on Saputo's assumptions, expectations, estimates, objectives, plans, business strategy and intentions as of the date hereof regarding the projected revenues and expenses, the economic, industry, competitive and regulatory environments in which the Company operates or which could affect its activities, its ability to attract and retain customers and consumers, as well as the availability and cost of milk and other raw materials and energy supplies, its operating costs and the pricing of its finished products on the various markets in which it carries on business. Such forward-looking statements are intended to provide shareholders with information regarding the Company, including its assessment of future financial plans, and may not be appropriate for other purposes.

By their nature, forward-looking statements are subject to a number of inherent risks and uncertainties. Actual results could differ materially from the conclusion, forecast or projection stated in such forward-looking statements. As a result, the Company cannot guarantee that any forward-looking statements will materialize, and the Company warns readers that these forward-looking statements are not fact or guarantees of future performance in any way. Assumptions, expectations and estimates made in the preparation of forward-looking statements and risks that could cause actual results to differ materially from current expectations are discussed in the Company's materials filed with the Canadian securities regulatory authorities from time to time, including the "Risks and Uncertainties" section of the Company's Management's Discussion and Analysis dated June 6, 2019, available on SEDAR under the Company's profile at www.sedar.com.

Forward-looking statements are based on Management's current estimates, expectations and assumptions, which Management believes are reasonable as of the date hereof, and, accordingly, are subject to changes after such date. Undue importance should not be placed on forward-looking statements, and the information contained in such forward-looking statements should not be relied upon as of any other date.

Except as required under applicable securities legislation, Saputo does not undertake to update or revise these forward-looking statements, whether written or verbal, that may be made from time to time by itself or on its behalf, whether as a result of new information, future events or otherwise.

SELECTED FINANCIAL INFORMATION

Years ended March 31

(in millions of CDN dollars, except per share amounts and ratios)

| | 2019 | 2018 | 2017 |
|---------------------------------------------------------------------------------------------------------|-----------------|----------|----------|
| Revenues | 13,501.9 | 11,542.5 | 11,162.6 |
| Adjusted EBITDA* | 1,221.3 | 1,264.7 | 1,289.5 |
| Adjusted EBITDA margin* | 9.0% | 11.0% | 11.6% |
| Net earnings | 755.3 | 852.5 | 731.1 |
| Net earnings margin | 5.6% | 7.4% | 6.5% |
| Adjusted net earnings* | 623.6 | 704.2 | 731.1 |
| Adjusted net earnings margin* | 4.6% | 6.1% | 6.5% |
| PER SHARE DATA | | | |
| Net earnings per share | 1.94 | 2.21 | 1.86 |
| Diluted net earnings per share | 1.93 | 2.18 | 1.84 |
| Dividends declared per share | 0.66 | 0.64 | 0.60 |
| Book value | 13.89 | 12.38 | 11.19 |
| FINANCIAL POSITION DATA | | | |
| Working capital** | 1,201.3 | 1,129.6 | 1,187.1 |
| Total assets | 9,885.6 | 8,003.0 | 7,596.6 |
| Net debt** | 2,285.0 | 1,496.4 | 1,343.3 |
| Total non-current financial liabilities | 1,943.9 | 1,432.6 | 1,504.5 |
| Equity | 5,420.5 | 4,797.7 | 4,322.9 |
| FINANCIAL RATIOS | | | |
| Net debt / Equity | 0.42 | 0.31 | 0.31 |
| Net debt to adjusted EBITDA* | 1.87 | 1.18 | 1.04 |
| Adjusted return on average equity** | 14.2% | 18.3% | 20.7% |
| Earnings coverage ratio** | 12.69 | 20.83 | 25.83 |
| STATEMENT OF CASH FLOWS DATA | | | |
| Net cash generated from operations | 884.5 | 809.1 | 1,073.6 |
| Amount of additions to property, plant and equipment, intangible assets, net of proceeds on disposal | 274.2 | 337.4 | 316.7 |
| Business acquisitions | 1,471.7 | 385.1 | - |
| Proceeds on divestiture | (239.7) | - | - |
| Dividends | 254.6 | 243.5 | 228.3 |

* Non-IFRS measures described in the "Glossary" section on page 37 of this Management's Discussion and Analysis.

** Refer to the "Glossary" section on page 37 of this Management's Discussion and Analysis.

FINANCIAL ORIENTATION

Saputo's primary objective is the creation of shareholder value through profitability enhancement and long-term growth. The Company maintains its focus on cost management and operational efficiency to remain a strong operator with disciplined financial management while navigating a competitive and challenging dairy industry. Saputo is also focused on growth, both organic and through acquisitions, in order to develop new markets and expand existing ones in addition to reinforcing its presence in emerging markets. The Company remains proactive in evaluating possible acquisitions and potential growth markets. Saputo benefits from a solid financial position and capital structure, supplemented by a high level of cash generated by operations. Saputo's financial flexibility allows growth through targeted acquisitions and enables the Company to overcome possible economic challenges. In fiscal 2019, the Company completed strategic acquisitions, continued to invest in capital projects, and increased its dividend.

FINANCIAL INFORMATION

(in millions of CDN dollars)

| | For the three-month periods ended March 31 | | For the years ended March 31 | |
|----------------------------------------------------------------|-----------------------------------------------|----------------|---------------------------------|-----------------|
| | 2019 | 2018 | 2019 | 2018 |
| STATEMENT OF EARNINGS | | | | |
| Revenues | | | | |
| Canada | 924.8 | 980.9 | 4,043.1 | 4,069.9 |
| USA | 1,616.6 | 1,435.1 | 6,507.7 | 6,132.8 |
| International | 695.1 | 328.4 | 2,951.1 | 1,339.8 |
| | 3,236.5 | 2,744.4 | 13,501.9 | 11,542.5 |
| Operating costs excluding depreciation and amortization | | | | |
| Canada | 834.8 | 872.8 | 3,629.4 | 3,594.0 |
| USA | 1,482.4 | 1,306.8 | 5,963.0 | 5,483.4 |
| International | 644.2 | 303.1 | 2,688.2 | 1,200.4 |
| | 2,961.4 | 2,482.7 | 12,280.6 | 10,277.8 |
| Adjusted EBITDA* | | | | |
| Canada | 90.0 | 108.1 | 413.7 | 475.9 |
| USA | 134.2 | 128.3 | 544.7 | 649.4 |
| International | 50.9 | 25.3 | 262.9 | 139.4 |
| | 275.1 | 261.7 | 1,221.3 | 1,264.7 |
| Adjusted EBITDA margin | 8.5% | 9.5% | 9.0% | 11.0% |
| Depreciation and amortization | | | | |
| Canada | 19.5 | 14.5 | 73.9 | 55.9 |
| USA | 41.7 | 42.3 | 162.3 | 138.4 |
| International | 19.9 | 7.9 | 76.8 | 32.0 |
| | 81.1 | 64.7 | 313.0 | 226.3 |
| Gain on disposal of assets | - | - | (194.5) | - |
| Acquisition and restructuring costs | 2.2 | 1.2 | 51.4 | 40.6 |
| (Gain) loss on hyperinflation | 0.9 | - | (18.5) | - |
| Interest on long-term debt | 16.7 | 8.3 | 66.6 | 33.8 |
| Other financial charges | 4.8 | 4.6 | 17.7 | 14.1 |
| Earnings before incomes taxes | 169.4 | 182.9 | 985.6 | 949.9 |
| Income taxes | 45.2 | 52.9 | 230.3 | 97.4 |
| Net earnings | 124.2 | 130.0 | 755.3 | 852.5 |
| Net earnings margin | 3.8% | 4.7% | 5.6% | 7.4% |

* Non-IFRS measure described in the "Glossary" section on page 37 of this Management's Discussion and Analysis.

(in millions of CDN dollars, except per share amounts and ratios)

| | For the three-month periods ended March 31 | | For the years ended March 31 | |
|--------------------------------------------------|-----------------------------------------------|-------|---------------------------------|---------|
| | 2019 | 2018 | 2019 | 2018 |
| Net earnings | 124.2 | 130.0 | 755.3 | 852.5 |
| Gain on disposal of assets ¹ | - | - | (167.8) | - |
| Acquisition and restructuring costs ¹ | 1.6 | 5.3 | 36.1 | 30.6 |
| USA tax reform benefit** | - | - | - | (178.9) |
| Adjusted net earnings* | 125.8 | 135.3 | 623.6 | 704.2 |
| <i>Adjusted net earnings margin*</i> | 3.9% | 4.9% | 4.6 % | 6.1 % |
| PER SHARE DATA | | | | |
| Net earnings per share | 0.32 | 0.34 | 1.94 | 2.21 |
| Diluted net earnings per share | 0.32 | 0.33 | 1.93 | 2.18 |
| Adjusted net earnings per share* | 0.32 | 0.35 | 1.60 | 1.82 |
| Adjusted diluted net earnings per share* | 0.32 | 0.35 | 1.59 | 1.80 |

¹ Net of income taxes.

* Non-IFRS measures described in the "Glossary" section on page 37 of this Management's Discussion and Analysis.

** Refer to the "Glossary" section on page 37 of this Management's Discussion and Analysis.

HIGHLIGHTS

Fourth Quarter 2019:

- Revenues reached \$3.237 billion, up 17.9% as compared to the same quarter last fiscal year, mainly due to the contribution of recent acquisitions.
- Earnings before interest, income taxes, depreciation, amortization, gain on disposal of assets, acquisition and restructuring costs, and gain on hyperinflation (adjusted EBITDA*) totalled \$275.1 million, up \$13.4 million or 5.1% as compared to the same quarter last fiscal year.
- Net earnings totalled \$124.2 million, down 4.5% as compared to the same quarter last fiscal year.
- Adjusted net earnings* totalled \$125.8 million, down 7.0% as compared to the same quarter last fiscal year.
- Net cash generated from operations totalled \$240.6 million, down 24.3% as compared to the same quarter last fiscal year.
- The combined effects of USA Market Factors**, as well as higher international selling prices of cheese and dairy ingredients, positively impacted adjusted EBITDA by approximately \$19 million, as compared to the same quarter last fiscal year.
- All recent acquisitions contributed positively to adjusted EBITDA.
- Higher warehousing and logistical expenses negatively impacted adjusted EBITDA by approximately \$10 million.
- The fluctuation of the Canadian dollar versus foreign currencies had a negative impact on revenues of approximately \$26 million, as compared to the same quarter last fiscal year. This fluctuation positively impacted adjusted EBITDA by approximately \$2 million, as compared to the same quarter last fiscal year.

Fiscal 2019:

- Revenues reached \$13.502 billion, up 17.0% as compared to last fiscal year, mainly due to the contribution of recent acquisitions.
- Adjusted EBITDA totalled \$1.221 billion, down \$43.4 million or 3.4% as compared to last fiscal year.
- Net earnings totalled \$755.3 million, down 11.4% as compared to last fiscal year.
- Adjusted net earnings totalled \$623.6 million, down 11.4% as compared to last fiscal year.
- Net cash generated from operations totalled \$884.5 million, up 9.3% as compared to last fiscal year.
- The fluctuation of the average block market** per pound of cheese and the average butter market** price per pound, as well as lower international selling prices of cheese and dairy ingredients, decreased revenues by approximately \$103 million.
- Higher warehousing and logistical expenses of approximately \$91 million negatively impacted consolidated adjusted EBITDA.
- The combined effects of USA Market Factors and lower international selling prices of cheese and dairy ingredients negatively impacted adjusted EBITDA by approximately \$33 million, as compared to last fiscal year.
- All recent acquisitions contributed positively to adjusted EBITDA.
- On October 17, 2018, the Company completed the sale of the facility in Burnaby, British Columbia and realized a gain of \$194.5 million (\$167.8 million after tax). The Company entered into a lease agreement for that same facility until the construction of the new facility in Port Coquitlam, British Columbia is completed.
- The fluctuation of the Canadian dollar versus foreign currencies had a negative impact on revenues of approximately \$181 million, as compared to last fiscal year. This fluctuation negatively impacted adjusted EBITDA by approximately \$5 million, as compared to last fiscal year.
- The Company successfully completed the acquisitions of the activities of Murray Goulburn Co-Operative Co. Limited (Murray Goulburn) (Murray Goulburn Acquisition) in Australia on May 1, 2018, the activities of Shepherd Gourmet Dairy (Ontario) Inc. (Shepherd Gourmet Acquisition) in Canada on June 19, 2018, and the activities of F&A Dairy Products, Inc. (F&A Acquisition) in the USA on November 30, 2018.

Subsequent Events to Year End:

- On April 15, 2019, the Company completed the acquisition of Dairy Crest Group plc (Dairy Crest Acquisition), based in the United Kingdom, for a total consideration of approximately \$2.1 billion (£1.2 billion), which includes a purchase price of \$1.7 billion (£975 million) for the entire issued ordinary share capital paid in cash, and \$445 million (£256 million) of assumed debt.
- On April 26, 2019, the Company announced that it had entered into an agreement to acquire the specialty cheese business of Lion-Dairy & Drinks Pty Ltd (Specialty Cheese Business) based in Australia. The purchase price for the transaction is approximately \$265 million (AU\$280 million). The transaction is expected to close in the second half of calendar year 2019.
- The Board of Directors approved a dividend of \$0.165 per share payable on June 27, 2019, to common shareholders of record on June 18, 2019.

* Non-IFRS measures described in the "Glossary" section on page 37 of this Management's Discussion and Analysis.

** Refer to the "Glossary" section on page 37 of this Management's Discussion and Analysis.

OUTLOOK

Saputo benefits from a solid financial position and capital structure, supplemented by a high level of cash generated by operations, which allows the Company to continue to grow through targeted acquisitions and organically through strategic capital investments. Profitability enhancement and shareholder value creation remain the cornerstones of the Company's objectives. Saputo has a long-standing commitment to manufacture quality products and will remain focused on operational efficiencies.

The Company reports its business under the Canada Sector, the USA Sector and the International Sector, and intends to report the business of Dairy Crest as part of a new Europe Sector. The Canada Sector consists of the Dairy Division (Canada), the USA Sector consists of the Cheese Division (USA) and the Dairy Foods Division (USA), the International Sector consists of the Dairy Division (Australia) and the Dairy Division (Argentina), and the Europe Sector would consist of the Dairy Division (UK).

Canada Sector

While competitive market conditions are anticipated to persist in fiscal 2020, the Dairy Division (Canada) will focus on profitable sales volumes. It will continue reviewing overall activities to further improve operational efficiencies in order to mitigate low growth, competitive market conditions and consistently high warehousing, logistical and transportation costs, which will continue to pressure the Division's financial performance. The Division will undertake capital projects aimed at increasing efficiencies and maximizing its manufacturing footprint in order to maintain a leadership position. As part of the Company's capital expenditure plan, it has commenced construction of a new state-of-the-art facility, in Port Coquitlam, British Columbia to better serve the fluid market in Western Canada.

The Division will also continue to benefit from the integration of the Shepherd Gourmet Acquisition, which enables the Company to increase its presence in specialty cheeses and yogurts in Canada.

USA Sector

We expect the imbalance between supply and demand of dairy products stemming from the current approach to tariff policies to continue in fiscal 2020, resulting in challenging domestic commodity market conditions. The USA Sector will continue to focus on increasing operational efficiencies and controlling costs in order to mitigate the impacts of dairy commodity market fluctuations, competitive market conditions and consistently high warehousing, logistical and transportation costs, which will continue to affect its financial performance.

During fiscal 2020, the Company expects improved cheese and dairy ingredient market conditions which should lead to increased selling prices of cheese and dairy ingredients. However, market volatility is expected until the end of fiscal 2020.

During the upcoming quarters, the Cheese Division (USA) will continue its intensified efforts to achieve blue cheese manufacturing efficiencies at its newly constructed Almena, Wisconsin facility. The Company remains confident that the capital expenditure project will allow the Division to continue to strengthen its position within this category. The Division will also focus on further broadening its presence in the specialty cheese category in the USA. The Division will continue to benefit from the integration of the F&A Acquisition. This acquisition adds to and complements the activities of the Division and also provides access to a new milk pool in New Mexico (USA). As part of the integration of the F&A Acquisition, and consistent with the Company's continual analysis of its overall activities, the Division closed its facility in Dresser, Wisconsin in May 2019 and the production was integrated into other Saputo facilities.

The Dairy Foods Division (USA) will continue to pursue additional efficiencies and decrease costs while strengthening its market presence. The Division will focus on its supply chain planning and warehousing and logistics activities to increase efficiencies and meet customer demand. Also, it will further optimize and invest in its existing network in order to benefit from new production capabilities.

International Sector

The International Sector will continue to pursue sales volume growth in existing markets, as well as develop additional international markets. The Sector will continue to focus on controlling costs, evaluating overall activities to improve efficiencies and aim to maximize its operational flexibility to mitigate fluctuations in market conditions and their impact on the Sector's financial performance.

The Dairy Division (Australia) is in the final stages of the integration of Murray Goulburn and now operates as one platform under a single management team. For fiscal 2020, in light of the decrease in Australian milk production, the Division expects increased competition in the sourcing of raw milk, which will continue to put pressure on margins. It will remain focused on processing more milk, reviewing operations and optimizing the network at its disposal.

On April 26, 2019, the Company announced that it had entered into an agreement to acquire the Speciality Cheese Business of Lion-Dairy & Drinks Pty Ltd, based in Australia. The Company will continue to work towards the completion of this acquisition, which would add to and complement the current activities of the Dairy Division (Australia). The transaction is subject to foreign investment approval and clearance by the Australian Competition and Consumer Commission and is expected to close in the second half of calendar year 2019. The Speciality Cheese Business produces, markets and distributes a variety of specialty cheeses under a wide portfolio of Australian brands, including *South Cape*, *Tasmanian Heritage*, *Mersey Valley* and *King Island Dairy*.

Despite a steep and sustained devaluation of the Argentine peso, the Dairy Division (Argentina) will continue to adapt to changing economic conditions, focus on innovation, and optimize its product mix and customer portfolio, both domestically and internationally.

During fiscal 2020, the Company expects an improvement in the international selling prices of cheese and dairy ingredients. However, market volatility is expected until the end of fiscal 2020.

Europe Sector

On April 15, 2019, the Company completed the Dairy Crest Acquisition, which is now operating as the new Dairy Division (UK). This transaction has enabled the Company to enter the UK market by acquiring and investing in a well-established and successful industry player with a solid asset base and an experienced management team, now led by Tom Atherton, the new President and Chief Operating Officer of the Dairy Division (UK). Mr. Atherton, who has worked for Dairy Crest since 2005, was appointed as an Executive Director and Group Finance Director in 2013 and held the position of Deputy Chief Executive since January 2018. As a result of the Dairy Crest Acquisition, in the United Kingdom, Saputo manufactures and markets cheese, butter, spreads and oils under leading British brands, such as *Cathedral City*, *Clover*, *Country Life*, *Davidstow* and *Frylight*, and value-added dairy ingredients. Dairy Crest's attractive platform fits with the Company's growth strategy, and for fiscal 2020, the Company intends to review Dairy Crest's operations and continue to pursue growth opportunities.

Enterprise Resource Planning (ERP) Program

The Company will continue planning, designing and implementing activities for the migration to the new ERP system, which has been implemented in Argentina, at Warrnambool Cheese and Butter in Australia and in the Dairy Foods Division (USA). During fiscal 2020, the Company plans to deploy its ERP program within the recently acquired activities of Murray Goulburn, which will ensure the Dairy Division (Australia) is aligned under a single system. The Cheese Division (USA) and Dairy Division (Canada) will proceed thereafter with their ERP implementations, which are expected to be completed in fiscal 2022.

As at March 31, 2019, the Company had invested approximately \$257 million and expects the cost of the implementation of its baseline ERP program to represent, in the aggregate, approximately \$290 million, an increase of \$40 million over the initial estimate. With recent acquisitions, namely Betin, Inc., doing business as Montchevre (Montchevre Acquisition), the Murray Goulburn Acquisition, the Shepherd Gourmet Acquisition and the F&A Acquisition, the Company has increased the scope of its ERP program and the duration by approximately two years, increasing the expected total investment to approximately \$370 million. In light of the new deployment schedule and recent acquisitions, the Company's investment in its ERP program is expected to be approximately \$51 million in fiscal 2020, approximately \$37 million in fiscal 2021 and the remainder in fiscal 2022. The total investment and duration of the ERP program will vary in function of the Company's growth through acquisitions. However, the Dairy Division (UK) is currently not in the scope of the Saputo global ERP program as its business will continue to be run under its existing ERP system.

Trade Agreements

In November 2018, the Government of Canada announced that it would allocate, on an interim basis, a significant portion of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) dairy import licences to dairy processors in Canada. Saputo believes this development will be favourable for consumers and the dairy industry in Canada. The Company expects to continue making an effective use of the quotas it is allocated under the various trade agreements and intends to focus on importing dairy products that complement the current Canadian offering. Provided final allocations of CPTPP dairy import licences are handled in a manner similar to the initial allocation, the Company does not foresee the CPTPP having significant impacts on its operations and will seek to take advantage of export opportunities arising from Australia and Canada to other signatory countries.

The renegotiated North American Free Trade Agreement, now known as the United States-Mexico-Canada Agreement (USMCA), was announced on September 30, 2018, and is still to be ratified and implemented by each signatory country. Until the USMCA is ratified and implemented by all parties, the North American Free Trade Agreement will remain in force. The Company does not foresee significant impacts on its operations upon formal adoption of the USMCA, assuming the bulk of the import licences is allocated to dairy processors in Canada, as they were under the CPTPP.

Finally, the goal remains to continue to improve overall efficiencies in all sectors, pursue growth organically and through acquisitions, and always strive to be a stronger and better operator.

CONSOLIDATED RESULTS

Consolidated revenues for the three-month period ended March 31, 2019, totalled \$3.237 billion, an increase of approximately \$492 million or 17.9%, as compared to \$2.745 billion for the corresponding quarter last fiscal year. Revenues increased due to the inclusion of the Murray Goulburn Acquisition, the Shepherd Gourmet Acquisition and the F&A Acquisition, as compared to the same quarter last fiscal year. Also, higher international selling prices of cheese and dairy ingredients positively impacted revenues. During the quarter, revenues were negatively impacted by lower sales volumes in Canada, mainly in the fluid milk category, due to competitive market conditions. A lower average block market per pound of cheese, partially offset by a higher average butter market price per pound, decreased revenues by approximately \$4 million, as compared to the same quarter last fiscal year. Also, the fluctuation of the Canadian dollar versus foreign currencies decreased revenues by approximately \$26 million.

Consolidated revenues totalled \$13.502 billion in fiscal 2019, an increase of approximately \$1.959 billion or 17.0% in comparison to \$11.543 billion in fiscal 2018. Higher sales volumes, mainly due to recent acquisitions, increased revenues, as compared to last fiscal year. Revenues were negatively impacted by lower international selling prices of cheese and dairy ingredients. Also, a lower average block market per pound of cheese and a lower average butter market price per pound decreased revenues by approximately \$53 million. Finally, the fluctuation of the Canadian dollar versus foreign currencies decreased revenues by approximately \$181 million, mainly due to the devaluation of the Argentine peso.

Selected factors positively (negatively) affecting financial performance

(in millions of CDN dollars)

| | For the three-month periods ended | | For the years ended | |
|------------------------------------------|-----------------------------------|------|---------------------|------|
| | March 31 | | March 31 | |
| | 2019 | 2018 | 2019 | 2018 |
| USA Market Factors ^{*1} | 4 | (3) | (20) | (25) |
| Inventory write-down | (2) | (11) | (3) | (17) |
| Foreign currency exchange ^{1,2} | 2 | (5) | (5) | (18) |

* Refer to the "Glossary" section on page 37 of this Management's Discussion and Analysis.

¹ As compared to same quarter of previous fiscal year for the three-month periods; as compared to the previous fiscal year for the years ended March 31.

² Foreign currency exchange includes effect on adjusted EBITDA of conversion of US dollars, Australian dollars and Argentine pesos to Canadian dollars.

Consolidated adjusted EBITDA for the three-month period ended March 31, 2019, totalled \$275.1 million, an increase of \$13.4 million or 5.1% in comparison to \$261.7 million for the same quarter last fiscal year. The combined effects of USA Market Factors and higher international selling prices of cheese and dairy ingredients positively impacted adjusted EBITDA by approximately \$19 million, as compared to the same quarter last fiscal year. While adjusted EBITDA was negatively impacted by competitive market conditions, the contribution of recent acquisitions, as well as the fluctuation of the Argentine peso and the Australian dollar versus the US dollar in export markets, had a positive impact on adjusted EBITDA, as compared to the same quarter last fiscal year. These increases were partially offset by higher warehousing, logistical and transportation costs of approximately \$10 million, negatively impacting adjusted EBITDA. As a result of the decrease in certain market selling prices, inventory was written down by approximately \$2 million, as compared to approximately \$11 million for the same quarter last fiscal year. The fluctuation of the Canadian dollar versus foreign currencies had a positive impact on adjusted EBITDA of approximately \$2 million.

Consolidated adjusted EBITDA in fiscal 2019 totalled \$1.221 billion, a decrease of approximately \$44 million or 3.5%, as compared to \$1.265 billion in fiscal 2018. Higher warehousing and logistical costs of approximately \$91 million related to additional external storage expenses and higher transportation costs negatively impacted adjusted EBITDA. During the year, adjusted EBITDA was also negatively impacted by competitive market conditions and increased operational costs relative to the integration of operations in the recently built facility in Almena, Wisconsin. Furthermore, the combined effects of USA Market Factors and lower international selling prices of cheese and dairy ingredients decreased adjusted EBITDA by approximately \$33 million, as compared to last fiscal year. These decreases were partially offset by the favourable impact of adjusted EBITDA generated from recent acquisitions, as well as the fluctuation of the Argentine peso and the Australian dollar versus the US dollar in export markets. Higher sales volumes and a favourable product mix positively impacted adjusted EBITDA. As a result of the decrease in certain market selling prices, inventory was written down by approximately \$3 million, as compared to approximately \$17 million for last fiscal year. Lastly, the fluctuation of the Canadian dollar versus foreign currencies had an unfavourable impact on adjusted EBITDA of approximately \$5 million, as compared to last fiscal year.

