ANNUAL REPORT 2014

TOGETHER

TO SECURE OUR SUSTAINABILITY

AGROPUR
Dairy Cooperative

TOGETHER TO SECURE OUR SUSTAINABILITY

Agropur's 2013 Annual Report marked the Cooperative's 75th anniversary and underscored the passion and vision that have spurred our members and employees since 1938. In the same spirit, this 2014 Annual Report shows continuity, how the organization has remained relevant and current, and how it has transformed itself while remaining true to the values by which it has been guided throughout the years.

In today's dairy industry, new challenges are arising, the competition is evolving and customers are changing. As the landscape shifts, Agropur and its stakeholders need, more than ever, to act in unison. Members and employees work together to ensure the Cooperative's sustainability.

During the past year, Agropur strengthened its industry-leading position in Canada and became a significant player in the North American dairy industry. Agropur remained committed to developing on the basis of cooperative principles, preserving its members' vision and keeping alive the legacy of the past. Agropur is confident that together, producers and employees can create winning conditions for the organization.

Clinton Lewis, Agropur Cooperative Member
Charles R. Lewis Farm
Moshers Corner, Nova Scotia

MESSAGE FROM SERGE RIENDEAU

TOGETHER TOWARDS NEW HORIZONS

Dear members and employees,

2014 was certainly a historic year for Agropur. Our Cooperative made a series of transformative moves as part of a strategy for solid, profitable growth aimed at securing the organization's future.

The global dairy industry is undergoing fast-paced consolidation. We have demonstrated that our Cooperative is able to play an active role as a consolidator by seizing the strategic opportunities that arise and positioning itself as a significant processor in our industry.

The year was also marked by a string of public events at which Agropur had a high profile. We had numerous opportunities to explain that our goals and concerns revolve around our members' interests and our organization's sustainability, and will continue to do so. This is why we aim for nothing less than excellence.

Our Cooperative is the product of more than 140 mergers and acquisitions since 1938. It has grown from a regional organization into a North American leader that is positioning itself for the future. We are confidently pursuing growth and we are gratified that our efforts are bearing fruit.

AGROPUR CONTINUES TO GROW

During 2014, we laid strategic and structuring foundations for our organization's future. We completed the merger with Dairytown and made transformative acquisitions in both Canada and the U.S.

Our Cooperative became a Canadian leader, with processing operations stretching from coast to coast. Moreover, we became a major processor at the North American level, joining the ranks of the top five manufacturers of cheese and ingredients in the United States.

Today, we are proud to report that Agropur is among the 20 largest dairy processors in the world. We have achieved this stature for the right reasons: we want to be large enough to effectively serve our customers, which are increasingly international, and to face world-wide competition.

While our transactions and investments in our facilities entailed major expenditures in 2014, Agropur's financial position remains healthy and will enable us to pursue our development.

"I WOULD LIKE TO THANK ALL OF OUR MEMBERS AND EMPLOYEES FOR THEIR WORK AND DEDICATION IN 2014."

— S. Riendeau

CANADA-EUROPE TRADE AGREEMENT

In recent years, Agropur has made a series of significant moves in Canada to support its development and that of the industry. Three cooperatives have merged to help keep dairy processing assets in the hands of producers. Our Cooperative launched iögo, the only major Canadian yogurt brand. It made substantial capital expenditures to keep its plants at the cutting edge while carrying out acquisitions that have made it the largest dairy processor in Canada.

Agropur recently invested more than $100 million to grow the fine cheese market. Consumers appreciate the quality of Agropur's products in this niche. Canada's fine cheese market has been developing for 35 years, in compliance with Canada's cheese import obligations.

In September 2014, Canada signed the free trade agreement with Europe announced in October 2013. At this point, we are still waiting for details on the conditions that will apply to the additional 17,700 tonnes of European cheese imports. We believe that the import quotas should be allocated to the players that have developed the Canadian fine cheese market and will be adversely affected by the agreement. We hope that Agropur will receive its fair share of import quotas to avoid cannibalizing our domestic products. Agropur is making representations to this effect.

2014 INTERNATIONAL SUMMIT OF COOPERATIVES

The second International Summit of Cooperatives was held in Québec City in October 2014 and Agropur played an important role at the major gathering of cooperatives.

First, we participated in a panel discussion on the Canada-Europe free trade issue and put forward our point of view as a dairy industry player that will be affected by the agreement signed on our behalf by our political leaders.

ALSO AT THE SUMMIT, WE ORGANIZED THE AGROPUR DAIRY FORUM. DISTINGUISHED SPEAKERS FROM MAJOR DAIRY COOPERATIVES FROM AROUND THE WORLD MADE IT A RESOUNDING SUCCESS.

The two-day forum was an opportunity for my colleagues and me to exchange ideas about our dairy cooperatives' successes and challenges with cooperators from India, the Netherlands, France, Australia, the U.S. and of course Canada. Above all, I believe these meetings confirmed the value of our cooperative model and its ability to confront major international challenges.