The consolidated adjusted EBITDA margin decreased to 9.0% in fiscal 2019, as compared to 11.0% in fiscal 2018, reflecting lower adjusted EBITDA margins in the USA Sector and Canada Sector as compared to the prior fiscal year.

Depreciation and amortization for the three-month period ended March 31, 2019, totalled \$81.1 million, an increase of \$16.4 million, in comparison to \$64.7 million for the same quarter last fiscal year.

In fiscal 2019, depreciation and amortization expenses amounted to \$313.0 million, an increase of \$86.7 million, as compared to \$226.3 million for fiscal 2018.

These increases were mainly attributed to additional depreciation and amortization expenses related to recent acquisitions, additions to property, plant and equipment and intangibles related to the ERP initiative, which increased the depreciable base, and trademarks for which amortization started in fiscal 2019.

In fiscal 2019, the Company realized a **gain on disposal of assets** of \$194.5 million (\$167.8 million after tax) relating to the sale of its facility in Burnaby, British Columbia. The Company sold the facility for \$209.0 million, of which \$50.0 million will be received in fiscal 2022. As part of its capital expenditure plan, the Company is building a new state-of-the-art facility, in Port Coquitlam, British Columbia, to better serve the market in Western Canada. The Company has entered into a lease agreement for the Burnaby facility until the construction of the new facility is completed, which is expected to be in fiscal 2021.

Acquisition and restructuring costs amounted to \$2.2 million for the three-month period ended March 31, 2019, and \$51.4 million for fiscal 2019. A portion of the acquisition costs related to the Dairy Crest Acquisition were incurred during the quarter. Restructuring costs were related to the plant closure in Courtenay, British Columbia.

In fiscal 2019, acquisition costs were related to the Murray Goulburn Acquisition, including approximately \$39 million in stamp duty taxes, as well as to the Dairy Crest Acquisition, the Shepherd Gourmet Acquisition and the F&A Acquisition. Also, restructuring costs were related to the plant closure in Courtenay, British Columbia.

In accordance with IAS29, *Financial Reporting in Hyperinflationary Economies*, Argentina was required to be considered a hyperinflationary economy, effective July 1, 2018. For the three-month period ended March 31, 2019, the **loss on hyperinflation** totalled \$0.9 million. The loss is derived from the devaluation of the Argentine peso that was higher than the indexation of non-monetary assets and liabilities. In fiscal 2019, the gain on hyperinflation totalled \$18.5 million. The gain was derived from the indexation of non-monetary assets and liabilities.

Net interest expense for the three-month period and fiscal year ended March 31, 2019, increased by \$8.6 million and \$36.4 million, respectively, in comparison to the same periods last fiscal year. These increases were mainly attributed to additional debt related to the Murray Goulburn Acquisition and higher interest rates on debt denominated in Argentine peso.

Income taxes for the three-month period ended March 31, 2019, represented an income tax expense of \$45.2 million, reflecting an effective tax rate of 26.7%, as compared to 28.9% for the same quarter last fiscal year. This decrease of the effective tax rate by 2.2% was mainly due to the reduction of the US federal tax rate.

In fiscal 2019, income taxes totalled \$230.3 million, compared to \$97.4 million in fiscal 2018, reflecting an effective tax rate of 23.4%, compared to 10.3% last fiscal year. Excluding the USA tax reform benefit, income tax expense in fiscal 2018 would have totalled \$276.3 million, reflecting an income tax rate of 29.1%. This decrease of the effective rate by 5.7% was mainly due to the reduction of the US federal tax rate and the fact that a portion of the gain realized on disposition of assets during the third quarter of fiscal 2019 was not taxable. The income tax rate varies and could increase or decrease based on the amount and source of taxable income, amendments to tax legislations and income tax rates, changes in assumptions, as well as estimates used to determine income tax assets and liabilities by the Company and its affiliates.

Net earnings for the three-month period ended March 31, 2019, totalled \$124.2 million, a decrease of \$5.8 million or 4.5% in comparison to \$130.0 million for the same quarter last fiscal year. In fiscal 2019, net earnings totalled \$755.3 million, a decrease of \$97.2 million or 11.4%, as compared to \$852.5 million last fiscal year.

These decreases were due to the above-mentioned factors.

Adjusted net earnings for the three-month period ended March 31, 2019, totalled \$125.8 million, a decrease of \$9.5 million or 7.0% in comparison to \$135.3 million for the same quarter last fiscal year. In fiscal 2019, adjusted net earnings totalled \$623.6 million, a decrease of \$80.6 million or 11.4% as compared to \$704.2 million last fiscal year.

These decreases were due to the above-mentioned factors.

QUATERLY FINANCIAL INFORMATION BY SECTOR

CANADA SECTOR

(in millions of CDN dollars)

| Fiscal years | 2019 | | | | 2018 | | | |
|------------------|-------|---------|---------|---------|-------|---------|---------|-------|
| | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 |
| Revenues | 924.8 | 1,059.6 | 1,047.7 | 1,011.0 | 980.9 | 1,057.2 | 1,032.6 | 999.2 |
| Adjusted EBITDA* | 90.0 | 113.8 | 104.4 | 105.5 | 108.1 | 127.9 | 122.9 | 117.0 |

* Non-IFRS measure described in the "Glossary" section on page 37 of this Management's Discussion and Analysis.

The Canada Sector consists of the Dairy Division (Canada).

USA SECTOR

(in millions of CDN dollars)

| Fiscal years | 2019 | | | | 2018 | | | |
|------------------|---------|---------|---------|---------|---------|---------|---------|---------|
| | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 |
| Revenues | 1,616.6 | 1,678.5 | 1,618.0 | 1,594.6 | 1,435.1 | 1,591.3 | 1,528.1 | 1,578.3 |
| Adjusted EBITDA* | 134.2 | 122.4 | 133.8 | 154.3 | 128.3 | 153.9 | 170.7 | 196.5 |

* Non-IFRS measure described in the "Glossary" section on page 37 of this Management's Discussion and Analysis.

Selected factors positively (negatively) affecting financial performance

(in millions of CDN dollars)

| Fiscal years | 2019 | | | | 2018 | | | |
|-----------------------------------|------|------|-----|-----|------|------|-----|----|
| | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 |
| USA Market Factors* ¹ | 4 | (19) | (7) | 2 | (3) | (19) | (6) | 3 |
| Inventory write-down | - | - | - | - | (7) | - | - | - |
| US currency exchange ¹ | 7 | 6 | 7 | (8) | (6) | (9) | (7) | 8 |

* Refer to the "Glossary" section on page 37 of this Management's Discussion and Analysis.

¹ As compared to same quarter of previous fiscal year.

Other pertinent information

(in US dollars, except for average exchange rate)

| Fiscal years | 2019 | | | | 2018 | | | |
|----------------------------------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|
| | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 |
| Block market* price | | | | | | | | |
| Opening | 1.430 | 1.690 | 1.555 | 1.530 | 1.540 | 1.735 | 1.525 | 1.520 |
| Closing | 1.645 | 1.430 | 1.690 | 1.555 | 1.530 | 1.540 | 1.735 | 1.525 |
| Average | 1.520 | 1.453 | 1.605 | 1.603 | 1.524 | 1.627 | 1.660 | 1.575 |
| Butter market* price | | | | | | | | |
| Opening | 2.218 | 2.320 | 2.268 | 2.215 | 2.208 | 2.315 | 2.643 | 2.108 |
| Closing | 2.255 | 2.218 | 2.320 | 2.268 | 2.215 | 2.208 | 2.315 | 2.643 |
| Average | 2.264 | 2.238 | 2.264 | 2.339 | 2.160 | 2.254 | 2.568 | 2.312 |
| Average whey powder market price per pound* | 0.443 | 0.452 | 0.387 | 0.279 | 0.241 | 0.310 | 0.403 | 0.465 |
| Spread* | 0.054 | 0.021 | 0.095 | 0.135 | 0.148 | 0.072 | 0.066 | 0.039 |
| US average exchange rate to Canadian dollar ¹ | 1.330 | 1.321 | 1.307 | 1.290 | 1.268 | 1.270 | 1.256 | 1.344 |

* Refer to the "Glossary" section on page 37 of this Management's Discussion and Analysis.

¹ Based on Bloomberg published information.

The USA Sector consists of the Cheese Division (USA) and the Dairy Foods Division (USA).

INTERNATIONAL SECTOR

(in millions of CDN dollars)

| Fiscal years | 2019 | | | | 2018 | | | |
|------------------|-------|-------|-------|-------|-------|-------|-------|-------|
| | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 |
| Revenues | 695.1 | 839.1 | 754.7 | 662.2 | 328.4 | 373.3 | 323.5 | 314.6 |
| Adjusted EBITDA* | 50.9 | 85.0 | 79.3 | 47.7 | 25.3 | 36.2 | 36.2 | 41.7 |

* Non-IFRS measure described in the "Glossary" section on page 37 of this Management's Discussion and Analysis.

Selected factors positively (negatively) affecting financial performance

(in millions of CDN dollars)

| Fiscal years | 2019 | | | | 2018 | | | |
|----------------------------------------|------|-----|----|-----|------|-----|-----|-----|
| | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 |
| Inventory write-down | (2) | (1) | - | - | (4) | (2) | (3) | (1) |
| Foreign currency exchange ¹ | (3) | (5) | - | (7) | 2 | (4) | (1) | 1 |

¹ As compared to same quarter of previous fiscal year.

The International Sector consists of the Dairy Division (Australia) and the Dairy Division (Argentina).

CANADA SECTOR

(in millions of CDN dollars)

| | For the three-month periods ended | | For the years ended | |
|------------------|-----------------------------------|------------------|---------------------|------------------|
| | 2019 | March 31 2018 | 2019 | March 31 2018 |
| Revenues | 924.8 | 980.9 | 4,043.1 | 4,069.9 |
| Adjusted EBITDA* | 90.0 | 108.1 | 413.7 | 475.9 |

* Non-IFRS measure described in the "Glossary" section on page 37 of this Management's Discussion and Analysis.

The Canada Sector consists of the Dairy Division (Canada).

Revenues

Revenues for the Canada Sector totalled \$924.8 million for the three-month period ended March 31, 2019, a decrease of approximately \$56.1 million or 5.7%, as compared to \$980.9 million for the corresponding quarter last fiscal year. During the quarter, revenues were negatively impacted by lower sales volumes in the fluid milk category, due to Canada's competitive environment. This decrease was partially offset by an increase in selling prices in accordance with the higher cost of milk as raw material, a favourable product mix and the contribution of the Shepherd Gourmet Acquisition.

Revenues for the Canada Sector in fiscal 2019 totalled \$4.043 billion, a decrease of \$26.8 million or 0.7% in comparison to \$4.070 billion in fiscal 2018. In fiscal 2019, revenues were negatively impacted by lower sales volumes in the fluid milk category, due to Canada's competitive environment, and lower selling prices of ingredients sold in the export market. These decreases were partially offset by a favourable product mix, an increase in selling prices in accordance with the higher cost of milk as raw material and the contribution of the Shepherd Gourmet Acquisition.

In fiscal 2019, cheese, butter, value-added milk and cream per capita consumption increased, while that of fluid milk decreased, as compared to the previous fiscal year. The retail segment of the Dairy Division (Canada) represented approximately 60% of revenues in line with continued demand for dairy products, particularly in the cheese and added-value categories. The Division responded to evolving consumer preferences by launching *Joyya*, an innovative, protein-rich ultrafiltered milk produced using state of the art manufacturing equipment. In addition, efforts within the retail segment focused on communicating a newly refreshed image of the *Armstrong* and *Woolwich Goat Dairy* brands while continuing to increase the exposure of the Division's entire portfolio of brands through marketing activities that included targeted brand awareness campaigns, themed trade promotions at various retailers, digital advertising and influencer collaborations.

The foodservice segment represented approximately 35% of revenues in the Dairy Division (Canada) and Saputo continues to be a supplier of choice by offering high quality ingredients, partnership and channel expertise. Through continued investment in research, the Division was able to provide foodservice operators with insights and innovations to enhance menus and deliver on consumer preferences. Recent investments were made to bolster online communications tools, including a newly designed foodservice-specific business-to-business website to improve customer experience.

The industrial segment represented approximately 5% of revenues in the Dairy Division (Canada).

Adjusted EBITDA

Adjusted EBITDA for the Canada Sector totalled \$90.0 million for the three-month period ended March 31, 2019, a decrease of \$18.1 million or 16.7%, as compared to \$108.1 million for the corresponding quarter last fiscal year. During the quarter, adjusted EBITDA was negatively impacted by lower sales volumes of fluid milk as a result of Canada's competitive environment. This decrease was partially offset by the positive impact of a favourable product mix, higher international selling prices of dairy ingredients and the contribution of the Shepherd Gourmet Acquisition. Also, warehousing and logistical costs were relatively stable, as compared to the same quarter last fiscal year. The fluctuation of the Canadian dollar versus foreign currencies had a negative impact on adjusted EBITDA of approximately \$2 million.

Adjusted EBITDA in fiscal 2019 totalled \$413.7 million, a decrease of \$62.2 million or 13.1%, as compared to \$475.9 million in fiscal 2018. During the year, adjusted EBITDA was negatively impacted by lower sales volumes of fluid milk as a result of Canada's competitive environment and lower international selling prices of dairy ingredients. Contributing to the adjusted EBITDA decrease by approximately \$22 million were higher warehousing and logistical costs related to increased transportation and fuel expenses, as well as higher administrative expenses related to the ERP initiative. This decrease was partially offset by the positive impact of a favourable product mix and the contribution of the Shepherd Gourmet Acquisition. The fluctuation of the Canadian dollar versus foreign currencies had a negative impact on adjusted EBITDA of approximately \$1 million.

USA SECTOR

(in millions of CDN dollars)

| | For the three-month periods ended | | For the years ended | |
|------------------|-----------------------------------|------------------|---------------------|------------------|
| | 2019 | March 31 2018 | 2019 | March 31 2018 |
| Revenues | 1,616.6 | 1,435.1 | 6,507.7 | 6,132.8 |
| Adjusted EBITDA* | 134.2 | 128.3 | 544.7 | 649.4 |

* Non-IFRS measure described in the "Glossary" section on page 37 of this Management's Discussion and Analysis.

Selected factors positively (negatively) affecting financial performance

(in millions of CDN dollars)

| | For the three-month periods ended | | For the years ended | |
|-----------------------------------|-----------------------------------|------------------|---------------------|------------------|
| | 2019 | March 31 2018 | 2019 | March 31 2018 |
| USA Market Factors*.1 | 4 | (3) | (20) | (25) |
| Inventory write-down | - | (7) | - | (7) |
| US currency exchange ¹ | 7 | (6) | 12 | (14) |

* Refer to the "Glossary" section on page 37 of this Management's Discussion and Analysis.

¹ As compared to same quarter of previous fiscal year for the three-month periods; as compared to the previous fiscal year for the years ended March 31.

Other pertinent information

(in US dollars, except for average exchange rate)

| | For the three-month periods ended | | For the years ended | |
|-------------------------------------------------------------|-----------------------------------|------------------|---------------------|------------------|
| | 2019 | March 31 2018 | 2019 | March 31 2018 |
| Block market price* | | | | |
| Opening | 1.430 | 1.540 | 1.530 | 1.520 |
| Closing | 1.645 | 1.530 | 1.645 | 1.530 |
| Average | 1.520 | 1.524 | 1.545 | 1.597 |
| Butter market price* | | | | |
| Opening | 2.218 | 2.208 | 2.215 | 2.108 |
| Closing | 2.255 | 2.215 | 2.255 | 2.215 |
| Average | 2.264 | 2.160 | 2.276 | 2.324 |
| Average whey powder market price* | 0.443 | 0.241 | 0.392 | 0.357 |
| Spread* | 0.054 | 0.148 | 0.076 | 0.081 |
| US average exchange rate to Canadian dollar ¹ | 1.330 | 1.268 | 1.311 | 1.288 |

* Refer to the "Glossary" section on page 37 of this Management's Discussion and Analysis.

¹ Based on Bloomberg published information.

The USA Sector consists of the Cheese Division (USA) and the Dairy Foods Division (USA).

Revenues

Revenues for the USA Sector totalled \$1.617 billion for the three-month period ended March 31, 2019, an increase of approximately \$182 million or 12.7%, as compared to \$1.435 billion for the corresponding quarter last fiscal year. Higher sales volumes, as well as the contribution of the F&A Acquisition, increased revenues. Higher selling prices in the dairy ingredient market also positively affected revenues. However, a lower average block market per pound of cheese partially offset by a higher average butter market price per pound decreased revenues by approximately \$4 million, as compared to the same quarter last fiscal year. Finally, the fluctuation of the Canadian dollar versus the US dollar increased revenues by approximately \$75 million.

In fiscal 2019, revenues for the USA Sector totalled \$6.508 billion, an increase of approximately \$375 million or 6.1% in comparison to \$6.133 billion last fiscal year. Higher sales volumes, as well as the contribution of the Montchevre Acquisition for the full fiscal year and the F&A Acquisition for four months, increased revenues. These increases were partially offset by lower selling prices in the dairy ingredient market. Also, a lower average block market per pound of cheese and a lower average butter market price per pound, as compared to last fiscal year, decreased revenues by approximately \$53 million. Lastly, the fluctuation of the Canadian dollar versus the US dollar increased revenues by approximately \$139 million.

The retail segment represented approximately 42% of total USA Sector revenues. Three of its retail brands, *Frijo Cheese Heads*, *Treasure Cave* and *Montchevre*, maintained leading market share positions in string cheese, blue cheese and goat cheese, respectively. The Cheese Division (USA) continued to support these leading retail brands through promotional activities and trade incentives in fiscal 2019. Strengthening its position in the snacking category, the Cheese Division (USA) added line extensions to its *Frijo Cheese Heads* brand within the stick and cubes snack cheese segments. Products launched in the convenience channel under this brand continue to perform well. *Stella*, the Division's Italian-style deli brand, also launched a line of new flavour-rubbed wheels which includes distinctive options marketed under the *Fontinella* name. *Stella* has continued to expand its fresh mozzarella, blue cheese and organic offerings as well. The Dairy Foods Division (USA) continues to outpace market growth in core categories, including extended shelf-life (ESL) creams/creamers and cultured products. The growth is driven by strong relationships with key customers, positive trends in private label, and targeted customer solutions, such as quality programs, formula updates and innovation.

The foodservice segment represented approximately 49% of total USA Sector revenues. In fiscal 2019, the Cheese Division (USA) continued to focus on growing this channel through continued emphasis on pizza chain restaurants and growing its premium *Saputo Gold* brand. In addition to focusing on organic growth within its existing customer base, the foodservice channel also sought to grow incrementally through an increased focus on specialty cheese, including expanding the product offering under the *Great Midwest* pressed cheese brand while also integrating *Montchevre* goat cheese into the product portfolio. The Cheese Division (USA) has adapted to current trends by adding new exciting flavours, increasing its digital spend and developing a more interactive website to further engage customers. The foodservice segment for the Dairy Foods Division (USA) consists of two main customer segments: chain restaurants and broadline distributors. Distribution gains and menu innovation are driving the chain restaurant segment with its core portfolio of ice cream mix and bulk-size ESL dairy products. A focus on private label dairy products is driving growth for broadline distributors in core categories, such as ESL cream/creamers and sour cream.

The industrial segment includes cheese sales and accounted for approximately 9% of revenues.

Adjusted EBITDA

Adjusted EBITDA for the USA Sector totalled \$134.2 million for the three-month period ended March 31, 2019, an increase of \$5.9 million or 4.6%, as compared to \$128.3 million for the corresponding quarter last fiscal year. During the quarter, adjusted EBITDA was negatively impacted by competitive market conditions. Contributing to the adjusted EBITDA decrease by approximately \$9 million were higher warehousing and logistical expenses due to increased handling and transportation costs. Higher dairy ingredient market prices had a positive effect on adjusted EBITDA. Also, the fluctuation of the average block market per pound of cheese and the average butter market price per pound during the quarter versus the corresponding quarter last fiscal year had a favourable impact on both the realization of inventories and the absorption of fixed costs. However, the relation between the average block market per pound of cheese and the cost of milk as raw material had an unfavourable impact on adjusted EBITDA due to the implementation of the Federal Milk Marketing Order in California, effective November 1, 2018. These combined USA Market Factors positively impacted adjusted EBITDA by approximately \$4 million, as compared to the same quarter last fiscal year. Additional sales volumes, mainly due to recent acquisitions, had a favourable impact on adjusted EBITDA. As a result of the decrease in certain market selling prices last fiscal year, inventory was written down by approximately \$7 million. No such inventory write-down was required this quarter. Finally, the fluctuation of the Canadian dollar versus the US dollar had a positive impact on adjusted EBITDA of approximately \$7 million.

In fiscal 2019, adjusted EBITDA totalled \$544.7 million, a decrease of \$104.7 million or 16.1%, as compared to \$649.4 million for last fiscal year. During fiscal 2019, adjusted EBITDA was negatively impacted by competitive market conditions and increased operational costs relative to the integration of operations in the recently built facility in Alma, Wisconsin. Contributing to the adjusted EBITDA decrease by approximately \$78 million were higher warehousing and logistical expenses due to increased handling and transportation costs. Lower dairy ingredient market prices had a negative effect on adjusted EBITDA. Also, a lower average block market per pound of cheese and a lower average butter market price per pound, as compared to last fiscal year, had an unfavourable impact on both the realization of inventories and the absorption of fixed costs. The relation between the average block market per pound of cheese and the cost of milk as raw material had a favourable impact on adjusted EBITDA. This increase was partially offset by the implementation of the Federal Milk Marketing Order in California, effective November 1, 2018, which had an impact of approximately \$7 million. These USA Market Factors negatively impacted adjusted EBITDA by approximately \$20 million, as compared to last fiscal year. As a result of the decrease in certain market selling prices last fiscal year, inventory was written down by approximately \$7 million. No such inventory write-down was required this fiscal year. Additional sales volumes, mainly due to recent acquisitions, had a favourable impact on adjusted EBITDA. Lastly, the fluctuation of the Canadian dollar versus the US dollar had a positive impact on adjusted EBITDA of approximately \$12 million.

INTERNATIONAL SECTOR

(in millions of CDN dollars)

| | For the three-month periods ended March 31 | | For the years ended March 31 | |
|------------------|-----------------------------------------------|-------|---------------------------------|---------|
| | 2019 | 2018 | 2019 | 2018 |
| Revenues | 695.1 | 328.4 | 2,951.1 | 1,339.8 |
| Adjusted EBITDA* | 50.9 | 25.3 | 262.9 | 139.4 |

* Non-IFRS measure described in the "Glossary" section on page 37 of this Management's Discussion and Analysis.

Selected factors positively (negatively) affecting financial performance

(in millions of CDN dollars)

| | For the three-month periods ended March 31 | | For the years ended March 31 | |
|-----------------------------------|-----------------------------------------------|------|---------------------------------|------|
| | 2019 | 2018 | 2019 | 2018 |
| Inventory write-down | (2) | (4) | (3) | (10) |
| US currency exchange ¹ | (3) | 2 | (15) | (2) |

¹ As compared to same quarter of previous fiscal year for the three-month periods; as compared to the previous fiscal year for the years ended March 31.

The International Sector consists of the Dairy Division (Australia) and the Dairy Division (Argentina).

Revenues

Revenues for the International Sector totalled \$695.1 million for the three-month period ended March 31, 2019, an increase of \$366.7 million or 111.7%, as compared to \$328.4 million for the corresponding quarter last fiscal year. The Murray Goulburn Acquisition was the main contributor to the increase in revenues during this quarter. Also, additional revenues derived from the fluctuation of the Argentine peso and Australian dollar versus the US dollar in export markets, as well as higher international selling prices of cheese and dairy ingredients, increased revenues, as compared to the same quarter last fiscal year. Excluding the Murray Goulburn Acquisition, revenues remained stable, as compared to last fiscal year. The impact of lower sales volumes in both domestic and export markets was offset by a favourable product mix. The fluctuation of the Canadian dollar versus the functional currencies used in the International Sector had a negative impact on revenues of approximately \$102 million, as compared to the same quarter last fiscal year.

In fiscal 2019, revenues for the International Sector totalled \$2.951 billion, an increase of approximately \$1.611 billion or 120.3% in comparison to \$1.340 billion last fiscal year. The Murray Goulburn Acquisition was the main contributor to the increase in revenues in fiscal 2019. Higher sales volumes in the Dairy Division (Argentina), a favourable product mix, as well as additional revenues derived from the fluctuation of the Argentine peso and Australian dollar versus the US dollar in export markets, increased revenues. However, lower international selling prices of cheese and dairy ingredients decreased revenues, as compared to last fiscal year. Finally, the fluctuation of the Canadian dollar versus the functional currencies used in the International Sector had a negative impact on revenues of approximately \$320 million, as compared to last fiscal year.

Adjusted EBITDA

Adjusted EBITDA for the International Sector totalled \$50.9 million for the three-month period ended March 31, 2019, an increase of \$25.6 million or 101.2%, as compared to \$25.3 million for the corresponding quarter last fiscal year. The Murray Goulburn Acquisition positively impacted adjusted EBITDA during this quarter. The fluctuation of the Argentine peso and Australian dollar for export sales in US dollars, as well as higher international selling prices of cheese and dairy ingredients had a positive effect on adjusted EBITDA. Excluding the sales volumes resulting from the Murray Goulburn Acquisition, a favourable product mix positively impacted adjusted EBITDA. As a result of the decrease in certain market selling prices, inventory was written down by approximately \$2 million for the quarter, as compared to approximately \$4 million for the same quarter last fiscal year. The fluctuation of the Canadian dollar versus functional currencies used in the International Sector had a negative impact on adjusted EBITDA of approximately \$3 million, as compared to the same quarter last fiscal year.

In fiscal 2019, adjusted EBITDA for the International Sector totalled \$262.9 million, an increase of \$123.5 million or 88.6%, as compared to \$139.4 million last fiscal year. The fluctuation of the Argentine peso and Australian dollar for export sales in US dollars, as well as the inclusion of the Murray Goulburn Acquisition, had a positive impact on adjusted EBITDA. Also, higher sales volumes in the Dairy Division (Argentina), a favourable product mix in the Dairy Division (Australia), as well as lower administrative expenses related to the ERP initiative, favourably impacted adjusted EBITDA. These increases were partially offset by the decline of international selling prices of cheese and dairy ingredients, and the fact that the cost of milk as raw material did not follow this decrease as compared to last fiscal year. As a result of the decrease in certain market selling prices, inventory was written down by approximately \$3 million during the fiscal year, as compared to approximately \$10 million last fiscal year. Lastly, the fluctuation of the Canadian dollar versus functional currencies used in the International Sector had a negative impact on adjusted EBITDA of approximately \$15 million, as compared to last fiscal year.

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

The intent of this section is to provide insight into the cash and capital management strategies and how they drive operational objectives, as well as to provide details on how the Company manages its liquidity risk to meet its financial obligations as they come due.

The Company's liquidity needs are funded from cash generated by operations, unsecured bank credit facilities and unsecured senior notes. These funds are used principally for capital expenditures, dividends, debt repayments, business acquisitions and share repurchases, and are expected to be sufficient to meet the Company's liquidity requirements. The Company does not foresee any difficulty in securing financing beyond what is currently available through existing arrangements to fund possible acquisitions and to refinance debt obligations.

The Company's cash flows are summarized in the following table:

(in millions of CDN dollars)

| | For the three-month periods ended | | For the years ended | |
|------------------------------------------------|-----------------------------------|------------------|---------------------|------------------|
| | 2019 | March 31 2018 | 2019 | March 31 2018 |
| Cash generated from operating activities | 284.6 | 358.1 | 1,112.6 | 1,155.8 |
| Net cash generated from operating activities | 240.6 | 317.9 | 884.5 | 809.1 |
| Cash used for investing activities | (141.8) | (90.4) | (1,506.6) | (722.9) |
| Cash (used) generated for financing activities | (133.6) | (228.9) | 606.1 | (204.1) |
| Decrease in cash and cash equivalents | (34.8) | (1.4) | (16.0) | (117.9) |

For the **three-month period ended March 31, 2019**, cash generated from **operating activities** amounted to \$284.6 million in comparison to \$358.1 million for the same quarter last fiscal year, a decrease of \$73.5 million. **In fiscal 2019**, cash generated from operating activities amounted to \$1.113 billion in comparison to \$1.156 billion last fiscal year, a decrease of \$43.2 million.

Net cash generated from operating activities for the **three-month period ended March 31, 2019**, amounted to \$240.6 million in comparison to \$317.9 million for the corresponding quarter last fiscal year. This decrease of \$77.3 million is due to changes in non-cash operating working capital items of \$84.3 million driven by fluctuations in receivables in line with the fluctuation of market prices and higher interest paid of \$8.8 million. The decrease was partially offset by an increase in adjusted EBITDA of \$13.4 million and lower income tax paid of \$5.0 million. **In fiscal 2019**, net cash generated from operating activities amounted to \$884.5 million in comparison to \$809.1 million last fiscal year. This increase of \$75.4 million is due to lower income tax paid of \$154.3 million. The increase was partially offset by a decrease in adjusted EBITDA of \$43.4 million, higher interest paid of \$35.7 million and higher acquisition and restructuring costs of \$10.8 million.

Investing activities for the **three-month period ended March 31, 2019**, consisted of \$128.4 million for additions to property, plant and equipment, and \$13.9 million for intangibles, mainly related to the ERP program. **In fiscal 2019**, investing activities consisted mainly of the Murray Goulburn Acquisition, the Shepherd Gourmet Acquisition and the F&A Acquisition totalling \$1.472 billion, additions to property, plant and equipment of \$370.5 million and additions to intangibles of \$65.5 million related to the ERP initiative. Of these additions, 50% went into the replacement of property, plant and equipment and 50% was used to implement new technologies and to expand and increase certain manufacturing capacities. Finally, the Company received \$239.7 million from the sale of the Koroit, Australia¹ plant and \$157.3 million from the sale of the facility in Burnaby, British Columbia.

Financing activities for the **three-month period ended March 31, 2019**, consisted of a \$32.7 million reimbursement of long-term debt mainly related to the reimbursement of unsecured bank term loan facilities. Also, the Company paid \$64.3 million in dividends and bank loans were decreased by \$63.6 million. Finally, shares were issued as part of the stock option plan for \$27.0 million. **Financing activities in fiscal 2019** consisted mainly of additional long-term debt of \$1.634 billion related to the Murray Goulburn Acquisition and the Series 5 medium term notes. The net proceeds from the issuance of the Series 5 medium term notes and the sale of the facilities in Burnaby, British Columbia and Koroit, Australia, were mainly used to reimburse unsecured bank term loan facilities. Also, the Company paid \$254.6 million in dividends and bank loans were decreased by \$45.6 million. Lastly, shares were issued as part of the stock option plan for \$60.4 million.

¹ This divestiture was required pursuant to the undertaking entered into with the Australian Competition and Consumer Commission in connection with the Murray Goulburn Acquisition.

Liquidity

(in millions of CDN dollars, except ratio)

| Fiscal years | 2019 | 2018 |
|-----------------------|----------------|-------------|
| Current assets | 3,133.8 | 2,422.4 |
| Current liabilities | 1,932.5 | 1,292.8 |
| Working capital | 1,201.3 | 1,129.6 |
| Working capital ratio | 1.62 | 1.87 |

The working capital ratio is an indication of the Company's ability to cover short-term liabilities with short-term assets, without having excess dormant assets. The decrease in the working capital ratio is mainly attributed to the upcoming maturity of a series of medium term notes.

Capital management

The Company's capital strategy requires a well-balanced financing structure in order to maintain the flexibility required to implement growth initiatives, while allowing it to pursue disciplined capital investments and maximize shareholder value.

The Company targets a long-term leverage of approximately 2.0 times net debt to adjusted EBITDA. From time to time, the Company may deviate from its long-term leverage target to pursue acquisitions and other strategic opportunities. Should such a scenario arise, the Company expects to deleverage over a reasonable period of time in order to seek to maintain its investment grade ratings.

(in millions of CDN dollars, except ratio and number of shares and options)

| Fiscal years | 2019 | 2018 |
|-------------------------------|--------------------|-------------|
| Long-term debt | 2,267.3 | 1,425.3 |
| Bank loans | 130.4 | 193.3 |
| Cash and cash equivalents | 112.7 | 122.2 |
| Net debt* | 2,285.0 | 1,496.4 |
| Adjusted EBITDA** | 1,221.3 | 1,264.7 |
| Net debt to adjusted EBITDA** | 1.87 | 1.18 |
| Number of common shares | 390,198,386 | 387,407,403 |
| Number of stock options | 20,374,871 | 19,510,123 |

* Refer to the "Glossary" section on page 37 of this Management's Discussion and Analysis.

** Non-IFRS measures described in the "Glossary" section on page 37 of this Management's Discussion and Analysis.

As at March 31, 2019, the Company had \$112.7 million of cash and cash equivalents and available bank credit facilities of approximately \$1.338 billion, \$130.4 million of which were drawn. See Note 9 to the consolidated financial statements for details of the Company's bank loans.

During fiscal 2019, the Company renewed its medium term note program and filed a short form base shelf prospectus qualifying an offering of medium term notes for distribution to the public in the provinces of Canada over a 25-month period, expiring in January 2021.

Share capital authorized by the Company is comprised of an unlimited number of common shares. The common shares are voting and participating. As at May 28, 2019, 390,842,673 common shares and 22,887,996 stock options were outstanding.

Considering the Dairy Crest Acquisition and the amounts drawn under the DC Acquisition Facility (as defined below), the pro forma net debt to adjusted EBITDA ratio for fiscal 2019 would have been 3.23. In a manner consistent with its capital management strategy, the Company intends to deleverage over a reasonable period of time in order to return to a long-term leverage of approximately 2.0 times net debt to adjusted EBITDA.

Normal course issuer bids

Under the normal course issuer bid (Bid) covering the period between November 17, 2017 and November 16, 2018, the Company did not repurchase any common shares under the Bid.

In November 2018, the Company renewed its normal course issuer bid (New Bid) to purchase up to 8,000,000 common shares, which represented approximately 2% of its issued and outstanding common shares, over a 12-month period beginning on November 19, 2018 and ending on November 18, 2019. No shares were purchased under the New Bid.

During the fiscal year ended March 31, 2019, the Company did not purchase any common shares under the bids. During the fiscal year ended March 31, 2018, the Company purchased 654,900 common shares at prices ranging from \$43.42 to \$44.99 per share, for an aggregate consideration of approximately \$29.0 million.

CONTRACTUAL OBLIGATIONS

The Company manages and continually monitors its commitments and contractual obligations to ensure that these can be met with funding provided by operations and capital structure optimization.

The Company's contractual obligations consist of commitments to repay certain long-term debts in addition to leases of premises, equipment and rolling stock as well as purchase obligations for capital expenditures to which the Company is committed. Note 10 to the consolidated financial statements describes the Company's commitment to repay long-term debt and Note 18 to the consolidated financial statements describes its lease commitments.

(in millions of CDN dollars)

| | March 31, 2019 | | | | March 31, 2018 | | | |
|-------------------|----------------|--------------|----------------------|----------------|----------------|--------------|----------------------|----------------|
| | Long-term debt | Leases | Purchase obligations | Total | Long-term debt | Leases | Purchase obligations | Total |
| Less than 1 year | 323.4 | 110.4 | 154.1 | 587.9 | 4.4 | 29.1 | 91.8 | 125.3 |
| 1–2 years | 3.9 | 85.6 | - | 89.5 | 520.9 | 24.6 | - | 545.5 |
| 2–3 years | 502.1 | 62.7 | - | 564.8 | - | 20.0 | - | 20.0 |
| 3–4 years | 300.0 | 49.7 | - | 349.7 | 300.0 | 15.8 | - | 315.8 |
| 4–5 years | 787.9 | 39.3 | - | 827.2 | 300.0 | 14.2 | - | 314.2 |
| More than 5 years | 350.0 | 183.5 | - | 533.5 | 300.0 | 27.1 | - | 327.1 |
| | 2,267.3 | 531.2 | 154.1 | 2,952.6 | 1,425.3 | 130.8 | 91.8 | 1,647.9 |

Long-term debt

The Company's long-term debt is described in Note 10 to the consolidated financial statements. Under the MTN program, the Company issued series of medium term notes for a total of \$1.550 billion, with annual interest rates varying from 1.94% to 3.60% and maturities ranging from November 2019 to August 2025.

In connection with the Murray Goulburn Acquisition, the Company entered into a credit agreement providing for a non-revolving term facility (MG Acquisition Facility), consisting of three tranches: a 1-year tranche of \$400.0 million, which has been repaid; a 3-year tranche of \$300.0 million, of which \$100.0 million has been repaid; and a 5-year tranche of AU\$600.0 million (\$568.4 million), of which AU\$85.0 million (\$80.5 million) has been repaid. The MG Acquisition Facility bears interest at lenders' prime rates plus a maximum of 1.00%, or bankers' acceptance rates or Australian Bank Bill Rate plus 0.80% up to a maximum of 2.00%, depending on the Company's credit ratings.

In connection with the Dairy Crest Acquisition, the Company entered into a new credit agreement on February 21, 2019, providing for a non-revolving term facility denominated in pound sterling in the aggregate amount of £1.265 billion (\$2.202 billion) (DC Acquisition Facility), consisting of three tranches: a 1-year tranche of £400.0 million (\$697.0 million); a 2-year tranche of £265.0 million (\$461.5 million); and a 3-year tranche of £600.0 million (\$1,045.5 million). The DC Acquisition Facility bears interest at lenders' prime rates plus a maximum of 1.00% or LIBOR or bankers' acceptance rates plus 0.80% up to a maximum of 2.00%, depending on the Company's credit ratings. No amounts had been drawn on the DC Acquisition Facility as at March 31, 2019. As at the date of this report, an aggregate amount of £1.174 billion (\$2.045 billion) was drawn on the DC Acquisition Facility.

FINANCIAL POSITION

The main financial position items as at March 31, 2019, varied mainly due to recently completed acquisitions.

The conversion rate of the US operations' financial position items in US currency was CDN\$1.3349 per US dollar as at March 31, 2019, compared to CDN\$1.2900 per US dollar as at March 31, 2018. The conversion rate of the Australian operations' financial position items in Australian currency was CDN\$0.9473 per Australian dollar as at March 31, 2019, compared to CDN\$0.9914 per Australian dollar as at March 31, 2018. The conversion rate of the Argentinian operations' financial position items in Argentinian currency was CDN\$0.0308 per Argentine peso as at March 31, 2019, compared to CDN\$0.0640 per Argentine peso as at March 31, 2018. The fluctuation of the Canadian dollar versus the US dollar, partially offset by the fluctuation of the Australian dollar and the Argentine peso, resulted in higher values recorded for the financial position items of the foreign operations.

The net cash (cash and cash equivalents less bank loans) position increased from negative \$71.1 million as at March 31, 2018, to negative \$17.7 million as at March 31, 2019, mainly resulting from a decrease in bank loans. The change in foreign currency translation adjustments recorded in other comprehensive income varied mainly due to the fluctuation of the Canadian dollar versus foreign currencies.

GUARANTEES

From time to time, the Company enters into agreements in the normal course of its business, such as service arrangements and leases, and in connection with business or asset acquisitions or disposals, agreements, which by nature may provide for indemnification to third parties. These indemnification provisions may be in connection with breach of representations and warranties and for future claims for certain liabilities. The terms of these indemnification provisions vary in duration. See Note 18 to the consolidated financial statements that discuss the Company's guarantees.

RELATED PARTY TRANSACTIONS

In the normal course of business, the Company receives services from and provides goods to companies subject to control or significant influence through ownership by its principal shareholder. These goods and services are of an immaterial amount and compensated by a consideration equal to their fair value, comparable to similar arms' length transactions. The services that are received consist mainly of travel, publicity, lodging, office space rental and management services. The goods that are provided consist mainly of dairy products. Transactions with key management personnel (Management defines key management personnel as all the executive officers who have responsibility and authority for controlling, overseeing and planning the activities of the Company, as well as the Company's Directors) are also considered related party transactions and consist of short-term employee benefits, post-employment benefits, stock-based compensation and payments under the deferred share unit plan. Refer to Note 19 to the consolidated financial statements for further information on related party transactions.

ACCOUNTING STANDARDS

CRITICAL ACCOUNTING POLICIES AND USE OF ACCOUNTING ESTIMATES

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.

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.

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. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. 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, Intangible Assets and Business Combinations

Goodwill, trademarks and customer relationships 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 customer relationships. 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 customer relationships, 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, intangible assets 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 costs of disposal) or value in use. Estimates made for goodwill and intangible assets 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 discount rate used in determining the carrying value of the obligation and the interest income on plan assets, the expected health care cost trend rate, the expected mortality rate, expected salary increase, etc. Actual results will normally differ from expectations. These gains or losses are presented in the consolidated statements of comprehensive income.

ACCOUNTING STANDARDS

EFFECT OF NEW ACCOUNTING STANDARDS, INTERPRETATIONS AND AMENDMENTS NOT YET IMPLEMENTED

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

The following standards, amendments to standards and interpretations have been issued and are applicable to the Company for its annual periods beginning on and after April 1, 2019, with an earlier application permitted:

IFRS 3, Business Combinations

In October 2018, the IASB issued an amendment to IFRS 3 to clarify the definition of a business, to resolve the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. In December 2017, the IASB issued an amendment to IFRS 3 to clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business.

IFRS 9, Financial Instruments

In October 2017, the IASB further amended IFRS 9 to address concerns about how this standard classifies particular prepayable financial assets.

IFRS 11, Joint Arrangements

In December 2017, the IASB issued an amendment to IFRS 11 to clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

IFRS 16, Leases

In January 2016, the IASB published a new standard, IFRS 16 “Leases”, which will replace IAS 17 “Leases”. The new standard will eliminate the distinction between operating and finance leases and will bring most leases on the statement of financial position for lessees, except with respect to lease that meet limited exception criteria. For lessors, the accounting remains mostly unchanged and the distinction between operating and finance leases is retained.

IAS 1, Presentation of Financial Statements and IAS 8, Accounting Policies, Changes in Estimates and Errors

In October 2018, the IASB issued an amendment to IAS 1 and IAS 8 to clarify the definition of ‘material’ and to align the definition used in the Conceptual Framework and the standards themselves.

IAS 19, Employee Benefits

In February 2018, the IASB issued an amendment to IAS 19 to specify how an entity shall determine pension expenses when changes to a pension plan occur. When an amendment, curtailment or settlement to a plan takes place, IAS 19 requires an entity to remeasure its net defined benefit liability or asset. The amendments require an entity to use the updated assumptions from this remeasurement to determine the current service cost and net interest for the remainder of the reporting period after the change to the plan. In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.

IAS 23, Borrowing Costs

In December 2017, the IASB issued an amendment to IAS 23 clarifying that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, it becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings.

IAS 28, Investments in Associates

In October 2017, the IASB issued an amendment to IAS 28 to clarify that an entity should apply IFRS 9 to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

IFRIC 23, Uncertainty Over Income Tax Treatments

In June 2017, the IFRS Interpretations Committee issued IFRIC 23 which clarifies how the recognition and measurement requirements of IAS 12, Income Taxes, are applied where there is uncertainty over income tax treatments.

Except as disclosed in “Considerations for the implementations of IFRS 16”, the adoption of these standards, amendments and interpretation will not have a significant impact on the Company’s financial statements.

CONSIDERATIONS FOR THE IMPLEMENTATION OF IFRS 16

IFRS 16 is required to be applied for the annual reporting period beginning on April 1, 2019.

IFRS 16 can be applied using one of the following two methods: retrospectively to each prior reporting period presented in accordance with IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, or retrospectively with the cumulative effect of applying IFRS 16 recognized at the date of initial application. The Company will apply the second method as its transition method as prescribed under IFRS 16.

The adoption of IFRS 16 will lead to the recognition of operating leases on the statement of financial position. As a result, the Company expects to record right-of-use assets of approximately \$405 million and lease liabilities of approximately \$415 million. In addition, the Company has existing capital leases of approximately \$29 million that are recorded as long-term debt and that will be reclassified as lease liabilities on April 1, 2019. The Company does not expect a significant impact on deferred tax balances. Management is currently assessing the impact of the Dairy Crest Acquisition, completed on April 15, 2019, as it relates to IFRS 16.

IFRS 16 will be applied in fiscal year 2020 using the modified retrospective approach and the Company will therefore not be restating comparative information.

The Company also expects a decrease in operating lease expenses, offset by a corresponding increase in depreciation and amortization and financial expenses resulting from the changes in the recognition, measurement, and presentation requirements. However, no significant impact on net earnings is expected at this time.

EFFECT OF NEW ACCOUNTING STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED DURING THE YEAR

The following standards, amendments to existing and interpretation of standards were adopted by the Company on or after April 1, 2018:

IFRS 2, Share-Based Payment

In June 2016, the IASB issued an amendment to clarify how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for: the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, share-based payment transactions with a net settlement feature for withholding tax obligations and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

This amendment did not impact the Company's financial statements for the fiscal year ended March 31, 2019.

IFRS 9, Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9, Financial Instruments with the goal of replacing IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 provides revised guidance regarding the classification and measurement of financial assets, including a new impairment model for the recognition of expected credit losses and a new hedge accounting model. IFRS 9 is applicable retrospectively in accordance with IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, subject to certain exemptions and exceptions. Under IFRS 9, impairment is measured by either the twelve-month expected credit losses or lifetime expected credit losses. The Company applies the simplified approach to recognize lifetime expected credit losses under IFRS 9.

Classification and measurement IFRS 9 contains a new classification and measurement for financial assets which consists of the following categories: amortized cost, fair value through other comprehensive income, and fair value through profit and loss (FVTPL). The new classification of financial assets provided by IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Financial liabilities are classified and measured based on two categories: amortized cost or FVTPL.

The following table presents the classification impacts on the financial assets and liabilities upon the adoption of IFRS 9. There was no significant impact with regards to the measurement of the financial assets and liabilities.

| Asset/Liability | Classification under IAS 39 | Classification under IFRS 9 |
|------------------------------------------|------------------------------------|------------------------------------|
| Cash and cash equivalents | Loan and receivables | Amortized cost |
| Receivables | Loan and receivables | Amortized cost |
| Other assets | Loan and receivables | Amortized cost |
| Bank Loans | Other liabilities | Amortized cost |
| Accounts payable and accrued liabilities | Other liabilities | Amortized cost |
| Long-term debt | Other liabilities | Amortized cost |
| Derivatives | Fair value through profit and loss | Fair value through profit and loss |

Impairment IFRS 9 provides a new impairment model that requires the recognition of expected credit losses (ECL model) that replaced the 'incurred loss' model in IAS 39. The ECL model applies to financial assets measured at amortized cost.

Hedge accounting, under IFRS 9, introduced a new hedge accounting model that requires the Company to ensure that hedge accounting relationships are aligned with the Company's risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness. The Company completed these changes to its internal documentation to meet the requirements of IFRS 9. In accordance with the transitional provisions in IFRS 9, the Company has applied the IFRS 9 hedge accounting prospectively from the date of initial application.

The adoption of this standard did not significantly impact the Company's financial statements for the fiscal year ended March 31, 2019.

EFFECT OF NEW ACCOUNTING STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED DURING THE YEAR (CONT'D)

IFRS 15, Revenue from Contracts with Customers

The IASB issued IFRS 15, Revenue from Contracts with Customers with its goal to provide a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. This new standard supersedes revenue recognition guidance in IAS 18, Revenue, IAS 11, Construction Contracts and IFRIC 13, Customer Loyalty Programs.

This standard provides a five-step approach to revenue recognition that includes identifying contracts with customers, identifying performance obligations, determining transaction prices, allocating transaction prices to performance obligations and recognizing revenue when performance obligations are satisfied. The standard also expands current disclosure requirements.

IFRS 15 can be applied using one of the following two methods: retrospectively to each prior reporting period presented in accordance with IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, or retrospectively with the cumulative effect of applying IFRS 15 recognized at the date of initial application. The Company decided to use the second method as its transition method as prescribed under IFRS 15.

As per IFRS 15, the Company must define its role as principal or agent in shipping and handling activities. With respect to this standard, the Company's shipping and handling activities are considered as principal and are presented on a gross basis.

The adoption of IFRS 15 impacted the timing of revenue recognition, where revenues are recognized at a point in time when control of the asset is transferred to the customer, generally upon shipment of products. Also, some contracts with customers provide incentive programs, including discounts, promotions, advertising allowances, and other volume-based incentives are impacted. Such incentives give rise to variable consideration, which are also estimated at contract inception. Lastly, IFRS 15 affected the classifications of certain amounts paid to customers in the income statements, where payments to the customer for distinct goods or services has been classified as selling, general and administrative expenses and payments not for distinct goods or services have been classified as a component of sales.

The adoption of this standard did not significantly impact the Company's financial statements for the fiscal year ended March 31, 2019. No adjustment was recorded on the opening balance of equity upon the adoption of IFRS 15.

IAS 40, Investment Property

In December 2016, the IASB issued an amendment to IAS 40 clarifying when assets are transferred to, or from, investment properties. The amendment clarified that to transfer to, or from, investment properties there must be a change in use. To conclude if a property has changed use there should be an assessment of whether the property meets the definition. This change must be supported by evidence.

This amendment did not impact the Company's financial statements for fiscal year ended March 31, 2019.

IFRIC 22, Foreign Currency Transactions and Advance Consideration

In December 2016, the IASB issued IFRIC 22 which provides an interpretation on how to determine the date of the transaction when applying the standard on foreign currency transactions, IAS 1. The interpretation applies where an entity pays or receives consideration in advance for foreign currency-denominated contracts. The date of the transaction determines the exchange rate to be used on initial recognition of the related asset, expense or income. This interpretation provides guidance for when a single payment or receipt is made, as well as for situations where multiple payments or receipts are made and aims to reduce diversity in practice.

This interpretation did not impact the Company's financial statements for the fiscal year ended March 31, 2019.

EFFECT OF NEW ACCOUNTING STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED DURING THE YEAR (CONT'D)

IAS 29, FINANCIAL REPORTING IN HYPERINFLATIONARY ECONOMIES

In July 2018, the Argentine Federation of Professional Councils in Economic Sciences (F.A.C.P.C.E.) issued a release mentioning that, effective July 1, 2018, entities reporting under IFRS are required to apply the inflation adjustment since the applicable conditions for such application have been satisfied.

IAS 29 requires that the financial statements of an entity whose functional currency is the currency of a hyperinflationary economy be adjusted based on an appropriate general price index to express the effects of inflation, and shall be stated in terms of the measuring unit current at the end of the reporting period.

Non-monetary assets and liabilities are adjusted by applying the relevant index and the effect of inflation on the Dairy Division (Argentina) is presented in the consolidated income statements as a gain on hyperinflation. The gain is derived from the indexation of non-monetary assets and liabilities.

The main impacts at the beginning of the first period of application of this standard are an increase of \$57.0 million in non-monetary assets, such as inventory, property, plant and equipment and intangible assets, and an increase of \$13.9 million in deferred income taxes liabilities. Therefore, as at July 1, 2018, a one-time gain of \$43.1 million was included in the consolidated statements of comprehensive income.