UPDATED GOVERNANCE

Following our reflection on our Board's operation and our meetings of recent months, delegates voted for changes to Agropur's governance, including the creation of new director-at-large positions to which candidates are presented and elected by universal suffrage. A member who wants to run for the Board can therefore do so even if there is already an elected director from his or her region.

When the changes came into effect on June 1, 2014, the number of directors-at-large was set at two and the number of directors presented regionally and elected by universal suffrage at ten. Under the Cooperative's By-Laws, the proportions can be altered at the Board's discretion. This major change in the way we operate will be phased in over a three-year period.

WE BELIEVE IT WILL ENCOURAGE MEMBERS TO BECOME MORE INVOLVED IN CHOOSING THEIR REPRESENTATIVES.

2014 will go down as a watershed year in Agropur's history. Our merger and our acquisitions in both Canada and the United States were historic, strategic and transformative. Today, we have still more processing assets owned by our milk producer-members to support our development. We have many projects in keeping with our capabilities and our ambitions. We have a rich associative life. We make some of the best products on the market and we are constantly working to win over more consumers.

WE SEE CHALLENGES LYING AHEAD BUT ALSO AN ARRAY OF OPPORTUNITIES. OUR COOPERATIVE IS NOW IN A BETTER POSITION THAN EVER TO SEIZE THOSE OPPORTUNITIES. ITS SOUND FINANCIAL HEALTH WILL ENABLE IT TO CONTINUE GROWING AND REMAIN VIABLE.

On behalf of the Board of Directors, I would like to thank our 3,445 members for their engagement in 2014. I thank the management team, our CEO Robert Coallier, and our employees for their commitment, involvement and contribution to the Cooperative's success.

SERGE RIENDEAU
President
Agropur Cooperative

MESSAGE FROM ROBERT COALLIER

TOGETHER TO WIN

Dear members and employees,

Even though our results are below expectations, I would like to express my satisfaction with our accomplishments of 2014. Not only did we step up the pace in our battle against strong competition, we also carried out strategic transactions that have made us a significant player in the North American market. We worked together to create winning conditions and secure the Cooperative's future.

In 2014, our revenues increased by 21.3% to $4.7 billion. EBITDA, restated to reflect the accounting treatment of Davisco's inventory and certain one-time costs, rose 3.1% to $270.6 million, and members' equity amounted to $1.2 billion.

As our results show, the business environment was particularly competitive during the year just ended. Rapid consolidation continued in the global dairy industry and the Canadian market remained so competitive that our profits were significantly affected. We therefore focused more than ever on strategic actions aimed at exploiting opportunities for profitable growth and securing a leading position in the North American market.

STRONG, STAND-OUT BRANDS

Agropur's success in 2014 derived from its continuing focus on strong brands that stand out in consumers' minds. In accordance with the Agropur 2015 strategic plan, the organization devoted considerable effort and significant sums to its brands in order to leverage their growth.

In 2014, we made additional efforts to set our brands apart from the competition. Our investments in our flagship brands OKA, Natrel and iögo continue to pay dividends: today, they enjoy a more solid position in the marketplace and within their market segments. Agropur has a clear objective for its brands: we want them to become the standard-setters in their category, the brands consumers come back to day after day.

INNOVATION: SHAPING THE FUTURE

In 2014, we continued our push to innovate by developing new products and reviewing our processes. A string of major initiatives, such as the ERP project and investments in our plants, built Agropur's ability to compete in the marketplace and become a world-class organization.

We are fortunate to be in an industry with exceptional potential for innovation. However, we know that much remains to be done in order to fully realize that potential.

AGROPUR BELIEVES THAT LEVERAGING ITS EMPLOYEES' EXPERTISE AND REVIEWING THE WAYS IT INNOVATES WILL EQUIP IT TO BECOME MORE RESPONSIVE TO CUSTOMERS AND CONSUMERS.

The organization plans to step up its efforts on this front in the coming months.

COST LEADERSHIP PROVIDES MANOEUVRING ROOM

The Agropur 2015 initiatives have laid the foundations for the Cooperative's drive to meet the competition and gain manoeuvring room. Our expanded production capacity and improved efficiencies give us levers for achieving greater profitability.

Over the past two years, Agropur has attached prime importance to leadership in cost management. Despite the fiercely competitive environment, Agropur has been able to strictly control costs and generate significant savings.

IN FISCAL 2014, NET SAVINGS TOTALLED $60 MILLION ON AN ANNUALIZED BASIS, OR 80% OF THE TARGETED $75 MILLION INCREASE IN EBITDA BY 2015.

Pooling key services and streamlining work processes also generated significant synergies, a necessity for achieving profitable growth in the context of intensified competition. More than ever, business realities demand tight cost controls and we are maintaining our efforts in this respect.

OUR HUMAN CAPITAL

Employees dedicated to Agropur's success are among our Cooperative's most valuable assets. Respect and personal engagement have always been core values for Agropur. Attracting, retaining and developing the best talent is vitally important to any organization that wants to perform and innovate. Our new talent management program promises to draw the best candidates.