RISKS AND UNCERTAINTIES

The main risks and uncertainties the Company is exposed to are presented hereafter. The Board of Directors (the Board) delegated to the Audit Committee and in the case of the human resources risk factor, the Corporate Governance and Human Resources Committee the responsibility to study and evaluate the risk factors inherent to the Company and ensure that appropriate measures are in place to enable Management to identify and manage these risk factors effectively. The Audit Committee and Corporate Governance and Human Resources Committee receive regular reports from Management on these matters. The Audit Committee and the Board have also adopted and implemented certain policies and procedures relating to risk assessment and management which are reviewed at least annually. An annual detailed presentation on all risk factors identified, as well as periodic presentations, are made by Management to the Audit Committee or the Corporate Governance and Human Resources Committee, as the case may be, and, as required, to the Board.

While risk management is part of the Company's transactional, operational and strategic decisions, as well as the Company's overall management approach, risk management does not guarantee that events or circumstances will not occur which could negatively affect the Company's financial condition and performance.

Product liability

Saputo's operations are subject to certain dangers and risks of liability faced by all food processors, such as the potential contamination of ingredients or products by bacteria or other external agents that may be introduced into products or packaging. The occurrence of such a problem could result in a costly product recall and serious damage to Saputo's reputation for product quality.

Supply of raw materials

Saputo purchases raw materials that may represent up to 85% of the cost of products. It processes raw materials into finished edible products intended for resale to a broad range of customers. Availability of raw materials as well as variations in the price of foodstuffs can therefore influence the Company's results upwards or downwards, and the effect of any increase of foodstuff prices on results depends on the Company's ability to transfer those increases to its customers and this, in the context of a competitive market.

USA and international markets

The price of milk as raw material and the price of our products in the USA, Australia, Argentina and the United Kingdom, as well as in international markets, are based on market supply and demand forces. The prices are tied to numerous factors, such as the health of the economy and supply and demand levels for dairy products in the industry. Price fluctuations may affect the Company's results. The effect of such fluctuations on results will depend on the Company's ability to implement mechanisms to reduce them.

Competition

The food processing industry is extremely competitive. The global dairy industry is highly competitive and Saputo competes on a national and international basis with national and multinational competitors. The Company's performance in all the countries in which it does business will be dependent on its ability to continue to offer quality products at competitive prices.

Consolidation of clientele

During the last few years, there has been important consolidation in the food industry in all market segments. Given that Saputo serves these segments, the consolidation within the industry has resulted in a decrease in the number of customers and an increase in the relative importance of some customers. For fiscal 2019, no customer represented more than 10% of total consolidated revenues. The Company's ability to continue to service its customers in all the markets that it serves will depend on the quality of its products and services as well as price.

Supplier concentration

The Company purchases goods and services from a limited number of suppliers as a result of consolidation within the industries in which these suppliers operate. Furthermore, issues with suppliers regarding pricing or performance of the goods and services they supply or the inability of suppliers to supply the required volumes of such goods and services in a timely manner could impact the Company's financial condition and performance. Any such impact will depend on the effectiveness of the Company's contingency plan.

Unanticipated business disruption

Major events, such as systems and equipment failure, health pandemics and natural disasters, could lead to unanticipated business disruption of any or certain of the Company's manufacturing facilities. The effect would be more significant if the Company's larger manufacturing facilities are affected, in which case, the failure to find alternative suppliers or to replace lost production capacity in a timely manner could negatively affect the Company's financial condition and performance.

Economic environment

The Company's operations could be affected by the economic context should the unemployment level, interest rates or inflation reach levels that influence consumer trends and consequently, impact the Company's sales and profitability.

Environment

Saputo's business and operations are subject to environmental laws and regulations, including those relating to permitting requirements, wastewater discharges, air emissions (greenhouse gases and other), releases of hazardous substances and remediation of contaminated sites. The Company believes that its operations are in compliance, in all material respects, with such environmental laws and regulations, except as disclosed in the Annual Information Form dated June 6, 2019, for the fiscal year ended March 31, 2019. Compliance with these laws and regulations requires that the Company continue to incur operating and maintenance costs and capital expenditures, including to control potential impacts of its operations on local communities. Future events such as changes in environmental laws and regulations or more vigorous regulatory enforcement policies could have a material adverse effect on the financial position of Saputo and could require additional expenditures to achieve or maintain compliance.

Information systems

The Company relies upon information technology applications and systems for its business and the reporting of its results. These applications and systems are subject to an increasing number of constantly evolving cyber threats which are becoming more sophisticated. The Company is mainly exposed to risks relating to confidentiality, data integrity and business disruptions. Therefore, any unavailability or failure, due to security incidents or otherwise, may impede or slow down production, delay or taint certain decisions and result in financial losses for the Company. In addition, any unauthorised access to information systems, proprietary, sensitive or confidential information or malicious use could compromise the Company's data integrity or result in disclosure or loss of data which may have adverse effects on the Company's activities, results, and reputation, including loss of revenues due to a disruption of the business, diminished competitive advantage, litigation or other legal procedures, or liability for failure to comply with privacy and information security laws. Although the Company has measures to reduce the likelihood of disruptions to its information technology applications and systems and to identify and respond to and manage cybersecurity incidents, there is no assurance that any of these measures will be successful. Also, the Company is currently undertaking technology initiatives regarding an ERP system. There is no guarantee that the implementation of the ERP system will not disrupt or reduce the efficiency of the Company's operations.

Human resources

Saputo's success depends on its ability to identify, attract and retain qualified individuals and to execute appropriate succession planning for Management and key personnel. Although the Company believes that it has good relationships with its employees and a significant number of the Company's workforce is unionized, a lengthy strike or work stoppage could impact the Company's operations and performance. The Company's operations are also subject to health and safety risks as well as laws and regulations in this regard. Notwithstanding Saputo's existing health and safety systems, serious injury or death of any employee could have a serious impact on Saputo's reputation and require the Company to incur compliance costs.

Growth by acquisitions

The Company plans to grow both organically and through acquisitions. Historically, the Company has grown through acquisitions and plans to continue to rely on new acquisitions to pursue its growth. The ability to properly evaluate the fair value of the businesses being acquired and to properly devote the time and human resources required to successfully integrate their activities with those of the Company constitute inherent risks related to acquisitions. The inability to adequately integrate an acquired business in a timely and efficient manner may affect the Company's ability to realize synergies, improvements and to achieve anticipated returns, as well as resulting in higher integration costs and loss of business opportunities. In connection with acquisitions made by the Company, there may also be liabilities and contingencies that the Company discovered after closing, or was unable to quantify in the due diligence conducted prior to closing of an acquisition and which could have a negative effect on the Company's business, and financial condition and performance.

Consumer trends

Demand for the Company's products is subject to changes in consumer trends. These changes may affect earnings. The impact of these changes will depend on the Company's ability to innovate and develop new products.

Intellectual property

As the Company is involved in the production, sale and distribution of food products, it relies on brand recognition and loyalty from its clientele in addition to relying on the quality of its products. Also, as innovation forms part of the Company's growth strategy, its research and development teams develop new technologies, products and process optimization methods. The Company therefore takes measures to protect, maintain and enforce its intellectual property. Any infringement to its intellectual property could damage its value and limit the Company's ability to compete. In addition, Saputo may have to engage in litigation in order to protect its rights which could result in significant costs.

Financial risk exposures

Saputo has financial risk exposure to varying degrees relating to the currency of each of the countries where it operates. In fiscal 2019, approximately 30% of sales were realized in Canada, 48% in the USA, and 22% internationally. Cash flows from operations in each of the countries where Saputo operates act, in part, as a natural hedge against the currency exchange risks related to debt denominated in such countries' currency. The level of the financial risk exposure related to currency fluctuations will depend on its ability to maintain appropriate protection mechanisms.

Pension plans

The Company operates both defined benefit and defined contribution plans (collectively, the "Plans"). Contributions to fund the Company's defined benefit Plans are based on actuarial valuations, which themselves are based on assumptions and estimates about the long-term operations of the Plans, including assumptions on inflation, mortality and the discount rates used to determine the liabilities of the Plans. Actual results of actuarial valuations may differ from expectations. The Company cannot predict whether changing markets or economic conditions, changes to pension legislation and regulations or other factors will increase the Company's pension expenses or liabilities or its funding obligations, diverting funds the Company would otherwise apply to other uses. Increases in net pension liabilities or increases in future cash contributions could adversely affect the Company's business, financial condition, results from operations and cash flows.

Interest rate and access to capital market

A portion of Saputo's interest-bearing debt is subject to interest rate fluctuations. The impact on the Company's results will depend on its ability to maintain adequate protections against such interest rate fluctuations. The Company's growth is driven mainly by acquisitions and is dependent on access to liquidity in the capital markets. Similarly, the Company may be required to access liquidity in the capital markets in order to refinance or retire existing indebtedness. The impact of such financing transactions on the Company's results will depend on the Company's ability to secure liquidity in a timely manner and on terms and conditions acceptable to it.

Credit risk

The Company grants credit to its customers in the normal course of business. Credit valuations are performed on a regular basis and the financial statements take into account an allowance for bad debts. The Company considers that it has low exposure to concentration of credit risk with respect to accounts receivable from customers due to its large and diverse customer base operating in three segments, retail, foodservice and industrial, and its geographic diversity. There are no accounts receivable from any individual customer that exceeded 10% of the total balance of accounts receivable as at March 31, 2019. The allowance for bad debts and accounts receivable due is reviewed regularly by Management. The Company updates its estimate of the allowance for doubtful accounts based on the evaluation of the recoverability of accounts receivable balances of each customer taking into consideration historic collection trends of past due accounts.

Legislative, regulatory, normative and political considerations

The Company is subject to local, provincial, state, federal and international laws, regulations, rules and policies as well as to social, economic and political contexts prevailing in places where Saputo conducts its activities. Consequently, the modification or change of any of these elements may have an unfavourable impact on Saputo's results and operations and may require that important expenses be made in order to adapt or comply. More specifically, the production and distribution of food products are subject to federal, state, provincial and local laws, rules, regulations and policies and to international trade agreements, all of which provide a framework for Saputo's operations. The impact of new laws and regulations, stricter enforcement or interpretations or changes to enacted laws and regulations will depend on the Company's ability to adapt thereto, comply therewith, and mitigate. Saputo is currently in compliance in all material respects with all applicable laws and regulations and maintains all material permits and licenses in connection with its operations.

Tariff protection

Dairy-producing industries in Canada and the United States are still partially protected from imports by tariff-rate quotas which permit a specific volume of imports at a reduced or zero tariff and impose significant tariffs for greater quantities of imports. There is no guarantee that political decisions or amendments to international trade agreements will not result in the removal of tariff protection in the dairy market, resulting in increased competition. The Company's performance will be dependent on its ability to continue to offer quality products at competitive prices.

DISCLOSURE CONTROLS AND PROCEDURES

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

The CEO and the CFO, along with Management, after evaluating the effectiveness of the Company's disclosure controls and procedures as at March 31, 2019, have concluded that the Company's disclosure controls and procedures were effective.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The CEO and the CFO are responsible for establishing and maintaining internal control over financial reporting. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

The Company is taking a phased approach to its migration to a new ERP system, which is expected to be completed in fiscal 2022. The appropriate changes to internal controls over financial reporting in relation to divisions which have migrated to the new ERP system have been made in order to continue to maintain appropriate internal controls over financial reporting. Other than these changes, there were no changes to the Company's internal control over financial reporting that occurred during the period beginning on January 1, 2019 and ended on March 31, 2019, that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

SENSITIVITY ANALYSIS OF INTEREST RATE AND US CURRENCY FLUCTUATIONS

The debt subject to interest rate fluctuations was \$818.3 million as at March 31, 2019. A 1% change in the interest rate would lead to a change in net earnings of approximately \$6.3 million. Canadian and US currency fluctuations may affect net earnings, adjusted EBITDA and revenues. Appreciation of the Canadian dollar compared to the US dollar would have a negative impact on net earnings, adjusted EBITDA and revenues. Conversely, a decrease in the Canadian dollar compared to the US dollar would have a positive impact on net earnings. During the fiscal year ended March 31, 2019, the average US dollar conversion was based on US\$1.00 for \$1.311. A fluctuation of \$0.10 of the Canadian dollar would have resulted in a change of approximately \$14.8 million in net earnings, \$41.5 million in adjusted EBITDA and \$496.0 million in revenues.

QUARTERLY FINANCIAL INFORMATION

2019 quarterly financial information – consolidated income statement

| <i>(in millions of CDN dollars, except per share amounts and ratios)</i> | Q4 | Q3 | Q2 | Q1 | Fiscal 2019 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|---------|---------|---------|---------|-------------|
| Revenues | 3,236.5 | 3,577.2 | 3,420.4 | 3,267.8 | 13,501.9 |
| Operating costs excluding depreciation and amortization | 2,961.4 | 3,256.0 | 3,102.9 | 2,960.3 | 12,280.6 |
| Earnings before interest, income taxes, depreciation, amortization, gain on disposal of assets, acquisition and restructuring costs, and gain on hyperinflation | 275.1 | 321.2 | 317.5 | 307.5 | 1,221.3 |
| Margin | 8.5 % | 9.0 % | 9.3 % | 9.4 % | 9.0 % |
| Depreciation and amortization | 81.1 | 80.7 | 77.0 | 74.2 | 313.0 |
| Gain on disposal of assets | - | (194.5) | - | - | (194.5) |
| Acquisition and restructuring costs | 2.2 | 0.3 | - | 48.9 | 51.4 |
| (Gain) loss on hyperinflation | 0.9 | (18.4) | (1.0) | - | (18.5) |
| Interest on long-term debt | 16.7 | 16.4 | 18.4 | 15.1 | 66.6 |
| Other financial charges | 4.8 | 4.7 | 4.0 | 4.2 | 17.7 |
| Earnings before income taxes | 169.4 | 432.0 | 219.1 | 165.1 | 985.6 |
| Income taxes | 45.2 | 90.0 | 56.0 | 39.1 | 230.3 |
| Net earnings | 124.2 | 342.0 | 163.1 | 126.0 | 755.3 |
| Net margin | 3.8 % | 9.6 % | 4.8 % | 3.9 % | 5.6 % |
| Gain on disposal of assets ¹ | - | (167.8) | - | - | (167.8) |
| Acquisition and restructuring costs ¹ | 1.6 | 0.2 | - | 34.3 | 36.1 |
| Adjusted net earnings** | 125.8 | 174.4 | 163.1 | 160.3 | 623.6 |
| Adjusted net earnings margin** | 3.9 % | 4.9 % | 4.8 % | 4.9 % | 4.6 % |
| Per Share | | | | | |
| Net earnings | | | | | |
| Basic | 0.32 | 0.88 | 0.42 | 0.32 | 1.94 |
| Diluted | 0.32 | 0.87 | 0.42 | 0.32 | 1.93 |
| Adjusted net earnings** | | | | | |
| Basic | 0.32 | 0.45 | 0.42 | 0.41 | 1.60 |
| Diluted | 0.32 | 0.44 | 0.42 | 0.41 | 1.59 |
| Earnings coverage ratio* | 12.69 | 14.20 | 12.57 | 15.37 | |

* Refer to the "Glossary" section on page 37 of this Management's Discussion and Analysis.

** Non-IFRS measures described in the "Glossary" section on page 37 of this Management's Discussion and Analysis.

¹ Net of income taxes.

Selected factors positively (negatively) affecting financial performance

(in millions of CDN dollars)

| Fiscal year | 2019 | | | |
|------------------------------------------|------|------|-----|------|
| | Q4 | Q3 | Q2 | Q1 |
| USA Market Factors* ¹ | 4 | (19) | (7) | 2 |
| Inventory write-down | (2) | (1) | - | - |
| Foreign currency exchange ^{1,2} | 2 | 1 | 5 | (13) |

* Refer to the "Glossary" section on page 37 of this Management's Discussion and Analysis.

¹ As compared to same quarter of previous fiscal year.

² Foreign currency exchange includes effect on adjusted EBITDA of conversion of US dollars, Australian dollars and Argentine pesos to Canadian dollars.

2018 quarterly financial information – consolidated income statement

| <i>(in millions of CDN dollars, except per share amounts and ratios)</i> | Q4 | Q3 | Q2 | Q1 | Fiscal 2018 |
|---------------------------------------------------------------------------------------------------------|---------|---------|---------|---------|-------------|
| Revenues | 2,744.4 | 3,021.8 | 2,884.2 | 2,892.1 | 11,542.5 |
| Operating costs excluding depreciation and amortization | 2,482.7 | 2,703.8 | 2,554.4 | 2,536.9 | 10,277.8 |
| Earnings before interest, income taxes, depreciation, amortization, acquisition and restructuring costs | 261.7 | 318.0 | 329.8 | 355.2 | 1,264.7 |
| Margin | 9.5 % | 10.5 % | 11.4% | 12.3% | 11.0 % |
| Depreciation and amortization | 64.7 | 56.1 | 51.8 | 53.7 | 226.3 |
| Acquisition and restructuring costs | 1.2 | 39.1 | 0.3 | - | 40.6 |
| Interest on long-term debt | 8.3 | 8.6 | 9.1 | 7.8 | 33.8 |
| Other financial charges | 4.6 | 4.0 | 3.4 | 2.1 | 14.1 |
| Earnings before income taxes | 182.9 | 210.2 | 265.2 | 291.6 | 949.9 |
| Income taxes | 52.9 | (126.8) | 80.0 | 91.3 | 97.4 |
| Net earnings | 130.0 | 337.0 | 185.2 | 200.3 | 852.5 |
| Net margin | 4.7 % | 11.2 % | 6.4% | 6.9% | 7.4 % |
| Acquisition and restructuring costs ¹ | 5.3 | 25.1 | 0.2 | - | 30.6 |
| USA tax reform benefit* | - | (178.9) | - | - | (178.9) |
| Adjusted net earnings** | 135.3 | 183.2 | 185.4 | 200.3 | 704.2 |
| Adjusted net earnings margin** | 4.9 % | 6.1 % | 6.4% | 6.9% | 6.1 % |
| Per Share | | | | | |
| Net earnings | | | | | |
| Basic | 0.34 | 0.87 | 0.48 | 0.52 | 2.21 |
| Diluted | 0.33 | 0.86 | 0.47 | 0.51 | 2.18 |
| Adjusted net earnings** | | | | | |
| Basic | 0.35 | 0.47 | 0.48 | 0.52 | 1.82 |
| Diluted | 0.35 | 0.47 | 0.47 | 0.51 | 1.80 |
| Earnings coverage ratio* | 20.83 | 23.34 | 26.69 | 28.51 | |

* Refer to the "Glossary" section on page 37 of this Management's Discussion and Analysis.

** Non-IFRS measures described in the "Glossary" section on page 37 of this Management's Discussion and Analysis.

¹ Net of income taxes.

ANALYSIS OF EARNINGS FOR THE YEAR ENDED MARCH 31, 2018 COMPARED TO MARCH 31, 2017

Consolidated revenues totalled \$11.543 billion in fiscal 2018, an increase of approximately \$380 million or 3.4% in comparison to \$11.163 billion in fiscal 2017. Higher sales volumes and higher selling prices of cheese and dairy ingredients in both domestic and export markets increased revenues, as compared to fiscal 2017. The fluctuation of the average butter market price per pound and the average block market per pound of cheese increased revenues by approximately \$97 million. Additionally, the inclusion of revenues from the extended shelf-life dairy product activities of Southeast Milk, Inc. acquired on September 29, 2017 (SMI Acquisition), and the Montchevre Acquisition acquired on December 12, 2017, positively impacted revenues by approximately \$78 million. Conversely, the fluctuation of the Canadian dollar versus foreign currencies decreased revenues by approximately \$211 million.

Consolidated adjusted EBITDA in fiscal 2018 totalled \$1.265 billion, a decrease of approximately \$25 million or 1.9%, as compared to \$1.290 billion in fiscal 2017. Higher warehousing and logistical costs related to additional external storage expenses and higher transportation costs of approximately \$30 million, as well as higher ERP expenses of approximately \$32 million, decreased adjusted EBITDA, as compared to fiscal 2017. Additionally, the USA Market Factors decreased adjusted EBITDA by approximately \$25 million. As a result of the decrease in certain market selling prices, inventory was written down by approximately \$17 million during fiscal 2018, as compared to approximately \$4 million for fiscal 2017. These decreases were partially offset by operational efficiencies through raw material optimization and higher international selling prices of cheese and dairy ingredients. Higher sales volumes and a favourable product mix, as well as the inclusion of the SMI Acquisition and the Montchevre Acquisition, positively impacted adjusted EBITDA. Finally, the fluctuation of the Canadian dollar versus foreign currencies had an unfavourable impact on adjusted EBITDA of approximately \$18 million, as compared to fiscal 2017.

The consolidated adjusted EBITDA margin decreased to 11.0% in fiscal 2018, as compared to 11.6% in fiscal 2017, reflecting lower adjusted EBITDA in the USA Sector as compared to fiscal 2017.

Depreciation and amortization in fiscal 2018 amounted to \$226.3 million, an increase of \$19.0 million, as compared to \$207.3 million for fiscal 2017.

These increases were mainly attributed to additions to property, plant and equipment and intangibles related to the ERP initiative, increasing the depreciable base, as well as the additional depreciation and amortization expenses related to the SMI Acquisition and the Montchevre Acquisition.

Acquisition costs and restructuring costs amounted to \$40.6 million for fiscal 2018. Acquisition costs were related to the SMI Acquisition, the Montchevre Acquisition and the Murray Goulburn Acquisition. In connection with the restructuring costs relating to a plant closure in Fond du Lac, Wisconsin, the Company incurred \$23.1 million in severance and closure costs and \$10.6 million in impairment charges to property, plant and equipment.

Net interest expense for fiscal 2018 increased by \$6.0 million, as compared to fiscal 2017. These increases were mainly attributed to higher bank loans denominated in Argentine peso, which bear higher interest rates, and financing for the SMI Acquisition and the Montchevre Acquisition.

Income taxes totalled \$97.4 million in fiscal 2018, compared to \$309.2 million in fiscal 2017, reflecting an effective tax rate of 10.3%, compared to 29.7% in fiscal 2017. During fiscal 2018, the Company recorded an income tax benefit of \$178.9 million to adjust for future tax balances of \$169.2 million and current fiscal year provisions of \$9.7 million, due to the reduction of the US federal tax rate. Excluding the benefit of the US federal tax rate reduction, income tax expense in fiscal 2018 would have totalled \$276.3 million, reflecting an effective tax rate of 29.1% compared to 29.7% for fiscal 2017. This reduction is mainly due to an income tax recovery of \$8.3 million following a positive settlement in a tax file. The income tax rate varies and could increase or decrease based on the amount and source of taxable income, amendments to tax legislations and income tax rates, changes in assumptions, as well as estimates used for tax assets and liabilities by the Company and its affiliates.

Net earnings for fiscal 2018 totalled \$852.5 million, an increase of \$121.4 million or 16.6%, as compared to \$731.1 million in fiscal 2017. The increase in net earnings was due to the above-mentioned factors.

Adjusted net earnings totalled \$704.2 million in fiscal 2018, as compared to \$731.1 million in fiscal 2017.

The decrease in adjusted net earnings was due to the above-mentioned factors.

MEASUREMENT OF RESULTS NOT IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

In certain instances, the Company makes references to terms in evaluating financial performance measures, such as adjusted EBITDA, adjusted net earnings and adjusted net earnings per share that hold no standardized meaning under IFRS. These non-IFRS measurements are therefore not likely to be comparable to similarly titled or described measures in use by other publicly traded companies nor do they indicate that excluded items are non-recurring. The Company uses earnings before interest, income taxes, depreciation, amortization, gain on disposal of assets, acquisition and restructuring costs, and gain on hyperinflation (adjusted EBITDA) as a performance measure as it is a common industry measure and reflects the ongoing profitability of the Company's consolidated business operations.

Adjusted net earnings is defined by the Company as net earnings prior to the inclusion of a gain on disposal of assets, acquisition and restructuring costs, net of applicable income taxes, if any. Adjusted net earnings per share is defined as adjusted net earnings per basic and diluted common share. The most comparable IFRS financial measures to the ones used by the Company are earnings before income taxes, as well as net earnings and net earnings per share (basic and diluted).

Adjusted EBITDA, adjusted net earnings and adjusted net earnings per share, as used by Management, provide precision and comparability with regards to the Company's ongoing operation. They also provide readers with a representation of the activities considered of relevance to the Company's financial performance through the inclusion of additional financial information that can be used to identify trends or additional disclosures that provide information into the manner in which the Company operates. They also provide comparability to the Company's prior year results.

The definitions provided above are used in the context of the results and activities for the three-month period and for the year ended March 31, 2019. They are subject to change based on future transactions and as deemed necessary by Management in order to provide a better understanding and comparability of future results and activities of the Company.

A reconciliation of earnings before income taxes, net earnings and net earnings per share to adjusted EBITDA, adjusted net earnings and adjusted net earnings per share for the three-month periods and the fiscal years in which Management has presented these measures is provided below.