By simplifying Human Capital management processes, Agropur has been able to provide its people with a more enriching experience in the workplace. New team-building initiatives will be launched in the coming months. Finally, Agropur's recent merger and acquisitions will necessitate the integration of nearly 2,000 new employees into the Cooperative's existing 6,000-strong workforce and we have certainly asked more of our employees, a key success factor for Agropur. We will therefore continue working to ensure our employees derive satisfaction from their work, individually and collectively, and supporting their development within the organization.

NATIONAL AND INTERNATIONAL STRATEGY: BUILDING THE AGROPUR OF TOMORROW

Agropur made substantial investments to drive its recent growth. Over the last two years, the Cooperative carried out ten transactions in Canada and the U.S., including six in 2014: Damafro, M. Larivée International (MLI), the merger with Dairytown Products Ltd., Northumberland Dairy, Sobeys, and Davisco Foods International in the U.S. We firmly believe that we must remain a significant player and be a consolidator in the global dairy industry if we are to solidify our market position and ensure Agropur's sustainability.

To finance our acquisitions and our plant investment plans, we have consolidated our credit facilities and increased the total amount to nearly $2 billion. As of November 1, 2014, we were using a little over half of that amount. However, despite our higher debt levels, our financial position remains sound.

We are confident that the measures we are taking and the mergers and acquisitions we are carrying out will better position us to take advantage of our industry's development. We see this as a prudent and strategic approach to achieving profitable growth.

Following our recent transactions, we will be processing 5.4 billion litres of milk* per year in 40 plants* across North America thanks to the daily work of our employees, to whom I am truly grateful.

2014 was a year of great challenges and great achievements. While the market environment remains difficult and competition has increased, we believe we have taken the right steps for our future. But with our increased presence in the United States, we will have to deal with the impact of a greater price fluctuation on our financial results.

IN THE COMING YEARS, AGROPUR INTENDS TO CONTINUE ITS CONSOLIDATION EFFORTS IN CANADA, EXPAND ITS PRESENCE IN THE U.S. MARKET AND DEVELOP IN HIGH-POTENTIAL GLOBAL MARKETS.

Our growth will maintain our status as a significant player in the North American arena. Business risk will persist but we will manage change and adapt the organization to the competitive business landscape. We will seek profitable strategic growth in North America while pursuing the exploration of new markets.

I sincerely thank the members of the Board of Directors and our President, Serge Riendeau, for their confidence and support. I also thank the members of the Management Committee for their key contributions and their dedication. Last but not least, I am grateful to all employees for their outstanding effort in this time of upheaval, for we must all work together to secure our sustainability.

ROBERT COALLIER
Chief Executive Officer
Agropur Cooperative

* Considering all announcements at the time of printing

BOARD OF DIRECTORS

SERGE RIENDEAU
President
Estrie — Granby 1991*

JEANNIE VAN DYK
Vice-President
Atlantic 2013

RENÉ MOREAU
Vice-President
Nicolet — Bois-Francs
1998

ROGER BEAULIEU
Est du Québec 2014

LUC CHASSÉ
Érable — Seigneuries
2006*

CÉLINE DELHAES
Laurentides —
Lanaudière 2011

JEAN FILIATRAULT
Montérégie 1993

GAÉTAN JODOIN
Salaberry — Richelieu
1996*

DANIEL LAMY
Mauricie — Portneuf
2004*

VALÈRE LIEUTENANT
Estrie — Granby 2012*

JIM WALKER
Guest Member of the
Board of Directors 2014

RALPH BALLAM
Guest Member of the
Board of Directors 2013

RÉAL BRUNET
Guest Member of the
Board of Directors and of
the Audit Committee 2012

MICHEL COUTURE
First Member
of the Executive
Chaudière — Appalaches
2001

ROGER MASSICOTTE
Third Member
of the Executive
Mauricie — Portneuf 2003*

JEAN-PIERRE LACOMBE
Second Member
of the Executive
Salaberry — Richelieu
2007*

ALAIN FORGET
Laurentides —
Lanaudière 2014

DARIE GAGNÉ
Chaudière — Appalaches
1997

VITAL VOULIGNY
Nicolet — Bois-Francs
2007

Legend:
Director
Administrative region and year elected to the Board

*Directors whose term expires in 2015,
but who could be re-elected.

MANAGEMENT COMMITTEE

ROBERT COALLIER
Chief Executive Officer

LORRAINE BÉDARD
Senior Vice-President, Legal Affairs, Member Relations and Corporate Secretary

LOUIS LEFEBVRE
President, Cheese and Ingredients Division

1

2

PIERRE CORRIVEAU
Senior Vice-President, Human Capital

BENOIT GAGNON
Executive Vice-President, Corporate Development

SERGE FORTIER
Senior Vice-President, Information Technology

JOCELYN LAUZIÈRE
Senior Vice-President and Chief Financial Officer

SERGE PAQUETTE
President, Division Natrel and Fresh Products

DOMINIQUE BENOIT
Senior Vice-President, Institutional Affairs and Communications

ROBERT GOUR
Senior Vice-President, Change Management

NICOLAS MARIE
Senior Vice-President, Strategic Sourcing and Development

BENOIT ZOLNAI
Senior Vice-President, Operational Excellence and Quality

INTRODUCTION TO OUR FIVE PILLARS

TOGETHER FOR SUCCESS

BRAND STRATEGY

INNOVATION

COST LEADERSHIP

“TO FACE OUR CONSIDERABLE CHALLENGES, A CLEAR AND WELL UNDERSTOOD VISION IS THE KEY TO SUCCESS. WE ARE STRIVING TO ANCHOR IT FIRMLY THROUGHOUT THE ENTIRE ORGANIZATION.” — R. Coallier

THE BUSINESS ENVIRONMENT WAS PARTICULARLY COMPETITIVE IN 2014.

Industry consolidation continued at a fast pace, market pressure on prices remained strong, and total Canadian dairy consumption declined. It was therefore very important for Agropur to act strategically, seize growth opportunities and position itself as a leader.

In its strategic plan, the Cooperative defined five pillars that undergird its approaches and actions. They are aimed at equipping the organization to face the competition and deal with industry consolidation.

HUMAN CAPITAL

NATIONAL AND INTERNATIONAL DEVELOPMENT

BRAND STRATEGY

TOGETHER FOR DEVELOPMENT

IÖGO MARKET SHARE IN CANADA, CLOSE TO

12%

IN A MARKETPLACE WHERE DAIRY PRODUCTS ARE BECOMING INCREASINGLY ANONYMOUS DUE TO GENERIC ADVERTISING, AGROPUR BELIEVES IT IS VITALLY IMPORTANT TO DISTINGUISH ITS BRANDS IN ORDER TO SHIELD THEM FROM THE IMPACT OF MAJOR CHANGES, SUCH AS THE CANADA-EUROPE TRADE AGREEMENT.

A $45 million investment has therefore been made in the OKA cheese brand to develop its marketing plan and increase the plant's manufacturing capacity. Agropur is pursuing clearly defined volume increase targets with the goal of ensuring that customers demand that the product be on the shelves and ultimately, achieve the critical mass that will make the OKA brand the standard for fine cheese in Canada. The results thus far have been highly positive: a significant increase in OKA's sales volume since the beginning of January 2014.

Considerable effort has also been devoted to the Natrel brand. Agropur has rebranded Natrel to emphasize its salient features: Natrel, a fresh and natural product of superior quality. The new brand image has yielded clear and convincing results. Natrel is now differentiated from the competition, projects a contemporary image and is more readily distinguishable on the shelf. The application of creativity and innovation has breathed new life into Natrel: its market share is up in all categories, in a market that shrank by 2% in 2014.

Finally, the iögo brand, which celebrated its second birthday in August 2014, continued making headway in 2014, registering a market share of close to 12% in Canada. On the strength of this performance and its confidence in iögo's strong potential, Ultima Foods, a joint venture of Agropur and Agrifoods, plans to continue investing in the brand. The team is now directing its efforts towards iögo's next phase of growth, with an ambitious 20% market share target.


BEST BEFORE
3 %
.25
M.F.
M.G.
STAYS FRESHER
LONGER, NATURALLY
RESTE FRAIS PLUS
LONGTEMPS,
NATURELLEMENT
Natrel
FINE-FILTERED • FINEMENT FILTRÉ
HOMOGENIZED MILK
NEW
NOUVEAU
SANS LACTOSE FREE
LAIT HOMOGÉNÉISÉ
HOMOGENIZED
MILK
LAIT
HOMOGÉNÉISÉ
VITAMIN D
ADDED
ADDITIONNÉ
DE VITAMINE D
NEW FRESH-
SEAL PACKAGING
NOUVEL EMBALLAGE
FRAÎCHEUR
2L
Natrel
is
INSPIRED
by nature
AND YOU CAN
TASTE IT
IN EVERYTHING WE DO
est
INSPIRÉ
de la nature
ET ÇA SE GOÛTE
DANS TOUT CE
QU'ON FAIT

INNOVATION AND COST LEADERSHIP

TOGETHER FOR PROSPERITY

INNOVATION

Significant amounts have been allocated to the ERP project as part of the Agropur 2015 strategy. ERP will upgrade Agropur's IT systems, improve their performance, and standardize, integrate and streamline operating procedures.

ERP is a major project that will implement a single IT platform for all of Agropur's management activities. It will yield substantial savings, add significant value to all operational processes and afford access to real-time information. The first phase will be completed in 2015.

Agropur invested over $230 million in infrastructure and plants in 2014. $120 million was spent over two years on expansion of the Luxemburg, Wisconsin plant to make it a world-class facility. The new plant has been in operation since May and is now ramping up to full capacity, which will triple its primary processing volume. Also in Wisconsin, Agropur invested $9 million in Weyauwega and $7.6 million in Little Chute to expand the plants and considerably increase their production capacity.

Agropur also invested in its Canadian facilities. More than $100 million was spent on upgrades and capacity increases at the Lethbridge plant in Alberta and the Oka and Saint-Hyacinthe plants in Quebec, and the construction of a laboratory and the new head office in Longueuil, Quebec.