(in millions of CDN dollars)

| | For the three-month periods ended | | For the years ended | |
|-------------------------------------|-----------------------------------|------------------|---------------------|------------------|
| | 2019 | March 31 2018 | 2019 | March 31 2018 |
| Earnings before income taxes | 169.4 | 182.9 | 985.6 | 949.9 |
| Other financial charges | 4.8 | 4.6 | 17.7 | 14.1 |
| Interest on long-term debt | 16.7 | 8.3 | 66.6 | 33.8 |
| (Gain) loss on hyperinflation | 0.9 | - | (18.5) | - |
| Acquisition and restructuring costs | 2.2 | 1.2 | 51.4 | 40.6 |
| Gain on disposal of assets | - | - | (194.5) | - |
| Depreciation and amortization | 81.1 | 64.7 | 313.0 | 226.3 |
| Adjusted EBITDA | 275.1 | 261.7 | 1,221.3 | 1,264.7 |

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

| | For the three-month periods ended March 31 | | | | | |
|--------------------------------------------------|--------------------------------------------|-------------------|-------------|--------------|-------------------|-------------|
| | Total | 2019 Per Share | | Total | 2018 Per Share | |
| | | Basic | Diluted | | Basic | Diluted |
| Net earnings | 124.2 | 0.32 | 0.32 | 130.0 | 0.34 | 0.33 |
| Acquisition and restructuring costs ¹ | 1.6 | - | - | 5.3 | 0.01 | 0.01 |
| Adjusted net earnings | 125.8 | 0.32 | 0.32 | 135.3 | 0.35 | 0.35 |

¹ Net of income taxes

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

| | For the years ended March 31 | | | | | |
|--------------------------------------------------|------------------------------|-------------------|-------------|--------------|-------------------|-------------|
| | Total | 2019 Per Share | | Total | 2018 Per Share | |
| | | Basic | Diluted | | Basic | Diluted |
| Net earnings | 755.3 | 1.94 | 1.93 | 852.5 | 2.21 | 2.18 |
| Gain on disposal of assets ¹ | (167.8) | (0.43) | (0.43) | - | - | - |
| Acquisition and restructuring costs ¹ | 36.1 | 0.09 | 0.09 | 30.6 | 0.08 | 0.08 |
| USA tax reform benefit* | - | - | - | (178.9) | (0.46) | (0.46) |
| Adjusted net earnings | 623.6 | 1.60 | 1.59 | 704.2 | 1.82 | 1.80 |

¹ Net of income taxes

* Refer to the "Glossary" section on page 37 of this Management's Discussion and Analysis.

GLOSSARY

Adjusted EBITDA

"Adjusted EBITDA" means earnings before interest, income taxes, depreciation, amortization, gain on disposal of assets, acquisition and restructuring costs, and gain on hyperinflation.

Adjusted EBITDA margin

"Adjusted EBITDA margin" means adjusted EBITDA expressed as a percentage of revenues.

Adjusted net earnings

"Adjusted net earnings" means net earnings prior to the inclusion of a gain on disposal of assets, acquisition and restructuring costs and USA tax reform benefit, net of applicable income taxes.

Adjusted net earnings margin

"Adjusted net earnings margin" means adjusted net earnings expressed as a percentage of revenues.

Adjusted net earnings per share

"Adjusted net earnings per share" (basic and diluted) means adjusted net earnings per basic and diluted common share.

Adjusted return on average equity

"Adjusted return on average equity" means adjusted net earnings divided by average total equity not considering the effect of annual fluctuations in foreign currency translation.

Average whey powder market price

"Average whey powder market price" means the average daily price for extra grade dry whey published on Dairy Market News.

Block market

"Block market" means the price of a 40 pound block of cheddar traded on the Chicago Mercantile Exchange (CME), used as the base price for cheese.

Butter market

"Butter market" means the price for Grade AA Butter traded on the CME, used as the base price for butter.

Earnings coverage ratio

"Earnings coverage ratio" means net earnings (before interest on long-term debt and other financial charges and income taxes) for the applicable period divided by interest on long-term debt and other financial charges for the applicable period for the fiscal year.

Net debt

"Net debt" means long-term debt and bank loans, including the current portion thereof, net of cash and cash equivalents.

Net debt to adjusted EBITDA

"Net debt to adjusted EBITDA" means net debt divided by adjusted EBITDA for the fiscal year.

Spread

"Spread" means the average block market per pound of cheese less the result of the average cost per hundredweight of Class III and/or Class 4b milk price divided by 10 in the USA market.

USA Market Factors

"USA Market Factors" include, for the USA Sector, the average block market per pound of cheese and its effect on the absorption of fixed costs and on the realization of inventories, the effect of the relationship between the average block market per pound of cheese and the cost of milk as raw material, the market pricing impact related to sales of dairy ingredients, as well as the impact of the average butter market price related to dairy food products.

USA tax reform benefit

"USA tax reform benefit" means the one-time benefit of the Company related to the adjustment for futures tax balances and tax provisions in the third quarter of fiscal 2018 due to the reduction of the US federal tax rate pursuant to the enactment of the *Tax Cuts and Jobs Act* on December 22, 2017.

Working capital

"Working capital" means the Company's current assets minus current liabilities.

Working capital ratio

"Working capital ratio" means the Company's current assets divided by current liabilities.

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.
Chair of the Board
and Chief Executive Officer

(signed) Maxime Therrien
Maxime Therrien, CPA, CA
Chief Financial Officer
and Secretary

June 6, 2019

INDEPENDENT AUDITOR'S REPORT

To the shareholders and the Board of Directors of Saputo Inc.

Opinion

We have audited the consolidated financial statements of Saputo Inc. (the "Company"), which comprise the consolidated statements of financial position as at March 31, 2019 and 2018, and the consolidated income statements, consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the financial statements and our auditor's report thereon, in the Annual Report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis and the Annual Report prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Daniel Viboux.

*/s/ Deloitte LLP*¹

June 6, 2019
Montréal, Québec

¹ CPA auditor, CA, public accountancy permit No. A114871

CONSOLIDATED INCOME STATEMENTS

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

| Years ended March 31 | 2019 | 2018 |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|--------------------|
| Revenues | \$ 13,501.9 | \$ 11,542.5 |
| Operating costs excluding depreciation and amortization (Note 5) | 12,280.6 | 10,277.8 |
| Earnings before interest, income taxes, depreciation, amortization, gain on disposal of assets, acquisition and restructuring costs, and gain on hyperinflation | 1,221.3 | 1,264.7 |
| Depreciation and amortization (Notes 6 and 7) | 313.0 | 226.3 |
| Gain on disposal of assets (Note 6) | (194.5) | - |
| Acquisition and restructuring costs (Note 22) | 51.4 | 40.6 |
| Gain on hyperinflation | (18.5) | - |
| Interest on long-term debt | 66.6 | 33.8 |
| Other financial charges (Note 13) | 17.7 | 14.1 |
| Earnings before income taxes | 985.6 | 949.9 |
| Income taxes (Note 14) | 230.3 | 97.4 |
| Net earnings | \$ 755.3 | \$ 852.5 |
| Net earnings per share (Note 15) | | |
| Basic | \$ 1.94 | \$ 2.21 |
| Diluted | \$ 1.93 | \$ 2.18 |

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in millions of CDN dollars)

| Years ended March 31 | 2019 | 2018 |
|-------------------------------------------------------------------------------------|-----------------|-----------------|
| Net earnings | \$ 755.3 | \$ 852.5 |
| Other comprehensive income: | | |
| <i>Items that may be reclassified to net earnings:</i> | | |
| Exchange differences arising from foreign currency translation | 3.2 | (168.2) |
| Inflation effect arising from the application of hyperinflation | 29.3 | - |
| Net unrealized (losses) gains on cash flow hedges ¹ (Note 20) | (10.6) | 6.0 |
| Reclassification of losses (gains) on cash flow hedges to net earnings ² | 12.1 | (6.8) |
| | 34.0 | (169.0) |
| <i>Items that will not be reclassified to net earnings:</i> | | |
| Actuarial losses ³ (Note 17) | (2.1) | (4.1) |
| | (2.1) | (4.1) |
| Other comprehensive income | 31.9 | (173.1) |
| Total comprehensive income | \$ 787.2 | \$ 679.4 |

¹ Net of income taxes of \$4.6 (2018 – \$2.0).

² Net of income taxes of \$5.1 (2018 – \$2.8).

³ Net of income taxes of \$0.8 (2018 – \$1.1).

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(in millions of CDN dollars, except common shares)

| For the year ended March 31, 2019 | | | | | | | | |
|----------------------------------------------------------------------------------------------------------------|--------------------|-----------------|------------------------------|------------------|-------------------|-----------------|-------------------|-------------------|
| | Share capital | | Reserves | | | | Retained Earnings | Total Equity |
| | Common Shares | Amount | Foreign Currency Translation | Cash Flow Hedges | Stock Option Plan | Total Reserves | | |
| Balance, beginning of year | 387,407,403 | \$ 918.9 | \$ 549.6 | \$ (3.8) | \$ 116.6 | \$ 662.4 | \$ 3,216.4 | \$ 4,797.7 |
| Net earnings | - | - | - | - | - | - | 755.3 | 755.3 |
| Other comprehensive income | - | - | 32.5 | 1.5 | - | 34.0 | (2.1) | 31.9 |
| Total comprehensive income | | | | | | | | 787.2 |
| Dividends declared | - | - | - | - | - | - | (254.6) | (254.6) |
| Stock option plan (Note 12) | - | - | - | - | 25.1 | 25.1 | - | 25.1 |
| Shares issued under stock option plan | 2,790,983 | 60.4 | - | - | - | - | - | 60.4 |
| Amount transferred from reserves to share capital upon exercise of options | - | 12.4 | - | - | (12.4) | (12.4) | - | - |
| Excess tax benefit that results from the excess of the deductible amount over the compensation cost recognized | - | - | - | - | 4.7 | 4.7 | - | 4.7 |
| Balance, end of year | 390,198,386 | \$ 991.7 | \$ 582.1 | \$ (2.3) | \$ 134.0 | \$ 713.8 | \$ 3,715.0 | \$ 5,420.5 |

| For the year ended March 31, 2018 | | | | | | | | |
|----------------------------------------------------------------------------------------------------------------|--------------------|-----------------|------------------------------|------------------|-------------------|-----------------|-------------------|-------------------|
| | Share capital | | Reserves | | | | Retained Earnings | Total Equity |
| | Common Shares | Amount | Foreign Currency Translation | Cash Flow Hedges | Stock Option Plan | Total Reserves | | |
| Balance, beginning of year | 386,234,311 | \$ 871.1 | \$ 717.8 | \$ (3.0) | \$ 97.9 | \$ 812.7 | \$ 2,639.1 | \$ 4,322.9 |
| Net earnings | - | - | - | - | - | - | 852.5 | 852.5 |
| Other comprehensive income | - | - | (168.2) | (0.8) | - | (169.0) | (4.1) | (173.1) |
| Total comprehensive income | | | | | | | | 679.4 |
| Dividends declared | - | - | - | - | - | - | (243.5) | (243.5) |
| Stock option plan (Note 12) | - | - | - | - | 24.1 | 24.1 | - | 24.1 |
| Shares issued under stock option plan | 1,827,992 | 41.0 | - | - | - | - | - | 41.0 |
| Amount transferred from reserves to share capital upon exercise of options | - | 8.2 | - | - | (8.2) | (8.2) | - | - |
| Excess tax benefit that results from the excess of the deductible amount over the compensation cost recognized | - | - | - | - | 2.8 | 2.8 | - | 2.8 |
| Shares repurchased and cancelled | (654,900) | (1.4) | - | - | - | - | (27.6) | (29.0) |
| Balance, end of year | 387,407,403 | \$ 918.9 | \$ 549.6 | \$ (3.8) | \$ 116.6 | \$ 662.4 | \$ 3,216.4 | \$ 4,797.7 |

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in millions of CDN dollars)

| As at | March 31, 2019 | March 31, 2018 |
|-----------------------------------------------|-------------------|-------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 112.7 | \$ 122.2 |
| Receivables | 1,248.2 | 944.9 |
| Inventories (Note 4) | 1,681.0 | 1,234.5 |
| Income taxes receivable (Note 14) | 34.1 | 52.0 |
| Prepaid expenses and other assets | 57.8 | 68.8 |
| | 3,133.8 | 2,422.4 |
| Property, plant and equipment (Note 6) | 3,095.4 | 2,220.0 |
| Goodwill (Note 7) | 2,597.6 | 2,417.3 |
| Intangible assets (Note 7) | 876.2 | 823.1 |
| Other assets (Note 8) | 131.6 | 85.7 |
| Deferred income taxes (Note 14) | 51.0 | 34.5 |
| Total assets | \$ 9,885.6 | \$ 8,003.0 |
| LIABILITIES | | |
| Current liabilities | | |
| Bank loans (Note 9) | \$ 130.4 | \$ 193.3 |
| Accounts payable and accrued liabilities | 1,442.2 | 1,068.6 |
| Income taxes payable (Note 14) | 36.5 | 26.5 |
| Current portion of long-term debt (Note 10) | 323.4 | 4.4 |
| | 1,932.5 | 1,292.8 |
| Long-term debt (Note 10) | 1,943.9 | 1,420.9 |
| Other liabilities (Note 11) | 86.4 | 66.7 |
| Deferred income taxes (Note 14) | 502.3 | 424.9 |
| Total liabilities | \$ 4,465.1 | \$ 3,205.3 |
| EQUITY | | |
| Share capital (Note 12) | 991.7 | 918.9 |
| Reserves | 713.8 | 662.4 |
| Retained earnings | 3,715.0 | 3,216.4 |
| Total equity | \$ 5,420.5 | \$ 4,797.7 |
| Total liabilities and equity | \$ 9,885.6 | \$ 8,003.0 |

The accompanying notes are an integral part of these consolidated financial statements.

On behalf of the Board,

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

(signed) Tony Meti
Tony Meti
Director

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions of CDN dollars)

| Years ended March 31 | 2019 | 2018 |
|---------------------------------------------------------------------------|------------------|-----------------|
| Cash flows related to the following activities: | | |
| Operating | | |
| Net earnings | \$ 755.3 | \$ 852.5 |
| Adjustments for: | | |
| Stock-based compensation | 41.0 | 34.3 |
| Interest and other financial charges | 84.3 | 47.9 |
| Income tax expense | 230.3 | 97.4 |
| Depreciation and amortization | 313.0 | 226.3 |
| Gain on disposal of property, plant and equipment and asset held for sale | (195.1) | (0.7) |
| Impairment charges related to plant closure | 0.2 | 10.6 |
| Share of joint venture earnings, net of dividends received | 1.0 | 0.9 |
| Monetary effect on hyperinflation | (18.5) | - |
| Underfunding of employee plans in excess of costs | 0.3 | 1.8 |
| | 1,211.8 | 1,271.0 |
| Changes in non-cash operating working capital items | (99.2) | (115.2) |
| Cash generated from operating activities | 1,112.6 | 1,155.8 |
| Interest and other financial charges paid | (83.1) | (47.4) |
| Income taxes paid | (145.0) | (299.3) |
| Net cash generated from operating activities | 884.5 | 809.1 |
| Investing | | |
| Business acquisitions, net of cash acquired | (1,471.7) | (385.1) |
| Proceeds on divestiture | 239.7 | - |
| Additions to property, plant and equipment | (370.5) | (277.8) |
| Additions to intangible assets | (65.5) | (66.2) |
| Proceeds on disposal of asset held for sale | 157.3 | - |
| Proceeds on disposal of property, plant and equipment | 4.5 | 6.6 |
| Other | (0.4) | (0.4) |
| | (1,506.6) | (722.9) |
| Financing | | |
| Bank loans | (45.6) | 129.6 |
| Proceeds from issuance of long-term debt | 1,633.6 | 300.0 |
| Repayment of long-term debt | (787.7) | (402.2) |
| Issuance of share capital | 60.4 | 41.0 |
| Repurchase of share capital | - | (29.0) |
| Dividends | (254.6) | (243.5) |
| | 606.1 | (204.1) |
| Decrease in cash and cash equivalents | (16.0) | (117.9) |
| Cash and cash equivalents, beginning of year | 122.2 | 250.5 |
| Effect of inflation | 15.8 | - |
| Effect of exchange rate changes on cash and cash equivalents | (9.3) | (10.4) |
| Cash and cash equivalents, end of year | \$ 112.7 | \$ 122.2 |

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended March 31, 2019 and 2018

(Tabular amounts are in millions 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 from Canada, the United States, Australia and Argentina. The address of the Company's head office is 6869, Metropolitan Blvd. East, Montréal, Québec, Canada, H1P 1X8. The consolidated financial statements (financial statements) of the Company for the year ended March 31, 2019, comprise the financial results of the Company and its subsidiaries.

The financial statements for the year ended March 31, 2019, have been authorized for issuance by the Board of Directors on June 6, 2019.

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 accounting 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 million 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 exists when an entity is exposed, or has rights, to variable returns from its involvement with investees and has the ability to affect those returns through its power over them. 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 income statements.

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.

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 kilometers traveled |
| Assets under finance lease | Shorter of term of lease or estimated useful life |

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 income statements.

GOODWILL AND INTANGIBLE ASSETS

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.

Intangible assets include trademarks, customer relationships and software that is not an integral part of the related hardware. Intangible assets are initially recorded at their transaction fair values. Definite life intangible assets are subsequently carried at cost less accumulated amortization and less impairment losses, if any. Indefinite life intangible assets, including goodwill, 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 for impairment, 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 of disposal and value in use) and an impairment loss, if any, is recognized for the excess.

Trademarks are considered to be definite life intangible assets and are amortized using the straight-line method over their useful lives of 20 years and are reviewed for indicators of impairment at each reporting period.

Customer relationships and software are considered to be definite life intangible assets and 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 at each reporting period.

Refer to "Impairment Testing of Cash-Generating Units" in Note 7 for a discussion of the CGU levels at which goodwill and intangible assets 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 of disposal 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. Acquisition costs are expensed as incurred.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

EMPLOYEE FUTURE BENEFITS

The cost of defined benefit 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 rates of compensation increases, retirement ages of employees and expected health care costs. Current service costs and interest on obligations offset by interest income on plan 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 income statements. 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 control of the asset is transferred to the customer, the vast majority upon shipment of products. The Company recognizes revenue for all sales at the fair value of the consideration received or receivable. Sales are net of a provision for variable consideration of estimated allowances and sales incentives provided to customers, such that it is highly probable that a significant reversal will not occur once the uncertainty related to the variable consideration is subsequently resolved.

The value of sales incentives provided to customers are estimated using historical trends and are recognized at the time of sale as a reduction of revenue. Sales incentives include discounts, promotions, advertising allowances, and other volume-based incentives. In subsequent periods, the Company monitors the performance of customers against agreed upon obligations related to sales incentive programs and makes any adjustments to both revenue and sales incentive accruals as required.

FOREIGN CURRENCY TRANSLATION

The Company's functional currency is the Canadian dollar. Accordingly, the financial position accounts of foreign operations are translated into Canadian dollars using the exchange rates at the financial position dates and income statements 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 changes in 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 from the fluctuation in value of the Canadian dollar as compared to the US dollar, the Australian dollar and the Argentine peso.

Foreign currency accounts of the Company and its subsidiaries are translated using the exchange rates at the financial position 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. DSUs are granted on a quarterly basis, vest upon award and entitle Directors to receive a cash payment for the value of the DSUs they hold following cessation of functions as a Director of the Company. The Company recognizes an expense in its consolidated income statements and a liability in its consolidated statement of financial positions 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.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

JOINT VENTURES

Joint ventures are accounted for using the equity method and represent those entities in which the Company exercises joint control over and for which it is exposed to variable returns from its involvement in the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

INCOME TAXES

Income tax expense represents the sum of current and deferred income tax and is recognized in the consolidated income statements 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 statement of financial position 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.

FINANCIAL INSTRUMENTS

Financial assets and liabilities are initially measured at fair value. Subsequently, financial instruments classified as Fair Value through Profit or Loss (FVTPL) and fair value through other comprehensive income, part of a hedging relationship or not, continue to be measured at fair value on the statement of financial position 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 amortized cost and are subsequently measured at amortized cost.
- Receivables are classified as amortized cost and are subsequently measured at amortized cost.
- Other assets that meet the definition of a financial asset are classified as amortized cost and are subsequently measured at amortized cost.
- Bank loans, accounts payable and accrued liabilities, other liabilities and long-term debt are classified as amortized cost and are measured at amortized cost, with the exception of the liability related to DSUs and PSUs which is measured at the fair value of common shares on the financial position dates.

Certain derivative instruments are utilized by the Company to manage exposure to variations in interest rate payments and to manage foreign exchange rate risks, including foreign exchange forward contracts, currency swaps and interest rate swaps. Derivatives are initially recognized at fair value at the date the derivative contracts and currency swaps 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.

HEDGING

The Company designates certain financial instruments as cash flow hedges. At the inception of the hedging relationship, the Company designates and formally documents the relationship between the hedging instrument and the hedged item, the risk management objective, and its strategy for undertaking the hedge.

For derivatives instruments designated as cash flow hedges, the change in fair value related to the effective portion of the hedge is recognized in other comprehensive income (loss), and the accumulated amount is presented as a hedging reserve in the consolidated statement of equity. Any ineffective portion is immediately recognized in net earnings. Gains or losses from cash flow hedges included in other components of equity are reclassified to net income, when the hedging instrument has come due or is settled, as an offset to the losses or gains recognized on the underlying hedged items.

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.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

FAIR VALUE HIERARCHY

All financial instruments measured at fair value are categorized into one of three hierarchy levels, described below, for disclosure purposes. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

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.

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. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. 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, Intangible Assets and Business Combinations

Goodwill, trademarks and customer relationships 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 customer relationships. 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 customer relationships, 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.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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, intangible assets 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 costs of disposal) or value in use. Estimates made for goodwill and intangible assets 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 discount rate used in determining the carrying value of the obligation and the interest income on plan assets, the expected health care cost trend rate, the expected mortality rate, expected salary increase, etc. Actual results will normally differ from expectations. These gains or losses are presented in the consolidated statements of comprehensive income.

EFFECT OF NEW ACCOUNTING STANDARDS, INTERPRETATIONS AND AMENDMENTS NOT YET IMPLEMENTED

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

The following standards, amendments to standards and interpretations have been issued and are applicable to the Company for its annual periods beginning on and after April 1, 2019, with an earlier application permitted:

IFRS 3, Business Combinations

In October 2018, the IASB issued an amendment to IFRS 3 to clarify the definition of a business, to resolve the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. In December 2017, the IASB issued an amendment to IFRS 3 to clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business.

IFRS 9, Financial Instruments

In October 2017, the IASB further amended IFRS 9 to address concerns about how this standard classifies particular prepayable financial assets.

IFRS 11, Joint Arrangements

In December 2017, the IASB issued an amendment to IFRS 11 to clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

IFRS 16, Leases

In January 2016, the IASB published a new standard, IFRS 16 "Leases", which will replace IAS 17 "Leases". The new standard will eliminate the distinction between operating and finance leases and will bring most leases on the statement of financial position for lessees, except with respect to lease that meet limited exception criteria. For lessors, the accounting remains mostly unchanged and the distinction between operating and finance leases is retained.

IAS 1, Presentation of Financial Statements and IAS 8, Accounting Policies, Changes in Estimates and Errors

In October 2018, the IASB issued an amendment to IAS 1 and IAS 8 to clarify the definition of 'material' and to align the definition used in the Conceptual Framework and the standards themselves.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

IAS 19, Employee Benefits

In February 2018, the IASB issued an amendment to IAS 19 to specify how an entity shall determine pension expenses when changes to a pension plan occur. When an amendment, curtailment or settlement to a plan takes place, IAS 19 requires an entity to remeasure its net defined benefit liability or asset. The amendments require an entity to use the updated assumptions from this remeasurement to determine the current service cost and net interest for the remainder of the reporting period after the change to the plan. In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.

IAS 23, Borrowing Costs

In December 2017, the IASB issued an amendment to IAS 23 clarifying that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, it becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings.

IAS 28, Investments in Associates

In October 2017, the IASB issued an amendment to IAS 28 to clarify that an entity should apply IFRS 9 to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

IFRIC 23, Uncertainty Over Income Tax Treatments

In June 2017, the IFRS Interpretations Committee issued IFRIC 23 which clarifies how the recognition and measurement requirements of IAS 12, Income Taxes, are applied where there is uncertainty over income tax treatments.

Except as disclosed in "Considerations for the implementations of IFRS 16", the adoption of these standards, amendments and interpretation will not have a significant impact on the Company's financial statements.

CONSIDERATIONS FOR THE IMPLEMENTATION OF IFRS 16

IFRS 16 is required to be applied for the annual reporting period beginning on April 1, 2019.

IFRS 16 can be applied using one of the following two methods: retrospectively to each prior reporting period presented in accordance with IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, or retrospectively with the cumulative effect of applying IFRS 16 recognized at the date of initial application. The Company will apply the second method as its transition method as prescribed under IFRS 16.

The adoption of IFRS 16 will lead to the recognition of operating leases on the statement of financial position. As a result, the Company expects to record right-of-use assets of approximately \$405 million and lease liabilities of approximately \$415 million. In addition, the Company has existing capital leases of approximately \$29 million that are recorded as long-term debt and that will be reclassified as lease liabilities on April 1, 2019. The Company does not expect a significant impact on deferred tax balances. Management is currently assessing the impact of the acquisition of Dairy Crest Group plc (Dairy Crest Acquisition), completed on April 15, 2019, as it relates to IFRS 16.

IFRS 16 will be applied in fiscal year 2020 using the modified retrospective approach and the Company will therefore not be restating comparative information. In addition, the Company has applied the following exemptions and practical expedients on adoption of IFRS 16:

- The use of a single discount rate for a portfolio of leases with reasonably similar characteristics;
- Exemption from recognizing a right-of-use asset and a lease liability when the lease term ends within 12 months of the date of initial application;
- Exemption from recognizing a right-of-use asset and a lease liability when the underlying asset is of low value;
- The exclusion of initial direct costs from the measurement of the right-of-use assets at the date of initial application;

The Company also expects a decrease in operating lease expenses, offset by a corresponding increase in depreciation and amortization and financial expenses resulting from the changes in the recognition, measurement, and presentation requirements. However, no significant impact on net earnings is expected at this time.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Effect of new accounting standards, interpretations and amendments adopted during the period:

IFRS 2, Share-Based Payment

In June 2016, the IASB issued an amendment to clarify how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for: the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, share-based payment transactions with a net settlement feature for withholding tax obligations and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

This amendment did not impact the Company's financial statements for the fiscal year ended March 31, 2019.

IFRS 9, Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9, Financial Instruments with the goal of replacing IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 provides revised guidance regarding the classification and measurement of financial assets, including a new impairment model for the recognition of expected credit losses and a new hedge accounting model. IFRS 9 is applicable retrospectively in accordance with IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, subject to certain exemptions and exceptions. Under IFRS 9, impairment is measured by either the twelve-month expected credit losses or lifetime expected credit losses. The Company applies the simplified approach to recognize lifetime expected credit losses under IFRS 9.

Classification and measurement IFRS 9 contains a new classification and measurement for financial assets which consists of the following categories: amortized cost, fair value through other comprehensive income, and FVTPL. The new classification of financial assets provided by IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Financial liabilities are classified and measured based on two categories: amortized cost or FVTPL.

The following table presents the classification impacts on the financial assets and liabilities upon the adoption of IFRS 9. There was no significant impact with regards to the measurement of the financial assets and liabilities.

| Asset/Liability | Classification under IAS 39 | Classification under IFRS 9 |
|------------------------------------------|------------------------------------|------------------------------------|
| Cash and cash equivalents | Loan and receivables | Amortized cost |
| Receivables | Loan and receivables | Amortized cost |
| Other assets | Loan and receivables | Amortized cost |
| Bank Loans | Other liabilities | Amortized cost |
| Accounts payable and accrued liabilities | Other liabilities | Amortized cost |
| Long-term debt | Other liabilities | Amortized cost |
| Derivatives | Fair value through profit and loss | Fair value through profit and loss |

Impairment IFRS 9 provides a new impairment model that requires the recognition of expected credit losses (ECL model) that replaced the 'incurred loss' model in IAS 39. The ECL model applies to financial assets measured at amortized cost.

Hedge accounting, under IFRS 9, introduced a new hedge accounting model that requires the Company to ensure that hedge accounting relationships are aligned with the Company's risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness. The Company completed these changes to its internal documentation to meet the requirements of IFRS 9. In accordance with the transitional provisions in IFRS 9, the Company has applied the IFRS 9 hedge accounting prospectively from the date of initial application.

The adoption of this standard did not significantly impact the Company's financial statements for the fiscal year ended March 31, 2019.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

IFRS 15, Revenue from Contracts with Customers

The IASB issued IFRS 15, Revenue from Contracts with Customers with its goal to provide a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. This new standard supersedes revenue recognition guidance in IAS 18, Revenue, IAS 11, Construction Contracts and IFRIC 13, Customer Loyalty Programs.

This standard provides a five-step approach to revenue recognition that includes identifying contracts with customers, identifying performance obligations, determining transaction prices, allocating transaction prices to performance obligations and recognizing revenue when performance obligations are satisfied. The standard also expands current disclosure requirements.

IFRS 15 can be applied using one of the following two methods: retrospectively to each prior reporting period presented in accordance with IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, or retrospectively with the cumulative effect of applying IFRS 15 recognized at the date of initial application. The Company decided to use the second method as its transition method as prescribed under IFRS 15.

As per IFRS 15, the Company must define its role as principal or agent in shipping and handling activities. With respect to this standard, the Company's shipping and handling activities are considered as principal and are presented on a gross basis.

The adoption of IFRS 15 impacted the timing of revenue recognition, where revenues are recognized at a point in time when control of the asset is transferred to the customer, generally upon shipment of products. Also, some contracts with customers provide incentive programs, including discounts, promotions, advertising allowances, and other volume-based incentives are impacted. Such incentives give rise to variable consideration, which are also estimated at contract inception. Lastly, IFRS 15 affected the classifications of certain amounts paid to customers in the income statements, where payments to the customer for distinct goods or services has been classified as selling, general and administrative expenses and payments not for distinct goods or services have been classified as a component of sales.

The adoption of this standard did not significantly impact the Company's financial statements for the fiscal year ended March 31, 2019. No adjustment was recorded on the opening balance of equity upon the adoption of IFRS 15.

IAS 40, Investment Property

In December 2016, the IASB issued an amendment to IAS 40 clarifying when assets are transferred to, or from, investment properties. The amendment clarified that to transfer to, or from, investment properties there must be a change in use. To conclude if a property has changed use there should be an assessment of whether the property meets the definition. This change must be supported by evidence.

This amendment did not impact the Company's financial statements for fiscal year ended March 31, 2019.

IFRIC 22, Foreign Currency Transactions and Advance Consideration

In December 2016, the IASB issued IFRIC 22 which provides an interpretation on how to determine the date of the transaction when applying the standard on foreign currency transactions, IAS 1. The interpretation applies where an entity pays or receives consideration in advance for foreign currency-denominated contracts. The date of the transaction determines the exchange rate to be used on initial recognition of the related asset, expense or income. This interpretation provides guidance for when a single payment or receipt is made, as well as for situations where multiple payments or receipts are made and aims to reduce diversity in practice.

This interpretation did not impact the Company's financial statements for the fiscal year ended March 31, 2019.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

IAS 29, Financial Reporting in Hyperinflationary Economies

In July 2018, the Argentine Federation of Professional Councils in Economic Sciences (F.A.C.P.C.E.) issued a release mentioning that, effective July 1, 2018, entities reporting under IFRS are required to apply the inflation adjustment since the applicable conditions for such application have been satisfied.

IAS 29 requires that the financial statements of an entity whose functional currency is the currency of a hyperinflationary economy be adjusted based on an appropriate general price index to express the effects of inflation, and shall be stated in terms of the measuring unit current at the end of the reporting period.

Non-monetary assets and liabilities are adjusted by applying the relevant index and the effect of inflation on the Dairy Division (Argentina) is presented in the consolidated income statements as a gain on hyperinflation. The gain is derived from the indexation of non-monetary assets and liabilities.

The main impacts at the beginning of the first period of application of this standard are an increase of \$57.0 million in non-monetary assets, such as inventory, property, plant and equipment and intangible assets, and an increase of \$13.9 million in deferred income taxes liabilities. Therefore, as at July 1, 2018, a one-time gain of \$43.1 million was included in the consolidated statements of comprehensive income.

NOTE 4 INVENTORIES

| | March 31, 2019 | March 31, 2018 |
|----------------------------------------------|----------------|----------------|
| Finished goods | \$ 1,134.1 | \$ 835.2 |
| Raw materials, work in progress and supplies | 546.9 | 399.3 |
| Total | \$ 1,681.0 | \$ 1,234.5 |

The amount of inventories recognized as an expense in operating costs for the year ended March 31, 2019 is \$10,676.9 million (\$9,175.1 million for the year ended March 31, 2018).

NOTE 5 OPERATING COSTS EXCLUDING DEPRECIATION AND AMORTIZATION

| | 2019 | 2018 |
|--------------------------------------------------------------|-------------|-------------|
| Changes in inventories of finished goods and work in process | \$ (25.4) | \$ (56.5) |
| Raw materials and consumables used | 9,204.2 | 8,018.0 |
| Foreign exchange loss | 11.9 | 2.7 |
| Employee benefits expense | 1,577.7 | 1,314.1 |
| Selling costs | 648.8 | 429.1 |
| Other general and administrative costs | 863.4 | 570.4 |
| Total | \$ 12,280.6 | \$ 10,277.8 |

During fiscal 2019, a write-down of \$3.2 million (\$16.9 million for the year ended March 31, 2018) was included as an expense in "Operating costs excluding depreciation and amortization" under the caption "Changes in inventories of finished goods and work in process" presented in the table above, as a result of the decrease in certain market selling prices.

NOTE 6 PROPERTY, PLANT AND EQUIPMENT

| | For the year ended March 31, 2019 | | | | | | | Total |
|-------------------------------------------------|-----------------------------------|------------|------------------------------------|---------------|---------|---------------|------------|-------|
| | Land | Buildings | Furniture, machinery and equipment | Rolling stock | Lease | Held for sale | | |
| Cost | | | | | | | | |
| As at March 31, 2018 | \$ 65.0 | \$ 906.5 | \$ 2,678.5 | \$ 17.7 | \$ 29.6 | \$ 23.1 | \$ 3,720.4 | |
| Adjustment on initial application - IAS 29 | 0.2 | 12.2 | 59.3 | 0.3 | - | - | 72.0 | |
| Business acquisitions (Note 16) | 54.1 | 245.7 | 402.4 | 1.4 | - | - | 703.6 | |
| Additions | 0.6 | 85.9 | 282.6 | 1.4 | 11.5 | - | 382.0 | |
| Disposals | (0.5) | (22.7) | (90.2) | (1.0) | - | (17.8) | (132.2) | |
| Transfers | (1.2) | (20.1) | 8.6 | (0.8) | (3.1) | 12.3 | (4.3) | |
| Foreign currency and hyperinflation adjustments | (0.4) | 8.8 | 48.5 | (0.3) | 1.1 | - | 57.7 | |
| As at March 31, 2019 | \$ 117.8 | \$ 1,216.3 | \$ 3,389.7 | \$ 18.7 | \$ 39.1 | \$ 17.6 | \$ 4,799.2 | |
| Accumulated depreciation | | | | | | | | |
| As at March 31, 2018 | - | 303.4 | 1,178.2 | 8.9 | 1.1 | 8.8 | 1,500.4 | |
| Adjustment on initial application - IAS 29 | - | 4.3 | 32.0 | 0.3 | - | - | 36.6 | |
| Depreciation | - | 41.4 | 195.2 | 2.9 | 3.8 | - | 243.3 | |
| Disposals | - | (24.6) | (85.3) | (1.4) | - | (4.3) | (115.6) | |
| Transfers | - | (8.1) | 0.4 | - | (0.4) | 8.1 | - | |
| Impairment charges related to plant closure | - | 0.2 | - | - | - | - | 0.2 | |
| Foreign currency and hyperinflation adjustments | - | 6.9 | 32.1 | (0.2) | 0.1 | - | 38.9 | |
| As at March 31, 2019 | \$ - | \$ 323.5 | \$ 1,352.6 | \$ 10.5 | \$ 4.6 | \$ 12.6 | \$ 1,703.8 | |
| Net book value at March 31, 2019 | \$ 117.8 | \$ 892.8 | \$ 2,037.1 | \$ 8.2 | \$ 34.5 | \$ 5.0 | \$ 3,095.4 | |

The net book value of property, plant and equipment under construction amounts to \$276.9 million as at March 31, 2019 (\$109.1 million as at March 31, 2018), and consists mainly of machinery and equipment.

For fiscal 2019 and 2018, the assets held for sale relate mainly to land and building in Canada as a result of the closure of certain facilities and have been recorded at the lower of carrying value and fair value less costs to sell.

In the third quarter of fiscal 2019, the Company realized a gain on disposal of assets of \$194.5 million (\$167.8 million after tax) relating to the sale of its facility in Burnaby, British Columbia. The Company sold the facility for \$209.0 million, and provided a vendor take-back (VTB) mortgage in the amount of \$50.0 million (Note 8). The VTB mortgage bears interest at a rate of 3% per annum and matures in fiscal 2022 where the full amount of capital will be repaid. The Company has entered into a lease agreement for the Burnaby facility until the construction of the new facility is completed, which is expected to be in fiscal 2021.

NOTE 6 PROPERTY, PLANT AND EQUIPMENT (CONT'D)

| | For the year ended March 31, 2018 | | | | | | |
|---------------------------------------------------|-----------------------------------|-----------|---------------------------------------------|------------------|---------|------------------|------------|
| | Land | Buildings | Furniture, machinery and equipment | Rolling stock | Lease | Held for sale | Total |
| Cost | | | | | | | |
| As at March 31, 2017 | \$ 69.2 | \$ 854.9 | \$ 2,638.3 | \$ 16.9 | \$ - | \$ - | \$ 3,579.3 |
| Business acquisitions (Note 16) | 2.4 | 20.6 | 3.4 | 1.0 | 28.7 | - | 56.1 |
| Additions | 0.2 | 83.3 | 193.6 | 0.7 | - | - | 277.8 |
| Disposals | (0.8) | (11.5) | (85.2) | (0.4) | - | - | (97.9) |
| Transfers | (5.2) | (17.8) | (0.1) | - | - | 23.1 | - |
| Foreign currency adjustments | (0.8) | (23.0) | (71.5) | (0.5) | 0.9 | - | (94.9) |
| As at March 31, 2018 | \$ 65.0 | \$ 906.5 | \$ 2,678.5 | \$ 17.7 | \$ 29.6 | \$ 23.1 | \$ 3,720.4 |
| Accumulated depreciation | | | | | | | |
| As at March 31, 2017 | - | 290.5 | 1,115.9 | 7.4 | - | - | 1,413.8 |
| Depreciation | - | 33.0 | 166.1 | 1.9 | 1.1 | - | 202.1 |
| Disposals | - | (8.6) | (83.1) | (0.3) | - | - | (92.0) |
| Transfers | - | (8.8) | - | - | - | 8.8 | - |
| Impairment charges related to plant closure | - | 6.1 | 4.5 | - | - | - | 10.6 |
| Foreign currency adjustments | - | (8.8) | (25.2) | (0.1) | - | - | (34.1) |
| As at March 31, 2018 | \$ - | \$ 303.4 | \$ 1,178.2 | \$ 8.9 | \$ 1.1 | \$ 8.8 | \$ 1,500.4 |
| Net book value at March 31, 2018 | \$ 65.0 | \$ 603.1 | \$ 1,500.3 | \$ 8.8 | \$ 28.5 | \$ 14.3 | \$ 2,220.0 |

NOTE 7 GOODWILL AND INTANGIBLE ASSETS

| For the year ended March 31, 2019 | | | | | | |
|-------------------------------------------------|---------------|-------------------------|-------------------------------------|-----------------------|-------------------------|--|
| | Definite Life | | | | Total Intangible Assets | |
| | Goodwill | Trademarks ¹ | Customer relationships ² | Software ³ | | |
| Cost | | | | | | |
| As at March 31, 2018 | \$ 2,417.3 | \$ 433.5 | \$ 303.7 | \$ 195.6 | \$ 932.8 | |
| Adjustment on initial application - IAS 29 | - | - | - | 2.9 | 2.9 | |
| Business acquisitions (Note 16) | 127.8 | 27.5 | 10.5 | 6.1 | 44.1 | |
| Additions | - | - | - | 65.5 | 65.5 | |
| Transfer | - | - | - | 4.3 | 4.3 | |
| Foreign currency and hyperinflation adjustments | 52.5 | 3.4 | 5.2 | (0.6) | 8.0 | |
| As at March 31, 2019 | \$ 2,597.6 | \$ 464.4 | \$ 319.4 | \$ 273.8 | \$ 1,057.6 | |
| Accumulated Amortization | | | | | | |
| As at March 31, 2018 | - | - | 102.5 | 7.2 | 109.7 | |
| Adjustment on initial application - IAS 29 | - | - | - | 0.6 | 0.6 | |
| Amortization | - | 21.6 | 21.1 | 27.0 | 69.7 | |
| Foreign currency and hyperinflation adjustments | - | 0.1 | 1.9 | (0.6) | 1.4 | |
| As at March 31, 2019 | \$ - | \$ 21.7 | \$ 125.5 | \$ 34.2 | \$ 181.4 | |
| Net book value at March 31, 2019 | \$ 2,597.6 | \$ 442.7 | \$ 193.9 | \$ 239.6 | \$ 876.2 | |

| For the year ended March 31, 2018 | | | | | | |
|-----------------------------------|-----------------|-------------------------|-------------------------------------|-----------------------|-------------------------|--|
| | Indefinite Life | | Definite Life | | Total Intangible Assets | |
| | Goodwill | Trademarks ¹ | Customer relationships ² | Software ³ | | |
| Cost | | | | | | |
| As at March 31, 2017 | \$ 2,240.5 | \$ 354.7 | \$ 260.1 | \$ 135.9 | \$ 750.7 | |
| Business acquisitions (Note 16) | 233.8 | 81.7 | 49.9 | - | 131.6 | |
| Additions | - | - | - | 66.2 | 66.2 | |
| Foreign currency adjustments | (57.0) | (2.9) | (6.3) | (6.5) | (15.7) | |
| As at March 31, 2018 | \$ 2,417.3 | \$ 433.5 | \$ 303.7 | \$ 195.6 | \$ 932.8 | |
| Accumulated Amortization | | | | | | |
| As at March 31, 2017 | - | - | 87.2 | 1.2 | 88.4 | |
| Amortization | - | - | 17.7 | 6.5 | 24.2 | |
| Foreign currency adjustments | - | - | (2.4) | (0.5) | (2.9) | |
| As at March 31, 2018 | \$ - | \$ - | \$ 102.5 | \$ 7.2 | \$ 109.7 | |
| Net book value at March 31, 2018 | \$ 2,417.3 | \$ 433.5 | \$ 201.2 | \$ 188.4 | \$ 823.1 | |

¹ Trademarks are amortized straight-line over a period of 20 years.

² Customer relationships are amortized straight-line over a period of 15 years.

³ None of the additions were internally generated.

NOTE 7 GOODWILL AND INTANGIBLE ASSETS (CONT'D)

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 smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

The Company reports its operations under three geographic sectors. The Canada Sector consists of the Dairy Division (Canada). The USA Sector includes the Cheese Division (USA) and the Dairy Foods Division (USA). Finally, the International Sector combines the Dairy Division (Australia) and the Dairy Division (Argentina).

Goodwill has been allocated to each CGU or group of CGUs as follows:

| Allocation of goodwill | March 31, 2019 | March 31, 2018 |
|----------------------------|----------------|----------------|
| Canada | \$ 401.5 | \$ 323.2 |
| USA | | |
| Cheese Division (USA) | 1,327.7 | 1,247.3 |
| Dairy Foods Division (USA) | 638.8 | 617.3 |
| International | | |
| Dairy Division (Australia) | 220.1 | 219.6 |
| Dairy Division (Argentina) | 9.5 | 9.9 |
| | \$ 2,597.6 | \$ 2,417.3 |

Recoverable amounts for Dairy Division (Canada), Cheese Division (USA) and Dairy Foods Division (USA) have been estimated using an earnings multiplier valuation model (fair value less costs of disposal). The key assumptions used in these models consist mainly of earnings multipliers for market comparables that are applied to the results of each CGU or group of CGUs tested.

Recoverable amounts for Dairy Division (Australia) and Dairy Division (Argentina) have been estimated using a discounted cash flow (value in use) model based on the following key assumptions:

- **Cash flows:** Cash flow forecasts for a given CGU are based on earnings before interest, income taxes, depreciation and amortization and are adjusted for a 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 CGU.
- **Discount rate:** Cash flows are discounted using pre-tax discount rates.

The Company performed its annual impairment test and in all cases the recoverable amounts exceeded their respective carrying values including goodwill. The Company has designated December 31 as the date for the annual impairment test. As at December 31, 2018, goodwill was not considered to be impaired.

Trademarks

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

| Allocation of trademarks | March 31, 2019 | March 31, 2018 |
|-----------------------------------|----------------|----------------|
| Neilson – Dairy Division (Canada) | \$ 212.0 | \$ 223.2 |
| Other | 230.7 | 210.3 |
| | \$ 442.7 | \$ 433.5 |

The assessment of the useful life of trademarks is reviewed annually to determine whether the indefinite life continues to be supportable, if not, the change in useful life from indefinite to definite is made on a prospective basis. Following the completion of the annual assessment, all trademarks have been reclassified from indefinite to definite-lived and are amortized using the straight-line method over their useful lives of 20 years since the beginning of the fiscal 2019

NOTE 8 OTHER ASSETS

| | March 31, 2019 | March 31, 2018 |
|-------------------------|-----------------|----------------|
| Joint ventures | \$ 45.2 | \$ 47.9 |
| Financial loan (Note 6) | 50.0 | - |
| Other | 36.4 | 37.8 |
| | \$ 131.6 | \$ 85.7 |

The Company has three joint ventures and holds a 50% interest in two of them and a 49% interest in the third. In all three joint ventures, the terms of the agreements require the unanimous consent of all parties in order to direct the significant operations of the joint ventures. Two of those joint ventures have a June 30th year-end and one has a December 31st year-end. All joint ventures are accounted for under the equity method. The Company recognized \$8.5 million in net earnings, representing its share of earnings in the joint ventures for the year ended March 31, 2019 (\$7.3 million for the year ended March 31, 2018). Dividends received from the joint ventures amounted to \$9.5 million for the year ended March 31, 2019 (\$8.2 million for the year ended March 31, 2018), and an amount of \$4.6 million was declared but unpaid as at March 31, 2019 (\$0.7 million for the year ended March 31, 2018).

NOTE 9 BANK LOANS

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

| Credit Facilities | Maturity | Available for use | | Amount drawn | |
|----------------------|----------------------------|------------------------------|---------------|-----------------|-----------------|
| | | Canadian Currency Equivalent | Base Currency | March 31, 2019 | March 31, 2018 |
| North America-USA | December 2023 ¹ | 400.5 | 300.0 USD | \$ - | \$ 71.0 |
| North America-Canada | December 2023 ¹ | 267.0 | 200.0 USD | - | - |
| Argentina | Yearly ² | 148.2 | 111.0 USD | 45.4 | 41.3 |
| Argentina | Yearly ³ | 90.2 | 2,930.0 ARS | 23.2 | 42.2 |
| Australia | Yearly ⁴ | 298.4 | 315.0 AUD | 38.0 | 7.9 |
| Australia | Yearly ⁴ | 133.5 | 100.0 USD | 23.8 | 30.9 |
| | | 1,337.8 | | \$ 130.4 | \$ 193.3 |

¹ Bears monthly interest at rates ranging from lender's prime rates plus a maximum of 1.00% or LIBOR or banker's acceptance rate plus 0.80% up to a maximum of 2.00% depending on the Company credit ratings.

² Bear monthly interest at local rate and can be drawn in USD.

³ Bear monthly interest at local rate and can be drawn in ARS.

⁴ Bear monthly interest at LIBOR or Australian Bank Bill Rate plus 0.70% and can be drawn in AUD or USD.

NOTE 10 LONG-TERM DEBT

| | March 31, 2019 | March 31, 2018 |
|----------------------------------------------------------------------------|-------------------|-------------------|
| Unsecured bank term loan facilities | | |
| Obtained December 2012 (\$850.0 million) ¹ | \$ - | \$ 200.0 |
| Obtained April 2018 (\$300.0 million) and due in April 2021 ² | 200.0 | - |
| Obtained April 2018 (AU\$600.0 million) and due in April 2023 ² | 487.9 | - |
| Unsecured senior notes ^{3,4} | | |
| 2.65%, issued in November 2014 and due in November 2019 (Series 1) | 300.0 | 300.0 |
| 2.20%, issued in June 2016 and due in June 2021 (Series 2) | 300.0 | 300.0 |
| 2.83%, issued in November 2016 and due in November 2023 (Series 3) | 300.0 | 300.0 |
| 1.94%, issued in June 2017 and due in June 2022 (Series 4) | 300.0 | 300.0 |
| 3.60%, issued in August 2018 and due in August 2025 (Series 5) | 350.0 | - |
| Finance lease obligations | 29.4 | 25.3 |
| | \$ 2,267.3 | \$ 1,425.3 |
| Current portion | 323.4 | 4.4 |
| | \$ 1,943.9 | \$ 1,420.9 |

¹ Bear monthly interest at rates ranging from lender's prime plus a maximum of 1.00% or LIBOR or bankers' acceptance rates plus 0.80% up to a maximum of 2.00%, depending on the Company's credit ratings, and can be drawn in CAD or USD.

² Bear monthly interest at rates ranging from lender's prime plus a maximum of 1.00%, or banker's acceptance rates or Australian Bank Bill Rate plus 0.80% up to a maximum of 2.00%, depending on the Company's credit ratings. Interest is paid every one, two, three or six months, as selected by the Company.

³ Interest payments are semi-annual.

⁴ On December 12, 2018, the Company renewed its medium term note program and filed a short form base shelf prospectus qualifying an offering of medium term notes for distribution to the public in the provinces of Canada over a 25-month period.

NOTE 10 LONG TERM DEBT (CONT'D)

| | March 31, 2019 | March 31, 2018 |
|--------------------------------------|-------------------|-------------------|
| Principal repayments are as follows: | | |
| Less than 1 year | \$ 323.4 | \$ 4.4 |
| 1-2 years | 3.9 | 520.9 |
| 2-3 years | 502.1 | - |
| 3-4 years | 300.0 | 300.0 |
| 4-5 years | 787.9 | 300.0 |
| More than 5 years | 350.0 | 300.0 |
| | \$ 2,267.3 | \$ 1,425.3 |

In connection with the Dairy Crest Acquisition, the Company entered into a new credit agreement on February 21, 2019, providing for a non-revolving term facility denominated in pound sterling in the aggregate amount of £1.265 billion (\$2.202 billion) (DC Acquisition Facility), consisting of three tranches: a 1-year tranche of £400.0 million (\$697.0 million); a 2-year tranche of £265.0 million (\$461.5 million); and a 3-year tranche of £600.0 million (\$1,045.5 million). The DC Acquisition Facility bears interest at lenders' prime rates plus a maximum of 1.00% or LIBOR or bankers' acceptance rates plus 0.80% up to a maximum of 2.00%, depending on the Company's credit ratings. No amounts had been drawn on the DC Acquisition Facility as at March 31, 2019.

On May 1, 2018, the Company had drawn in full a non-revolving term facility in the aggregate amount of \$1.284 billion (MG Acquisition Facility) to finance the acquisition of the business of Murray Goulburn Co-Operative Co. Limited (MG) (Note 16).

On August 14, 2018, the Company issued \$350.0 million Series 5 medium term notes with an annual interest rate of 3.60% payable in equal semi-annual instalments, maturing on August 14, 2025, pursuant to its medium term note program. The Company used the proceeds of the Series 5 medium term notes, available cash and credit facilities to reimburse \$400.0 million of the MG Acquisition Facility.

In addition, the Company used the proceeds from the Koroit plant divestiture (Note 16), available cash and credit facilities to reimburse \$200.0 million of an unsecured bank term loan, as well as \$100.0 million and AU\$85.0 million (\$79.7 million) of the MG Acquisition Facility.

On June 12, 2017, the Company issued \$300.0 million Series 4 medium term notes with an annual interest rate of 1.94% payable in equal semi-annual instalments, maturing on June 13, 2022, pursuant to its medium term note program.