COST LEADERSHIP

In 2014, Agropur maintained a stringent cost control program aimed at generating substantial recurring savings across the organization. In fiscal 2014, that program yielded nearly $46 million in cumulative net savings, or $60 million on an annualized basis. Agropur is therefore on track to achieving its target of improving earnings before interest, income taxes, depreciation, amortization and joint ventures (EBITDA) by $75 million by the end of fiscal 2015. The savings will enable Agropur to absorb the substantial price reductions granted to customers.

As well, allocating new cross-cutting responsibilities for operational excellence and strategic procurement, reviewing procedures to simplify work processes and pooling services will produce additional savings and increase Agropur's agility on all fronts.

These efforts are necessary if we are to remain competitive and maintain our leadership in a challenging market. The cost leadership initiative, which is vitally important for profitable growth in the current market, will continue in fiscal 2015.

Jim Schuster,
Cheese Plant Manager
Mark Konrad,
Whey Plant Manager
Jenna VanBoxtel,
Whey Plant Operator
Luxemburg Plant, Wisconsin,
US Cheese Business Unit

HUMAN CAPITAL

TOGETHER TO DO MORE

An organization's performance, its success and its very life hinge on the commitment of its people. This premise is the basis of Agropur's Human Capital pillar. Agropur's ability to attract talented people, retain and develop them to their full potential is a powerful strategic lever in the current competitive environment.

Agropur pursued a multi-pronged approach to Human Capital in 2014. In keeping with the cross-cutting approach to responsibilities for operational excellence and strategic procurement, the organization strengthened its service-sharing structure. That will facilitate introduction of a new talent management program which will allow for a more accurate assessment of individual capabilities and make it possible to select the organization's best people for special attention.

The Cooperative also reviewed its incentive compensation programs to align them with its own objectives and ensure that they are competitive on the market.

Agropur's strong growth during the year will lead to the integration of hundreds of new employees following the recent transactions. During the coming months, new team-building and employee mobilization initiatives will also be launched: recognition programs, on-boarding, access to Agropur products, a communications/social media policy. Human Capital management processes have been streamlined in order to provide Agropur's people with a more enriching experience in the workplace.

DONATIONS AND SPONSORSHIPS

True to its values of mutual aid and solidarity, Agropur makes donations to promote the health and well-being of children and families, and to help groom the next generation for the food processing sector. The money goes to both local communities and major organizations known for their work in these areas.

AGROPUR'S SPONSORSHIPS PROGRAM SUPPORTS ACTIVITIES WITH PRODUCTS AND CASH DONATIONS.

During the past year, the Cooperative made donations totalling nearly $2 million, or slightly more than 1% of the earnings before patronage dividends and the Cooperative's income taxes, to causes chosen through a rigorous process.

The numerous events sponsored by Agropur in 2014 included the Summit of Cooperatives held in Québec City, Quebec in October, which was attended by leaders of cooperatives and mutualists from around the world. Agropur was also a major partner of the "Jeux du Québec" games in Longueuil, Quebec, where it was the exclusive supplier of dairy products to the athletes, coaches and volunteers.

AGROPUR GAVE CLOSE TO **$2M** TO DIFFERENT CAUSES IN 2014.

AGROPUR EMPLOYEES' FUNDRAISING CAMPAIGN

$74,000

Agropur's major donations and sponsorships also include the Breakfast Clubs of Quebec and Canada, the "Moisson" food banks in most regions of Quebec and the Fondation OLO, to which Agropur increased its annual contribution. The Cooperative made donations to a number of U.S. universities, including colleges in South Dakota and Wisconsin. In Canada, it provided financial support to the University of Guelph in Ontario, McGill, Macdonald Campus in Quebec and hospitals in several provinces, including the IWK Health Centre Foundation in Halifax, Nova Scotia, the Janeway Children's Hospital Fund in St. John's, Newfoundland, and Hôpital pour enfants Sainte-Justine in Montreal, Quebec.

In September 2014, 120 employees participated in a 48-hour bicycle relay race at the Gilles-Villeneuve Circuit in Montreal, Quebec to raise money for the Make-A-Wish Foundation of Quebec. They collected a total of more than $150,000. Agropur employees were part of the event for the sixth consecutive year.

FUNDRAISING CAMPAIGN

Agropur employees are encouraged to hold their own fundraising activities in the workplace. The various fundraising committees choose the causes and organizations for which they will collect money. In 2014, a number of initiatives were carried out during the employee fundraising campaign, which extended from April through September. Agropur matched every dollar raised. During the campaign period, Agropur and employees at a dozen sites turned a total of more than $74,000 over to organizations such as the Fondation de l'Hôpital Charles-Le Moyne, the Canadian Cancer Society/Relay for Life, the Children's Wish Foundation, VON Sakura House, the Bread Basket, the YMCA Meal Program and the Make-A-Wish Foundation of Quebec.