NOTE 11 OTHER LIABILITIES

| | March 31, 2019 | March 31, 2018 |
|----------------------------------------------------------------|----------------|----------------|
| Employee benefits (Note 17) | \$ 36.6 | \$ 33.1 |
| Derivative financial liabilities (Note 20) | - | 11.7 |
| Performance share unit liabilities and related fringe benefits | 21.8 | 18.5 |
| Other | 28.0 | 3.4 |
| | \$ 86.4 | \$ 66.7 |

NOTE 12 SHARE CAPITAL

AUTHORIZED

The authorized share capital of the Company consists of an unlimited number of common shares. The common shares are voting and participating.

| | March 31, 2019 | March 31, 2018 |
|---------------------------------------------------------------|----------------|----------------|
| Issued | | |
| 390,198,386 common shares (387,407,403 common shares in 2018) | \$ 991.7 | \$ 918.9 |

During the year ended March 31, 2019, 2,790,983 common shares (1,827,992 in 2018) were issued for an amount of \$60.4 million (\$41.0 million in 2018) pursuant to the share option plan. For the year ended March 31, 2019, the amount transferred from stock option plan reserve was \$12.4 million (\$8.2 million in 2018).

Pursuant to the normal course issuer bid which began on November 17, 2017, and expired on November 16, 2018, as amended, the Company was authorized to repurchase for cancellation up to 8,000,000 of its common shares. Under the normal course issuer bid that became effective on November 19, 2018, and expiring on November 18, 2019, the Company is authorized to repurchase, for cancellation purposes, up to 8,000,000 of its common shares. During the year ended March 31, 2019, the Company did not repurchase any common shares.

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 cannot exceed 45,698,394 common shares. As at March 31, 2019, 20,704,548 common shares are available for future grants under this plan and 20,374,871 common shares are underlying options outstanding. During fiscal 2019, a total of 2,790,983 common shares were issued following the exercise of options. Options 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.

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

| Granting period | Exercise price | March 31, 2019 | | March 31, 2018 | |
|-----------------|----------------|-------------------|-------------------------------|-------------------|-------------------------------|
| | | Number of options | Number of exercisable options | Number of options | Number of exercisable options |
| 2009 | \$ 13.91 | - | - | 62,600 | 62,600 |
| 2010 | \$ 10.70 | 11,728 | 11,728 | 652,202 | 652,202 |
| 2011 | \$ 14.66 | 576,714 | 576,714 | 853,430 | 853,430 |
| 2012 | \$ 21.61 | 637,317 | 637,317 | 838,875 | 838,875 |
| 2013 | \$ 21.48 | 1,271,036 | 1,271,036 | 1,684,832 | 1,684,832 |
| 2014 | \$ 25.55 | 1,706,074 | 1,706,074 | 2,174,840 | 1,589,320 |
| 2015 | \$ 27.74 | 2,282,620 | 1,688,226 | 2,734,958 | 1,430,240 |
| 2016 | \$ 35.08 | 2,362,317 | 1,293,545 | 2,699,555 | 949,431 |
| 2017 | \$ 41.40 | 3,663,707 | 1,429,421 | 3,986,625 | 769,556 |
| 2018 | \$ 46.29 | 3,607,186 | 728,176 | 3,822,206 | - |
| 2019 | \$ 41.02 | 4,256,172 | - | - | - |
| | | 20,374,871 | 9,342,237 | 19,510,123 | 8,830,486 |

NOTE 12 SHARE CAPITAL (CONT'D)

Changes in the number of outstanding options are as follows:

| | 2019 | | 2018 | |
|----------------------------|-------------------|---------------------------------|-------------------|---------------------------------|
| | Number of options | Weighted average exercise price | Number of options | Weighted average exercise price |
| Balance, beginning of year | 19,510,123 | \$ 32.95 | 17,850,014 | \$ 29.00 |
| Options granted | 4,536,208 | \$ 41.02 | 3,908,023 | \$ 46.29 |
| Options exercised | (2,790,983) | \$ 21.62 | (1,827,992) | \$ 22.41 |
| Options cancelled | (880,477) | \$ 42.71 | (419,922) | \$ 35.07 |
| Balance, end of year | 20,374,871 | \$ 35.96 | 19,510,123 | \$ 32.95 |

The exercise price of the options granted in fiscal 2019 is \$41.02, which corresponds to the weighted average market price for the five trading days immediately preceding the date of grant (\$46.29 in fiscal 2018).

The weighted average fair value of options granted in fiscal 2019 was estimated at \$7.12 per option (\$7.68 in fiscal 2018), using the Black Scholes option pricing model with the following assumptions:

| | March 31, 2019 | March 31, 2018 |
|--------------------------|----------------|----------------|
| Weighted average: | | |
| Risk-free interest rate | 1.95% | 1.10% |
| Expected life of options | 5.6 years | 5.4 years |
| Volatility ¹ | 18.42% | 18.89% |
| Dividend rate | 1.54% | 1.26% |

¹ The expected volatility is based on the historic share price volatility over a period similar to the life of the options.

A compensation expense of \$25.1 million (\$22.7 million net of taxes) relating to stock options was recorded in the consolidated income statements for the year ended March 31, 2019, and \$24.1 million (\$20.8 million net of taxes) was recorded for the year ended March 31, 2018.

Options to purchase 3,319,450 common shares at a price of \$45.30 per share were granted on April 1, 2019.

DEFERRED SHARE UNIT PLAN FOR DIRECTORS

In accordance with the DSU plan, all eligible Directors of the Company are allocated an annual retainer payable 50% in DSUs and 50% in cash or DSUs, at the election of the Director. Until the ownership threshold is met by the Director, the Director must receive the entire compensation in DSUs. The number of DSUs granted quarterly to each Director is determined based on the market value of the Company's common shares at the date of each grant. When they cease to be a Director of the Company, a cash payment equal to the market value of the accumulated DSUs 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 Company includes the cost of the DSU plan in "Operating costs excluding depreciation and amortization".

| | 2019 | | 2018 | |
|----------------------------------------|---------|-----------|-----------|-----------|
| | Units | Liability | Units | Liability |
| Balance, beginning of year | 294,630 | \$ 12.2 | 367,918 | \$ 17.6 |
| Annual retainer | 50,047 | 2.1 | 48,782 | 2.1 |
| Dividends reinvested | 4,971 | 0.2 | 4,794 | 0.2 |
| Payment to directors | - | - | (126,864) | (5.6) |
| Variation due to change in stock price | - | 1.4 | - | (2.1) |
| Balance, end of year | 349,648 | \$ 15.9 | 294,630 | \$ 12.2 |

The Company enters into equity forward contracts in order to mitigate the compensation costs associated with its DSU plan. As at March 31, 2019, the Company had equity forward contracts on 320,000 common shares (320,000 as of March 31, 2018) with a notional value of \$13.5 million (\$13.9 million as of March 31, 2018). The net compensation expense related to the DSU plan was \$2.9 million for the year ended March 31, 2019 (\$2.2 million for March 31, 2018), including the effect of the equity forward contracts.

NOTE 12 SHARE CAPITAL (CONT'D)

PERFORMANCE SHARE UNIT PLAN

The Company offers senior management a performance share unit (PSU) plan to form part of long-term incentive compensation, together with other plans discussed within this financial statements. 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 the grant of a PSU, the Company determines the performance criteria which must be met by the Company. 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 and amortization" caption.

| | 2019 | 2018 |
|----------------------------|-----------|-----------|
| | Units | Units |
| Balance, beginning of year | 771,707 | 814,571 |
| Annual grant | 298,819 | 263,637 |
| Cancelled | (30,809) | (6,592) |
| Payment | (268,795) | (299,909) |
| Balance, end of year | 770,922 | 771,707 |

As at March 31, 2019, a long-term obligation related to PSUs of \$17.9 million was recorded (\$15.5 million as at March 31, 2018) in addition to \$10.7 million that was recorded in short-term liabilities (\$10.9 million as at March 31, 2018). On April 1, 2019, 313,273 PSUs were granted at a price of \$45.30 per unit (\$41.02 in 2018).

The Company enters into equity forward contracts in order to mitigate the compensation costs associated with its PSU plan. As at March 31, 2019, the Company had equity forward contracts on 770,000 common shares (770,000 as of March 31, 2018) with a notional value of \$34.7 million (\$32.9 million as of March 31, 2018). The net compensation expense related to PSUs was \$10.8 million for the year ended March 31, 2019 (\$11.3 million for the year ended March 31, 2018), including the effect of the equity forward contracts.

RESTRICTED SHARE UNIT PLAN

In fiscal 2019, the Company established a restricted share unit (RSU) plan to form part of long-term incentives compensation, together with other plans discussed within this financial statements. The RSU plan is non-dilutive and is settled in cash only. Under the RSU plan, each restriction period shall consist of three fiscal years of the Company. At the time of the grant of a RSU, the Company determines the vesting criteria which must be met by the participants. Such criteria may include, without limitation, continuing employment through all or part of the restriction period. Following completion of a three-year restriction period, the RSUs for which the vesting 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 RSUs for which the vesting criteria have been achieved. The amount potentially payable to eligible employees will be recognized as a payable and will be revised at each reporting period. The expense will be included in employee benefits under the "Operating costs excluding depreciation and amortization" caption.

No RSUs were granted during fiscal 2019. On April 1, 2019, 132,967 RSUs were granted at a price of \$45.30 per unit.

NOTE 13 OTHER FINANCIAL CHARGES

| | 2019 | 2018 |
|----------------|---------|---------|
| Finance costs | \$ 23.1 | \$ 17.4 |
| Finance income | (5.4) | (3.3) |
| | \$ 17.7 | \$ 14.1 |

NOTE 14 INCOME TAXES

On December 22, 2017, the United States (US) enacted the "Tax Cuts and Jobs Act" which has been commonly referred to as USA tax reform benefit. A significant change under this reform was the reduction of the US Federal tax rate from 35.0% to 21.0%, effective January 1, 2018. This change resulted in the Company recording an income tax benefit of \$178.9 million in last year tax expense.

Income tax expense is comprised of the following:

| | 2019 | 2018 |
|---------------------------------|----------|----------|
| Current tax expense | \$ 177.4 | \$ 198.0 |
| Deferred tax expense (recovery) | 52.9 | (100.6) |
| Income tax expense | \$ 230.3 | \$ 97.4 |

RECONCILIATION OF THE EFFECTIVE TAX RATE

The effective income tax rate was 23.4% in 2019 (10.4% in 2018). The Company's income tax expense differs from the one calculated by applying Canadian statutory rates for the following reasons:

| | 2019 | 2018 |
|---------------------------------------------------------------------------------------------|----------|----------|
| Earnings before tax | \$ 985.6 | \$ 949.9 |
| Income taxes, calculated using Canadian statutory income tax rates of 26.4% (26.4% in 2018) | 260.4 | 250.4 |
| Adjustments resulting from the following: | | |
| Effect of tax rates for foreign subsidiaries and other deductions | 1.8 | 29.5 |
| Changes in tax laws and rates | 2.4 | (163.4) |
| Benefit arising from investment in subsidiaries | (13.9) | (12.8) |
| Manufacturing and processing deduction | (0.4) | (9.5) |
| Stock-based compensation | 4.0 | 3.9 |
| Disposal of asset held for sale | (25.8) | - |
| Tax losses for which no deferred income tax asset was recognized | 0.8 | - |
| Recognition of previously unrecognized deferred tax assets | - | - |
| Adjustments in respect of prior years and other | 1.0 | (0.7) |
| Income tax expense | \$ 230.3 | \$ 97.4 |

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

INCOME TAX RECOGNIZED IN OTHER COMPREHENSIVE INCOME

Income tax on items recognized in other comprehensive income in 2019 and 2018 were as follows:

| | 2019 | 2018 |
|--------------------------------------------------------------------------|--------|--------|
| Deferred tax benefit on actuarial losses on employee benefit obligations | \$ 0.8 | \$ 1.1 |
| Deferred tax (expense) benefit on cash flow hedge | (0.5) | 0.8 |
| Total income tax recognized in other comprehensive income | \$ 0.3 | \$ 1.9 |

NOTE 14 INCOME TAXES (CONT'D)

INCOME TAX RECOGNIZED IN EQUITY

Income tax on items recognized in equity in 2019 and 2018 were as follows:

| | 2019 | | 2018 | |
|---------------------------------------------------------------------------------------------------------------------------------------|------|-----|------|-----|
| Excess tax benefit that results from the excess of the deductible amount over the stock-based compensation recognized in net earnings | \$ | 4.7 | \$ | 2.8 |
| Total income tax recognized in equity | \$ | 4.7 | \$ | 2.8 |

CURRENT TAX ASSETS AND LIABILITIES

| | 2019 | | 2018 | |
|-----------------------------------------|------|--------|------|--------|
| Income taxes receivable | \$ | 34.1 | \$ | 52.0 |
| Income taxes payable | | (36.5) | | (26.5) |
| Income taxes (payable) receivable (net) | \$ | (2.4) | \$ | 25.5 |

DEFERRED TAX BALANCES

| | 2019 | | 2018 | |
|--------------------------------|------|---------|------|---------|
| Deferred tax assets | \$ | 51.0 | \$ | 34.5 |
| Deferred tax liabilities | | (502.3) | | (424.9) |
| Deferred tax liabilities (net) | \$ | (451.3) | \$ | (390.4) |

DEFERRED TAX ASSETS AND LIABILITIES

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

| | For the year ended March 31, 2019 | | | | | | | |
|------------------------------------------------|------------------------------------------|-------------------|-----------------------------|---------|--------------------------|-------------------------------|----------|----------|
| | Deferred tax asset | | | | Deferred tax liabilities | | | |
| | Accounts payable and accrued liabilities | Income tax losses | Net assets of pension plans | Total | Inventories | Property, plant and equipment | Other | Total |
| Balance, beginning of the year | \$ 45.7 | \$ 6.4 | \$ 8.1 | \$ 60.2 | \$ (2.4) | \$ 241.6 | \$ 211.4 | \$ 450.6 |
| Charged/credited to net earnings | (2.7) | (5.3) | 0.3 | (7.7) | 0.2 | 6.7 | 38.3 | 45.2 |
| Charged/credited to other comprehensive income | - | - | 0.8 | 0.8 | - | - | 0.5 | 0.5 |
| Acquisitions | 16.7 | - | - | 16.7 | - | 7.5 | (5.9) | 1.6 |
| Translation and other | (1.6) | - | 0.1 | (1.5) | 1.0 | 19.0 | 1.9 | 21.9 |
| Balance, end of the year | \$ 58.1 | \$ 1.1 | \$ 9.3 | \$ 68.5 | \$ (1.2) | \$ 274.8 | \$ 246.2 | \$ 519.8 |

| | For the year ended March 31, 2018 | | | | | | | |
|------------------------------------------------|------------------------------------------|-------------------|-----------------------------|---------|--------------------------|-------------------------------|----------|----------|
| | Deferred tax asset | | | | Deferred tax liabilities | | | |
| | Accounts payable and accrued liabilities | Income tax losses | Net assets of pension plans | Total | Inventories | Property, plant and equipment | Other | Total |
| Balance, beginning of the year | \$ 56.8 | \$ 15.4 | \$ 9.9 | \$ 82.1 | \$ 8.5 | \$ 323.7 | \$ 213.2 | \$ 545.4 |
| Charged/credited to net earnings | (8.6) | (8.7) | (2.8) | (20.1) | (10.3) | (70.4) | (40.0) | (120.7) |
| Charged/credited to other comprehensive income | - | - | 1.1 | 1.1 | - | - | (0.8) | (0.8) |
| Acquisitions | - | - | - | - | - | - | 51.0 | 51.0 |
| Translation and other | (2.5) | (0.3) | (0.1) | (2.9) | (0.6) | (11.7) | (12.0) | (24.3) |
| Balance, end of the year | \$ 45.7 | \$ 6.4 | \$ 8.1 | \$ 60.2 | \$ (2.4) | \$ 241.6 | \$ 211.4 | \$ 450.6 |

NOTE 15 NET EARNINGS PER SHARE

| | 2019 | 2018 |
|--------------------------------------------------------------|-------------|-------------|
| Net earnings | \$ 755.3 | \$ 852.5 |
| Weighted average number of common shares outstanding | 388,554,458 | 386,561,315 |
| Dilutive options | 2,696,750 | 4,610,594 |
| Weighted average diluted number of common shares outstanding | 391,251,208 | 391,171,909 |
| Basic net earnings per share | \$ 1.94 | \$ 2.21 |
| Diluted net earnings per share | \$ 1.93 | \$ 2.18 |

When calculating diluted net earnings per share for the year ended March 31, 2019, 7,270,893 options (3,822,206 options for the year ended March 31, 2018) were excluded from the calculation because their exercise price is higher than the average market value for the year.

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

NOTE 16 BUSINESS ACQUISITIONS

F&A DAIRY PRODUCTS, INC.

On November 30, 2018, the Company completed the acquisition of the activities of F&A Dairy Products, Inc. (F&A). Its activities were conducted at two manufacturing facilities located in Las Cruces, New Mexico, and activities no longer conducted at Dresser, Wisconsin (USA). F&A manufactures a variety of natural cheeses, including mozzarella and provolone, which are distributed in the United States and Mexico.

The purchase price of \$108.1 million (US\$81.4 million), on a debt-free basis, was paid in cash from cash on hand and available credit facilities.

Recognized goodwill reflects the value assigned to expected future synergies and an assembled workforce within the Cheese Division (USA) CGU.

The purchase price allocation will be completed during fiscal 2020.

SHEPHERD GOURMET DAIRY (ONTARIO) INC.

On June 19, 2018, the Company completed the acquisition of the activities of Shepherd Gourmet Dairy (Ontario) Inc. (Shepherd Gourmet). Its activities are conducted at one manufacturing facility located in St. Marys, Ontario (Canada). Shepherd Gourmet manufactures, markets and distributes a variety of specialty cheeses, yogurt, as well as Skyr Icelandic-style yogurt in Canada.

The purchase price was \$99.8 million, on a debt-free-basis, of which \$89.8 million was paid in cash from cash on hand and available credit facilities and \$10.0 million represents a balance payable to the vendor.

Recognized goodwill reflects the value assigned to expected future synergies and an assembled workforce within the Dairy Division (Canada) CGU.

The purchase price allocation was completed in the third quarter of fiscal 2019.

NOTE 16 BUSINESS ACQUISITIONS (CONT'D)

MURRAY GOULBURN CO-OPERATIVE CO. LIMITED

On May 1, 2018, the Company completed the acquisition of the business of Murray Goulburn Co-Operative Co. Limited (Murray Goulburn or MG), based in Australia. The MG acquisition complements the activities of the Dairy Division (Australia) and enables the Company to strengthen its presence in Australia. MG produces a full range of dairy foods, including fluid milk, milk powder, cheese, butter and dairy beverages, as well as a range of ingredient and nutritional products, such as infant formula. MG supplies the retail and foodservice industries globally with its flagship *Devondale*, *Liddells* and *Murray Goulburn Ingredients* brands.

The purchase price for the transaction was \$1.276 billion (AU\$1.311 billion) on a debt-free basis and was financed through the MG Acquisition Facility (Note 10). Included in the purchase price, the Company assumed liabilities of \$76.7 million.

On August 17, 2018, the Company completed the sale of the Koroit plant in Victoria for a selling price of \$239.7 million (AU\$250.9 million). This divestiture was required pursuant to the undertaking entered into with the Australian Competition and Consumer Commission in connection with the acquisition of the activities of MG. The assets held for sale of the Koroit plant included inventory, property, plant and equipment and intangible assets. These assets were valued at fair value less costs to sell. There was no gain or loss related to this transaction.

Recognized goodwill reflects the value assigned to expected future synergies and an assembled workforce within the Dairy Division (Australia) CGU.

The purchase price allocation was completed in the fourth quarter of fiscal 2019.

The allocation of each purchase price is presented below.

| | | Murray Goulburn | Shepherd Gourmet | F&A | 2019 Total |
|---------------------------------------------|------------------------------------------|--------------------|---------------------|----------|---------------|
| Assets acquired | Cash | \$ 7.4 | \$ - | \$ - | 7.4 |
| | Receivables | 244.8 | 5.1 | 18.5 | 268.4 |
| | Inventories | 382.9 | 3.2 | 8.7 | 394.8 |
| | Prepaid expenses and other assets | 10.4 | 0.5 | 0.1 | 11.0 |
| | Assets held for sale | 240.3 | - | - | 240.3 |
| | Property, plant and equipment | 632.1 | 12.8 | 58.7 | 703.6 |
| | Goodwill | 10.5 | 78.3 | 39.0 | 127.8 |
| | Intangible assets | 38.9 | 5.2 | - | 44.1 |
| | Other assets | 3.9 | - | - | 3.9 |
| | Deferred income taxes | 16.6 | - | - | 16.6 |
| Liabilities assumed | Accounts payable and accrued liabilities | (280.9) | (3.7) | (15.4) | (300.0) |
| | Other liabilities | (30.6) | - | (1.5) | (32.1) |
| | Deferred income taxes | - | (1.6) | - | (1.6) |
| Net assets acquired and total consideration | | \$ 1,276.3 | \$ 99.8 | \$ 108.1 | \$ 1,484.2 |

BETIN, INC.

On December 12, 2017, the Company completed the acquisition of Betin, Inc., doing business as Montchevre (Betin or Montchevre). The purchase price of \$348.1 million, on a debt free basis, was paid in cash.

Montchevre manufactured, marketed and distributed goat cheese in the USA, mainly under the *Montchevre* brand. Its activities are conducted at one manufacturing facility located in Belmont, Wisconsin (USA).

Recognized goodwill reflects the value assigned to expected future synergies and an assembled workforce within the Cheese Division (USA) CGU.

NOTE 16 BUSINESS ACQUISITIONS (CONT'D)

EXTENDED SHELF-LIFE (ESL) DAIRY PRODUCT ACTIVITIES OF SOUTHEAST MILK, INC. (SMI)

On September 29, 2017, the Company acquired the ESL dairy product activities of SMI. The purchase price of \$63.6 million, on a debt free basis, included cash consideration of \$37.0 million.

Its activities are conducted at one manufacturing facility located in Plant City, Florida (USA).

Recognized goodwill reflects the value assigned to expected future synergies and an assembled workforce within the Dairy Foods Division (USA) CGU.

The purchase price was allocated to the identifiable assets acquired and liabilities assumed based on the fair values presented below.

| | | Betin | SMI | 2018 Total |
|---------------------------------------------|-------------------------------|----------|---------|---------------|
| Assets acquired | Working capital | \$ 38.4 | \$ 2.8 | \$ 41.2 |
| | Property, plant and equipment | 17.5 | 38.6 | 56.1 |
| | Goodwill | 211.6 | 22.2 | 233.8 |
| | Intangibles | 131.6 | - | 131.6 |
| Liabilities assumed | Finance lease obligations | - | (26.6) | (26.6) |
| | Deferred income taxes | (51.0) | - | (51.0) |
| Net assets acquired and total consideration | | \$ 348.1 | \$ 37.0 | \$ 385.1 |

NOTE 17 EMPLOYEE POST-EMPLOYMENT 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. 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 99% 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 2019, the defined contribution expenses for the Company amounted to \$63.4 million compared to \$47.8 million for fiscal 2018. The Company expects to contribute approximately \$65.3 million to its defined contribution plans for fiscal 2020.

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 retirement benefits are equal to 2% of the average eligible earnings of the last employment years multiplied by years of credited service.

The registered pension plans must comply with statutory funding requirements in the province or state in which they are registered. Funding valuations are required on an annual or triennial basis, depending on the jurisdiction, and employer contributions must include amortization payments for any deficit, over a period of 5 to 15 years. Contribution holidays are allowed and subject to certain thresholds. Other non-registered pension plans and benefits other than pension are not subject to any minimum funding requirements.

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, 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 \$4.1 million to its defined benefit plans in 2020. The Company's net liability for post-employment benefit plans comprises the following:

| | March 31, 2019 | March 31, 2018 |
|----------------------------------------------------------------------------------|----------------|----------------|
| Present value of funded obligation | \$ 71.2 | \$ 72.2 |
| Fair value of assets | 66.3 | 67.0 |
| Present value of net obligations for funded plans | 4.9 | 5.2 |
| Present value of unfunded obligations | 30.9 | 27.1 |
| Present value of net obligations | 35.8 | 32.3 |
| Asset ceiling test | 0.8 | 0.8 |
| Accrued pension/benefit cost as at March 31 | 36.6 | 33.1 |
| Employee benefit amounts on the statement of financial position as net liability | \$ 36.6 | \$ 33.1 |

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

| | March 31, 2019 | March 31, 2018 |
|-----------------------------------------------------------------|----------------|----------------|
| Defined benefit obligation, beginning of year | \$ 99.3 | \$ 102.8 |
| Current service costs | 5.2 | 5.0 |
| Interest cost | 3.5 | 3.6 |
| Actuarial losses from change in experience | 0.1 | 2.2 |
| Actuarial losses from change in economic assumptions | 3.3 | 2.8 |
| Actuarial (gains) losses from change in demographic assumptions | (0.1) | 0.4 |
| Effects of settlement ¹ | (5.6) | (1.2) |
| Exchange differences | 0.5 | (0.3) |
| Benefits paid | (4.1) | (16.0) |
| Defined benefit obligation, end of year | \$ 102.1 | \$ 99.3 |

¹ Annuities were purchased to release the plan from its liability with regards to retirees.

NOTE 17 EMPLOYEE POST-EMPLOYMENT BENEFITS PLANS (CONT'D)

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

| | March 31, 2019 | March 31, 2018 |
|--------------------------------------------------|----------------|----------------|
| Fair value of plan assets, beginning of year | \$ 67.0 | \$ 64.9 |
| Interest income on plan assets | 2.3 | 2.5 |
| Return on plan assets, excluding interest income | 0.5 | - |
| Administration costs | (0.3) | (0.3) |
| Contributions by employer | 6.4 | 17.6 |
| Effects of settlement ¹ | (5.7) | (1.6) |
| Exchange differences | 0.2 | (0.1) |
| Benefits paid | (4.1) | (16.0) |
| Fair value of plan assets, end of year | \$ 66.3 | \$ 67.0 |

¹ Annuities were purchased to release the plan from its liability with regards to retirees.