SUCCESSION PLANNING

With an eye to the future, Agropur does its utmost to support young talent in its industry. Its initiatives to encourage the next generation include a scholarship program that distributes thousands of dollars of bursaries to students from programs related to agriculture or food processing. In 2014, bursaries were again awarded to students who had distinguished themselves in various ways in the course of their studies.

At the same time, Agropur's young cooperative leaders program introduces young cooperators to associative life. It is a way for Agropur to prepare participants to perform their roles as member-owners, to become involved and perhaps to stand for election to the Board one day. Agropur recognizes its responsibility to facilitate the transition to the leadership of the future. During the year, dozens of youths had the opportunity to take Agropur's various young cooperative leaders programs, which have now been in existence for more than 30 years.

ENVIRONMENT

Agropur's environment committees, which include members of the Board of Directors and management, are responsible for legal compliance at its facilities. Environment Services manages an in-house system whose functions include monitoring regulations and performance improvement opportunities.

A number of projects designed to reduce the use of drinking water and energy are in progress. During the year, the Ville Saint-Laurent plant completed a major water reduction project that will decrease water consumption by 121 million litres per year. The Truro plant reduced greenhouse gas emissions by more than 25% by converting its heavy oil boiler to propane and reusing evaporated water in the various phases of the process. In Victoria, a project to reuse water in a loop reduced water consumption by 10 million litres per year and improvements to the boilers will reduce total natural gas consumption by approximately 15%. The Granby plant permanently reduced its annual water consumption by more than 60 million litres through, among other things, a comprehensive review of washing time.

In connection with the expansion of the Oka cheese plant, the capacity of the wastewater treatment plant will be increased and its equipment will be modernized.

Finally, construction of the new head office is progressing well. The new building attached to the Fine Cheese Business Unit's current administrative offices will be LEED (Leadership in Energy and Environmental Design) certified. Special attention has been paid to preserving the surrounding woodlands and reducing the use of natural resources at source. Agropur plans to encourage green practices by reducing waste and installing secure bicycle racks and electric car recharging stations.

NATIONAL AND INTERNATIONAL DEVELOPMENT

TOGETHER TOWARDS NEW TERRITORIES

MEMBERS

3,445

EMPLOYEES*

8,000

PLANTS*

40

- NEWLY ACQUIRED PLANTS
- PREVIOUSLY OWNED PLANTS

MILK PROCESSING* 5.4 BILLION LITRES ANNUALLY

* Considering all announcements at the time of printing

WINNIPEG, MANITOBA
Division Natrel
and Fresh Products

EDMONTON, ALBERTA
Division Natrel
and Fresh Products

EDMONTON, ALBERTA
Division Natrel
and Fresh Products

BURNABY, BRITISH COLUMBIA
Division Natrel
and Fresh Products

LE SUEUR, MINNESOTA
US Cheese
Business Unit

NICOLLET, MINNESOTA
US Cheese
Business Unit

JEROME, IDAHO
US Cheese
Business Unit

LAKE NORDEN, SOUTH DAKOTA
US Cheese
Business Unit

NATIONAL AND INTERNATIONAL DEVELOPMENT

Agropur believes it needs to participate in the consolidation of the global dairy industry to ensure its sustainability. In 2014, therefore, the Cooperative focused on growth that is not only substantial but, most importantly, strategic.

DURING THE YEAR, AGROPUR CARRIED OUT SIX TRANSACTIONS THAT DIVERSIFIED ITS PRODUCT PORTFOLIO, INCREASED ITS MILK PROCESSING CAPACITY AND ENLARGED ITS GEOGRAPHIC FOOTPRINT.

At the beginning of the year, Agropur acquired M. Larivée International, a trading house specializing in dairy products and food ingredients. The deal enabled Agropur to rebuild a specialized team dedicated to exports and to promote its whey ingredients and powder products on international markets.

In December 2013, Agropur acquired the assets of Damafro, a family business that makes traditional fine cheeses, Camembert, Brie and goat cheese. The acquisition is a good fit with Agropur's markets and line of superior-quality products in a fast-growing segment and improves its positioning in the fine cheese niche.

It is imperative that Agropur be a leader in its home market if it is to expand internationally. The Cooperative therefore successfully pursued mergers and acquisitions to increase its presence in various regions of Canada. In March 2014, Agropur announced a merger with Dairytown Products Ltd., a New Brunswick producer of butter, skim milk powder and milk powder mixes. The move made the pooling of the two organizations' members' dairy assets possible.

Then, in July, the organization announced the acquisition of the Sobeys grocery chain's dairy processing operations, including four plants in Manitoba, Alberta and British Columbia. The deal, which will close in early 2015, safeguards a series of long-term supply agreements. The dairy assets acquired from Sobeys represent $400 million in annual sales, 160 million litres of milk processing, and 280 employees.

Agropur then announced that it will expand its presence in New Brunswick by acquiring the dairy and distribution assets of Northumberland Dairy Cooperative. The transactions involving Dairytown Products and Northumberland Dairy extend Agropur's geographic reach and are in line with its mission of keeping dairy processing assets in the hands of producers. The vast majority of dairy farmers in New Brunswick now belong to the Agropur family. The Northumberland Dairy transaction, which closed in November, includes Northumberland's Miramichi, New Brunswick plant which processes 27 million litres of milk per year, distribution centres and brands.

THE SERIES OF TRANSACTIONS AGROPUR CARRIED OUT IN CANADA IN 2014 POSITIONS THE COOPERATIVE TO SERVE ITS CUSTOMERS FROM COAST TO COAST.

Agropur's last transaction of 2014, the largest in its history, was the acquisition of the assets of Davisco Foods International Inc., which closed on August 8. It increased Agropur's sales by US$1 billion per year, the volume of milk it processes by 1.7 billion litres, and its output by more than 170 million kg of cheese and 80 million kg of ingredients. The acquisition adds an international network to Agropur's assets, four new plants in Minnesota, South Dakota and Idaho, and 900 additional employees.

MIRAMICHI, NEW BRUNSWICK
Division Natrel
and Fresh Products

SAINT-DAMASE, QUEBEC
Fine Cheese
Business Unit

SUSSEX, NEW BRUNSWICK
Canada Cheese
Business Unit

Clinton Lewis, Agropur Cooperative Member, and
Liam O'Sullivan, Warehouse Supervisor, Delta, B.C.
Charles R. Lewis Farm
Moshers Corner, Nova Scotia

TOGETHER IN LOOKING AHEAD AND BEYOND

By becoming a truly national player in Canada and one of the top five manufacturers of cheese and ingredients in the U.S., Agropur has joined the ranks of the 20 largest dairy processors in the world.

In 2014, the Cooperative's strategic merger, its acquisitions and its investments in its facilities strengthened its position in the North American marketplace, increased its revenues and gave it new impetus as it faces growing competition.

In 2015, Agropur will be in a position to pursue the three year $75 million EBITDA increase target set out in its strategic plan and to capitalize on the transactions of the past two years by integrating and optimizing its business processes.

At the same time, the Cooperative will redouble its efforts to contend with increased competition and pricing pressures in order to improve its results. As business risk will remain significant, Agropur will have to continue managing change and adapting to the new, highly competitive business environment.

Today, Agropur is on a firmer footing than ever before. Its favorable results and sound financial health will support its growth going forward. It has a clearly defined strategy and its members and employees will work together to ensure the sustainability of the organization.

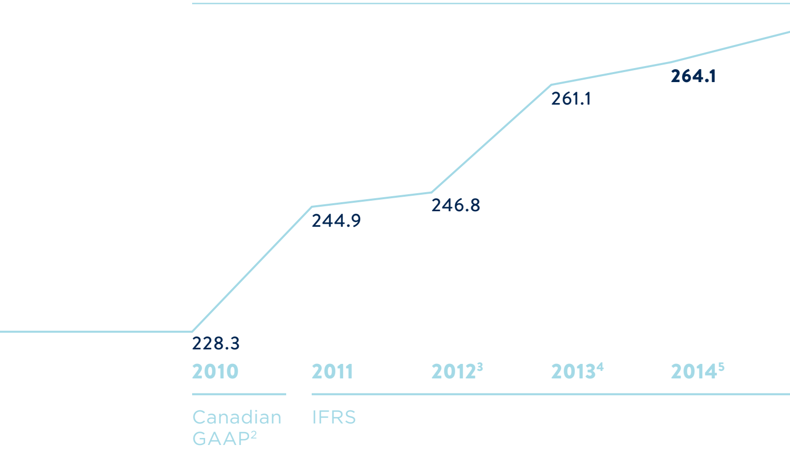
FINANCIAL REVIEW

SALES
(in millions of dollars)

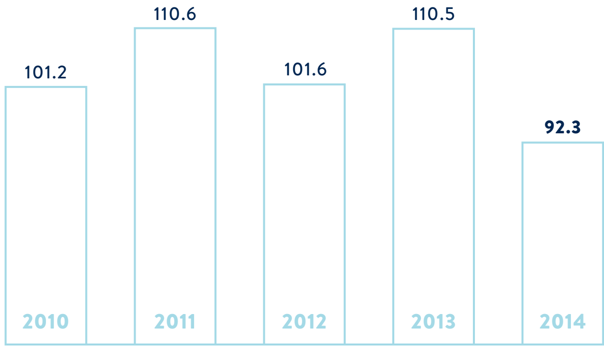
2010	2011	2012[2]	2013	2014
3,173.6	3,476.4	3,655.2	3,843.9	**4,662.3**
Canadian GAAP[1]	IFRS			

[1] Investments in joint ventures using the equity method.
[2] Fiscal year including 53 weeks.