Actual return on plans assets amounted to a gain of \$2.5 million in fiscal 2019 compared to a gain of \$2.2 million in fiscal year 2018.

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

| | March 31, 2019 | March 31, 2018 |
|---------------------------------|----------------|----------------|
| Bonds | 75% | 48% |
| Equity instruments | 24% | 45% |
| Cash and short-term investments | 1% | 7% |
| | 100% | 100% |

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

| | March 31, 2019 | March 31, 2018 |
|--------------------------------|----------------|----------------|
| Employer current service cost | \$ 5.2 | \$ 5.0 |
| Effect of settlement | 0.1 | 0.5 |
| Administration costs | 0.3 | 0.3 |
| Interest costs | 3.4 | 3.6 |
| Interest income on plan assets | (2.3) | (2.5) |
| Defined benefits plans expense | \$ 6.7 | \$ 6.9 |

The Company recognizes actuarial gains and losses in the period in which they occur, for all its defined benefit plans. These actuarial gains and losses are recognized in other comprehensive income and are presented below:

| | March 31, 2019 | March 31, 2018 |
|-------------------------------------------------|----------------|----------------|
| Net losses during the year | \$ (2.9) | \$ (5.4) |
| Effect of the asset ceiling test | - | 0.2 |
| Amount recognized in other comprehensive income | \$ (2.9) | \$ (5.2) |

Weighted average assumptions used in computing the benefit obligations at the financial position date are as follows:

| | March 31, 2019 | March 31, 2018 |
|----------------------------|--------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------|
| Discount rate | 3.36% | 3.59% |
| Duration of the obligation | 18.40 | 18.13 |
| Future salary increases | 3.00% | 3.00% |
| Mortality table | 2014 Private Sector Canadian Pensioners' Mortality Table, projected generationally using Scale MI-2017 | 2014 Private Sector Canadian Pensioners' Mortality Table, projected generationally using Scale MI-2017 |

The impact of an increase and a decrease of 1% on the discount rate would be \$16.1 million and \$19.3 million respectively. Also, an increase or a decrease of 1% on the future salary assumptions would be approximately \$3.5 million on the obligation and a 10% increase in life expectancy would represent approximately \$1.6 million.

NOTE 17 EMPLOYEE POST-EMPLOYMENT BENEFITS PLANS (CONT'D)

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

| | March 31, 2019 | March 31, 2018 |
|-------------------------|--------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------|
| Discount rate | 3.59% | 3.77% |
| Future salary increases | 3.00% | 3.00% |
| Mortality table | 2014 Private Sector Canadian Pensioners' Mortality Table, projected generationally using Scale MI-2017 | 2014 Private Sector Canadian Pensioners' Mortality Table, projected generationally using Scale CPM-B |

For measurement purposes, a 2.5% to 7.0% annual rate of increase was used for health, life insurance and dental plan costs for the fiscal years 2019 and 2018.

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.

NOTE 18 COMMITMENTS AND CONTINGENCIES

COMMITMENTS

The table and paragraphs below show the future minimum payments for our contractual commitments that are not recognized as liabilities for the next fiscal years:

| | Leases | Purchase obligations ¹ | Total |
|-------------------|----------|-----------------------------------|----------|
| Less than 1 year | \$ 110.4 | \$ 154.1 | \$ 264.5 |
| 1-2 years | 85.6 | - | 85.6 |
| 2-3 years | 62.7 | - | 62.7 |
| 3-4 years | 49.7 | - | 49.7 |
| 4-5 years | 39.3 | - | 39.3 |
| More than 5 years | 183.5 | - | 183.5 |
| | \$ 531.2 | \$ 154.1 | \$ 685.3 |

¹ Purchase obligations are the contractual obligations for capital expenditures to which the Company is committed.

The Company carries on some of its operations in leased premises and has also entered into lease agreements for equipment and rolling stock. 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 financial statements.

CLAIMS

The Company is a defendant to certain claims arising from the normal course of its business. The Company is also a 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 consolidated income statements or consolidated statement of 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 disposals. These indemnification provisions may be in connection with breach of representations and warranties, and for future claims for certain liabilities. The terms of these indemnification provisions vary in duration. At March 31, 2019, 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, 2019 and March 31, 2018, the Company has not recorded any significant liabilities associated with these indemnifications.

LETTERS OF CREDIT

As at March 31, 2019, the Company had issued letters of credit in an aggregate amount of \$58.4 million pursuant to a banking facility authorizing the issuance of letters of credit in an aggregate amount of \$109.5 million (as at March 31, 2018, the Company had issued letters of credit in an aggregate amount of \$43.8 million pursuant to a banking facility authorizing the issuance of letters of credit in an aggregate amount of \$100.0 million).

NOTE 19 RELATED PARTY TRANSACTIONS

The Company receives services from and provides goods 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 values for similar transactions. The services that are received consist mainly of travel, publicity, lodging, office space rental and management services. The goods that are provided consist mainly of dairy products.

Transactions with key management personnel (short-term employee benefits, post-employment benefits, stock-based compensation and payments under the DSU plan) are also considered related party transactions. Management defines key management personnel as all the executive officers who have 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:

| | 2019 | 2018 |
|-----------------------------------------------------------------------------------------------------|---------|---------|
| Entities subject to control or significant influence through ownership by its principal shareholder | \$ 5.9 | \$ 6.3 |
| Key management personnel | | |
| Directors | 2.4 | 2.6 |
| Executive officers | 26.0 | 28.1 |
| | \$ 34.3 | \$ 37.0 |

Dairy products provided by the Company were the following:

| | 2019 | 2018 |
|-----------------------------------------------------------------------------------------------------|--------|--------|
| Entities subject to control or significant influence through ownership by its principal shareholder | \$ 0.3 | \$ 0.3 |

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

| | Receivables | | Accounts payable and accrued liabilities | |
|-----------------------------------------------------------------------------------------------------|----------------|----------------|------------------------------------------|----------------|
| | March 31, 2019 | March 31, 2018 | March 31, 2019 | March 31, 2018 |
| Entities subject to control or significant influence through ownership by its principal shareholder | \$ 0.1 | \$ 0.1 | \$ 0.2 | \$ 0.5 |
| Key management personnel | | | | |
| Directors | - | - | 15.9 | 12.2 |
| Executive officers | - | - | 33.7 | 27.8 |
| | \$ 0.1 | \$ 0.1 | \$ 49.8 | \$ 40.5 |

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 executive officers consist of short-term employee incentives, share-based awards and post-retirement benefits.

NOTE 19 RELATED PARTY TRANSACTIONS (CONT'D)

KEY MANAGEMENT PERSONNEL COMPENSATION

The compensation expense for transactions with the Company's key management personnel, including annual fees of the executive Chairman who retired in August 2017, consists of the following:

| | 2019 | 2018 |
|------------------------------|---------|---------|
| Directors | | |
| Cash-settled payments | \$ 0.1 | \$ 0.3 |
| Stock-based compensation | 2.3 | 2.3 |
| | \$ 2.4 | \$ 2.6 |
| Executive officers | | |
| Short-term employee benefits | 12.1 | 13.5 |
| Post-employment benefits | 3.3 | 3.5 |
| Stock-based compensation | 10.6 | 11.1 |
| | \$ 26.0 | \$ 28.1 |
| Total compensation | \$ 28.4 | \$ 30.7 |

SUBSIDIARIES

All the Company's subsidiaries are wholly owned. The following information summarizes the Company's significant subsidiaries which produce a wide array of dairy products including cheese, fluid milk, extended shelf-life milk and cream products, cultured products and dairy ingredients:

| | Percentage Owned | Location |
|----------------------------------------------------------------|------------------|-----------|
| Saputo Dairy Products Canada G.P. | 100.00% | Canada |
| Saputo Cheese USA Inc. | 100.00% | USA |
| Saputo Dairy Foods USA, LLC | 100.00% | USA |
| Saputo Dairy Australia Pty LTD | 100.00% | Australia |
| Warrnambool Cheese and Butter Factory Company Holdings Limited | 100.00% | Australia |
| Molfino Hermanos S.A. | 100.00% | Argentina |

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, interest rate risk, foreign exchange risk and price risk (including commodity price risk). These financial instruments are subject to normal credit conditions, financial controls and risk management and monitoring strategies.

Occasionally, the Company may enter into derivative financial instrument transactions in order to mitigate or hedge risks in accordance with risk management strategies. The Company does not enter into these arrangements for speculative purposes.

CREDIT RISK

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

Cash equivalents consist mainly of short-term investments. The Company has deposited these cash equivalents in reputable financial institutions.

The Company also offers credit to its customers in the normal course of business for trade receivables. Credit valuations are performed on a regular basis and reported results take into account allowances for potential 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, 2019 and March 31, 2018. No customer represented more than 10% of total consolidated revenues for the year ended March 31, 2019 (one customer with 10.4% in 2018).

NOTE 20 FINANCIAL INSTRUMENTS (CONT'D)

Allowance for doubtful accounts and past due receivables are reviewed by Management at each financial position date. The Company updates its estimate of the allowance for doubtful accounts based on the evaluation of the recoverability of trade receivables with each customer base, taking into account historical collection trends of past due accounts and current economic conditions. The accounts receivable from our export sales benefit from payment terms that are longer than our standard payment terms applicable to domestic sales.

The amount of the allowance for doubtful accounts is sufficient to cover the carrying amount of receivables considered past due and at risk. The amount of the loss is recognized in the consolidated income statements within operating costs. Subsequent recoveries of amounts previously written off are credited against operating costs in the consolidated income statements. 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.

Contractual maturities for the significant financial liabilities as at March 31, 2019, are as follow: accounts payable and accrued liabilities, bank loans and long-term debt. All items included in accounts payable and accrued liabilities are less than one year. For maturities on bank loans and the long-term debt, please refer to Note 9 and Note 10 respectively.

INTEREST RATE RISK

The Company is exposed to interest rate risks through its financial obligations that bear variable interest rates. Bank loans and unsecured bank term loans facilities 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.

For the fiscal year ended March 31, 2019, the interest expense on long-term debt totalled \$66.6 million (\$33.8 million in fiscal 2018). The interest accrued as at March 31, 2019, was \$11.0 million (\$9.7 million as at March 31, 2018).

As at March 31, 2019, the net amount exposed to short-term rates fluctuations was approximately \$705.6 million. Based on this exposure, an assumed 1% increase in the interest rate would have an unfavourable impact of approximately \$4.9 million on net earnings with an equal but opposite effect for an assumed 1% decrease.

NOTE 20 FINANCIAL INSTRUMENTS (CONT'D)

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, as well as the unsecured bank term loan facilities that can be drawn in US dollars, Australian dollars and Argentine Peso.

The Company entered into forward exchange contracts to sell US dollars and buy Australian dollars in order to mitigate market fluctuations in the USD/AUD exchange rates on receivables. During the fiscal year, the cash flow hedges were highly effective and accordingly, the Company recognized an unrealized loss of \$10.9 million (net of tax of \$4.7 million) in other comprehensive income as a result. A loss of \$9.9 million (net of tax of \$4.2 million) was reclassified to net earnings during fiscal 2019 related to these forward exchange contracts. These cash flow hedges were also deemed to be highly effective on March 31, 2018, and an unrealized gain of \$2.8 million (net of tax of \$1.2 million), was recorded, during last fiscal year, in other comprehensive income. A gain of \$6.0 million (net of tax of \$2.6 million) was reclassified to net earnings during fiscal 2018 related to these forward exchange contracts.

During last fiscal year, the Company entered into forward exchange contracts in order to offset market fluctuations in the USD/CAD exchange rates for the US dollars intercompany financing. This intercompany financing from our US to Canada divisions for the foreign exchange hedge will settle in November 2019 for US\$250.0 million. This cash flow hedges were highly effective and accordingly, the Company recognized an unrealized gain of \$1.7 million (net of tax of \$0.3 million) in other comprehensive income. During fiscal 2019, a gain of \$0.8 million (net of tax of \$0.2 million) in other comprehensive income was reclassified to net earnings related to this forward exchange contracts.

The Company's largest exposure comes from the US dollar fluctuations. The following table details the Company's sensitivity to a CDN\$0.10 weakening of the Canadian dollar against the US dollar on net earnings and comprehensive income. For a CDN\$0.10 appreciation of the Canadian dollar against the US dollar, there would be an equal and opposite impact on net earnings and comprehensive income.

| | 2019 | | 2018 | |
|--------------------------------|------|-------|------|-------|
| Change in net earnings | \$ | 14.8 | \$ | 32.0 |
| Change in comprehensive income | \$ | 310.6 | \$ | 281.2 |

COMMODITY PRICE RISK

In certain instances, the Company enters into futures contracts to hedge against fluctuations in the price of commodities. Outstanding contracts as at the financial position date had a positive fair value of approximately \$0.6 million (negative fair value of approximately \$1.9 million at March 31, 2018).

The Company applies hedge accounting for certain of these transactions. During the fiscal year, these hedges (designated as cash flow hedges) were assessed to be highly effective and accordingly, an unrealized loss of \$1.3 million (net of tax of \$0.2 million) was recorded in other comprehensive income. The gains recorded in the consolidated statement of comprehensive income are transferred to the consolidated statement of net earnings when the related inventory is ultimately sold. These hedges (designated as cash flow hedges) were assessed to be highly effective and accordingly, an unrealized gain of \$0.6 million (net of tax of \$0.4 million) was recorded, during last fiscal year, in other comprehensive income.

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, 2019 and March 31, 2018. 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.

NOTE 20 FINANCIAL INSTRUMENTS (CONT'D)

| | March 31, 2019 | | March 31, 2018 | |
|--------------------------------------------------------------------|-------------------|-------------------|-------------------|-------------------|
| | Fair value | Carrying value | Fair value | Carrying value |
| Cash flow hedges | | | | |
| Commodity derivatives (Level 2) | \$ 0.3 | \$ 0.3 | \$ (1.4) | \$ (1.4) |
| Foreign exchange derivatives (Level 2) | 0.2 | 0.2 | (8.7) | (8.7) |
| Derivatives not designated in a formal hedging relationship | | | | |
| Equity forward contracts (Level 2) | 1.8 | 1.8 | (1.4) | (1.4) |
| Commodity derivatives (Level 2) | 0.3 | 0.3 | (0.5) | (0.5) |
| Long-term debt (Level 2) | \$ 2,266.9 | \$ 2,267.3 | \$ 1,410.0 | \$ 1,425.3 |

The following table summarizes the financial instruments measured at fair value in the consolidated statement of financial position as at March 31, 2019 and March 31, 2018, classified using the fair value hierarchy described in Note 3.

| March 31, 2019 | Level 1 | Level 2 | Level 3 | Total |
|-----------------------------|---------|---------|---------|--------|
| Commodity futures contracts | \$ - | \$ 0.6 | \$ - | \$ 0.6 |
| Foreign exchange contracts | - | 0.2 | - | 0.2 |
| Equity forward contracts | - | 1.8 | - | 1.8 |
| | \$ - | \$ 2.6 | \$ - | \$ 2.6 |

| March 31, 2018 | Level 1 | Level 2 | Level 3 | Total |
|-----------------------------|---------|-----------|---------|-----------|
| Commodity futures contracts | \$ - | \$ (1.9) | \$ - | \$ (1.9) |
| Foreign exchange contracts | - | (8.7) | - | (8.7) |
| Equity forward contracts | - | (1.4) | - | (1.4) |
| | \$ - | \$ (12.0) | \$ - | \$ (12.0) |

For the years ended March 31, 2019 and 2018, there were no changes in valuation techniques and in inputs used in the fair value measurements and there were no transfers between the levels of the fair value hierarchy.

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 financial position 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 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 strategies and undertake selective acquisitions, while at the same time taking a conservative approach towards financial leverage and management of financial risk. An additional objective includes a target for long-term leverage of 2.0 times net debt to earnings before interest, income taxes, depreciation, amortization, gain on disposal of assets, acquisition and restructuring costs, and gain on hyperinflation. From time to time, the Company may deviate from its long-term leverage target to pursue acquisitions and other strategic opportunities. Should such a scenario arise, the Company expects to deleverage over a reasonable period of time in order to seek to maintain its investment grade ratings. Also, the Company seeks to provide an adequate return to its shareholders. The Company believes that the purchases of its own shares may, under appropriate circumstances, be a responsible use of its capital.

NOTE 21 CAPITAL DISCLOSURES (CONT'D)

The Company's capital is composed of net debt and 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 earnings before interest, income taxes, depreciation, amortization, gain on disposal of assets, acquisition and restructuring costs, and gain on hyperinflation. The net debt-to-earnings before interest, income taxes, depreciation, amortization, gain on disposal of assets, acquisition and restructuring costs, and gain on hyperinflation ratios as at March 31, 2019 and March 31, 2018, are as follows:

| | 2019 | 2018 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|------------|
| Bank loans | \$ 130.4 | \$ 193.3 |
| Long-term debt, including current portion | 2,267.3 | 1,425.3 |
| Cash and cash equivalents | (112.7) | (122.2) |
| Net debt | \$ 2,285.0 | \$ 1,496.4 |
| Earnings before interest, income taxes, depreciation, amortization, gain on disposal of assets, acquisition and restructuring costs, and gain on hyperinflation | \$ 1,221.3 | \$ 1,264.7 |
| Net debt-to-earnings before interest, income taxes, depreciation, amortization, gain on disposal of assets, acquisition and restructuring costs, and gain on hyperinflation | 1.87 | 1.18 |

The Company has existing credit facilities which require a quarterly review of financial ratios and the Company is not in violation of any such ratio covenants as at March 31, 2019.

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

NOTE 22 ACQUISITION AND RESTRUCTURING COSTS

Acquisition and restructuring costs are summarized as follows:

| | 2019 | 2018 |
|---------------------|---------|---------|
| Restructuring costs | \$ 1.2 | \$ 33.7 |
| Acquisition costs | 50.2 | 6.9 |
| Total | \$ 51.4 | \$ 40.6 |

RESTRUCTURING COSTS

In fiscal 2019, the Company announced the closure of one facility. The closure occurred in March 2019.

Costs associated with the closure recorded regarding restructuring activities are summarized in the table below:

| | 2019 | 2018 |
|----------------------------------|--------|---------|
| Write down of non-current assets | \$ 0.2 | \$ 10.6 |
| Closure costs | 1.0 | 23.1 |
| Total | \$ 1.2 | \$ 33.7 |

The write down of non-current assets, recorded in fiscal 2019, consists of impairment charges to property, plant and equipment to bring them to the lower of carrying value and recoverable amount. The total after tax costs for fiscal 2019 is \$0.8 million (\$25.1 million in fiscal 2018).

The restructuring costs recorded in fiscal 2019 represent estimated expenses required to restructure these operations. Liabilities related to severance expenditures have been grouped within current liabilities on the consolidated statement of financial position.

ACQUISITION COSTS

In connection with the Murray Goulburn Acquisition, F&A Acquisition and Shepherd Gourmet Acquisition, (Note 16), the Company incurred acquisition costs of \$50.2 million (\$35.3 million after tax) in fiscal 2019 of which approximately \$39 million represents stamp duties for the Murray Goulburn Acquisition. In fiscal 2018, acquisition costs incurred were \$6.9 million (\$5.6 million after tax).

NOTE 23 SEGMENTED INFORMATION

The Company reports under three geographic sectors. The Canada Sector consists of the Dairy Division (Canada). The USA Sector consists of the Cheese Division (USA) and the Dairy Foods Division (USA). Finally, the International Sector consists of the Dairy Division (Australia) and the Dairy Division (Argentina).

These reportable sectors are managed separately as each sector represents a strategic business unit that offers different products and serves different markets. The Company measures geographic and sector performance based on earnings before interest, income taxes, depreciation, amortization, gain on disposal of assets, acquisition and restructuring costs, and gain on hyperinflation.

Management has aggregated the Cheese Division (USA) and the Dairy Foods Division (USA) due to similarities in long-term average return and correlated market factors driving pricing strategies that affect the operations of both divisions. The divisions within the International Sector have been combined due to similarities in global market factors and production processes.

The accounting policies of the sectors are the same as those described in Note 3 relating to significant accounting policies.

INFORMATION ON REPORTABLE SECTORS

| Years ended March 31 | | |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|--------------------|
| | 2019 | 2018 |
| Revenues | | |
| Canada | \$ 4,043.1 | \$ 4,069.9 |
| USA | 6,507.7 | 6,132.8 |
| International | 2,951.1 | 1,339.8 |
| | \$ 13,501.9 | \$ 11,542.5 |
| Earnings before interest, income taxes, depreciation, amortization, gain on disposal of assets, acquisition and restructuring costs, and gain on hyperinflation | | |
| Canada | \$ 413.7 | \$ 475.9 |
| USA | 544.7 | 649.4 |
| International | 262.9 | 139.4 |
| | \$ 1,221.3 | \$ 1,264.7 |
| Depreciation and amortization | | |
| Canada | \$ 73.9 | \$ 55.9 |
| USA | 162.3 | 138.4 |
| International | 76.8 | 32.0 |
| | \$ 313.0 | \$ 226.3 |
| Gain on disposal of assets | (194.5) | |
| Acquisition and restructuring costs | 51.4 | 40.6 |
| Gain on hyperinflation | (18.5) | |
| Financial charges, net | 84.3 | 47.9 |
| Earnings before income taxes | 985.6 | 949.9 |
| Income taxes | 230.3 | 97.4 |
| Net earnings | \$ 755.3 | \$ 852.5 |

NOTE 23 SEGMENTED INFORMATION (CONT'D)

GEOGRAPHIC INFORMATION

| | March 31, 2019 | March 31, 2018 |
|--------------------------------------------------------|--------------------|--------------------|
| Revenues | | |
| Canada | \$ 4,043.1 | \$ 4,069.9 |
| USA | 6,507.7 | 6,132.8 |
| Australia | 2,301.0 | 672.5 |
| Argentina | 650.1 | 667.3 |
| | \$ 13,501.9 | \$ 11,542.5 |
| Net book value of property, plant and equipment | | |
| Canada | \$ 679.3 | \$ 592.3 |
| USA | 1,499.2 | 1,361.4 |
| Australia | 818.4 | 216.3 |
| Argentina | 98.5 | 50.0 |
| | \$ 3,095.4 | \$ 2,220.0 |
| Intangibles | | |
| Canada | \$ 342.9 | \$ 342.4 |
| USA | 429.8 | 398.3 |
| Australia | 91.9 | 67.6 |
| Argentina | 11.6 | 14.8 |
| | \$ 876.2 | \$ 823.1 |

The following table presents revenues by market segmentation. Certain prior year's figures have been reclassified to conform to the current presentation.

| | March 31, 2019 | March 31, 2018 |
|-----------------|--------------------|--------------------|
| Revenues | | |
| Retail | \$ 6,342.3 | \$ 5,688.1 |
| Foodservice | 4,794.7 | 4,481.9 |
| Industrial | 2,364.9 | 1,372.5 |
| | \$ 13,501.9 | \$ 11,542.5 |

NOTE 24 DIVIDENDS

During the year ended March 31, 2019, the Company paid dividends totalling \$254.6 million, or \$0.66 per share (\$243.5 million, or \$0.64 per share for the year ended March 31, 2018).

NOTE 25 SUBSEQUENT EVENTS

ACQUISITION OF DAIRY CREST GROUP PLC

On April 15, 2019, the Company completed the acquisition of Dairy Crest Group plc (Dairy Crest) based in the United Kingdom. Dairy Crest manufactures and markets cheese, butter, spreads, oils and value-added dairy ingredients. The acquisition enables Saputo to enter the UK market.

The total consideration of approximately £1.2 billion (\$2.1 billion), which includes a purchase price for the entire issued ordinary share capital of £975 million (\$1.7 billion), paid in cash, and £256 million (\$445 million) of assumed debt, was financed through the DC Acquisition Facility (Note 10). Due to the recent closing of the acquisition of Dairy Crest, the valuation and initial purchase price allocation for the business combination was not completed as at the date of release of these financial statements. As a result, the Company has not provided amounts recognized as at the acquisition date for major classes of assets acquired and liabilities assumed, including goodwill. The allocation of the total consideration will be finalized after a comprehensive evaluation of the fair value of net assets acquired has been completed.

NOTE 25 SUBSEQUENT EVENTS (CONT'D)

ACQUISITION OF THE SPECIALTY CHEESE BUSINESS OF LION-DAIRY & DRINKS PTY LTD

On April 26, 2019, the Company announced that it had entered into an agreement to acquire the specialty cheese business of Lion-Dairy & Drinks Pty Ltd (Specialty Cheese Business), in Australia. The transaction is subject to foreign investment approval and clearance by the Australian Competition and Consumer Commission and is expected to close in the second half of calendar year 2019. The Specialty Cheese Business produces, markets and distributes a variety of specialty cheeses under a wide portfolio of Australian brands, including *South Cape*, *Tasmanian Heritage*, *Mersey Valley* and *King Island Dairy*.

The purchase price of approximately \$265 million (AU\$280 million), on a cash-free and debt-free basis, will be paid in cash at closing from cash on hand and available credit facilities.



CORPORATE HEADQUARTERS

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ANNUAL MEETING OF SHAREHOLDERS

Thursday, August 8, 2019, at 10 a.m.
Laval Room, Hotel Sheraton Laval
2440 Autoroute des Laurentides
Laval, QC Canada H7T 1X5

INVESTOR RELATIONS

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STOCK EXCHANGE

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Symbol: SAP

TRANSFER AGENT

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EXTERNAL AUDITORS

Deloitte LLP
Montréal, QC Canada

DIVIDEND POLICY

Saputo Inc. declares quarterly cash dividends on common shares at \$0.165 per share, representing a yearly dividend of \$0.66 per share.

The Board of Directors reviews the Company's dividend policy from time to time, but at least once annually, based on financial condition, financial performance, capital requirements and such other factors as are deemed relevant by the Board in its sole discretion.

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