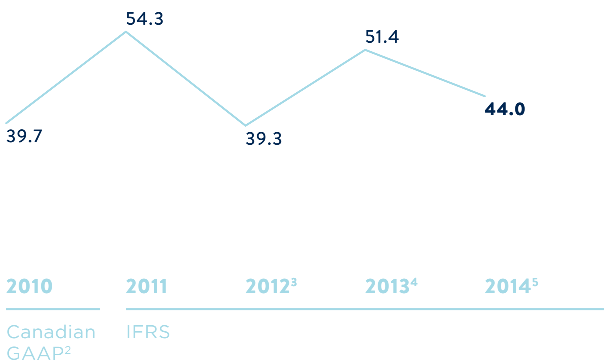
EBITDA[1]
(in millions of dollars)



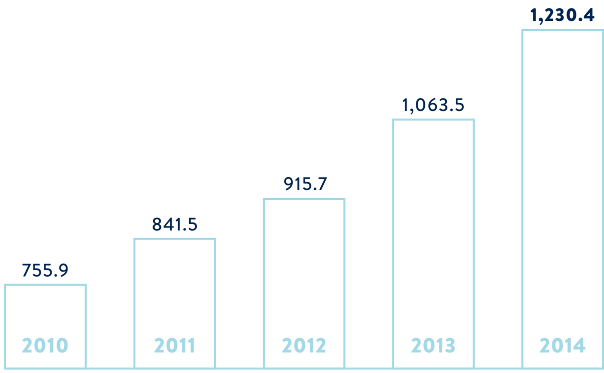
PATRONAGE DIVIDENDS
(in millions of dollars)



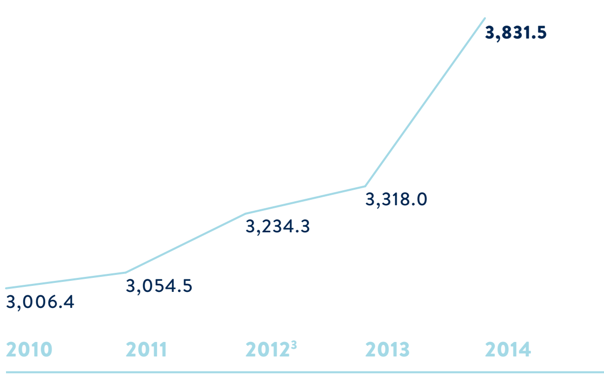
NET EARNINGS
(in millions of dollars)



MEMBERS' EQUITY
(in millions of dollars)



MILK PROCESSED[6]
(in millions of litres)



[1] Earnings before interest, income taxes, depreciation, amortization and joint ventures.
[2] Investments in joint ventures using the equity method.
[3] Fiscal year including 53 weeks.
[4] Restated to reflect the adoption of the revised employee future benefits accounting standard.
[5] Excluding the impact of Davisco's inventories accounting treatment.
[6] Milk processed includes joint ventures.

MESSAGE FROM JOCELYN LAUZIÈRE

TOGETHER TO GROW

For our Cooperative, 2014 was a landmark year, with numerous capital investments and announcements of strategic transactions. In fact, close to $1.4 billion was earmarked in Canada and the United States.

ALSO IN 2014, THE COOPERATIVE'S SALES PASSED THE $4 BILLION MARK FOR THE FIRST TIME IN ITS HISTORY.

Earnings from operations totalled $254.7 million. Finally, earnings before patronage dividends and the Cooperative's income taxes were $140.8 million, making it possible for the Board of Directors to approve patronage dividends of $92.3 million. The year's earnings are partly a reflection of the economic environment in which our Cooperative operates. On a global scale, the consolidation of players in the dairy market continues. In Canada, the drop in per capita consumption, combined with fierce competition, continued to put considerable pressure on prices, which means that we have made concerted efforts to retain our market position. Fiscal 2014 was also affected by the drop in prices for whey and permeate powders on global markets. This price reduction was particularly marked in the second half of the year. All these elements make us all the more determined to deploy our national and international development strategy in order to expand our geographic footprint and thus be less vulnerable in any one specific market.

BUSINESS COMBINATIONS

Our Cooperative experienced an unprecedented level of activities in business combinations in fiscal 2014.

To begin with, on November 18, 2013, Agropur acquired International (MLI), a Montreal trading house. This acquisition was prompted by our desire to develop the export market, which looks promising.

On December 2, 2013, we proceeded with the acquisition of Fromagerie Damafro, based in Saint-Damase, Quebec. Damafro is a Canadian leader in manufacturing Camembert and Brie, and has considerable expertise in goat-milk processing. This acquisition enables us to offer our clientele a wider selection of fine cheeses.

On June 30, 2014, our Cooperative and Dairytown Products Ltd. merged. Dairytown is a major supplier of skim milk powder, milk powder blends and butter. This merger will help us to better serve our customers nationwide.

Finally, on August 8, 2014, Agropur acquired the processing assets of Davisco Foods International, headquartered in the U.S. state of Minnesota. Davisco specializes in producing cheese and dairy ingredients, and has plants in Minnesota, Idaho and South Dakota. This transaction will double Agropur's U.S. operations and increase its total milk supply by 50%. In addition, it will strengthen Agropur's position in the North American and international dairy industry. It is a historic acquisition for us because it is by far the largest the Cooperative has carried out in its existence.

OVERALL, THESE MERGER AND ACQUISITIONS HAVE ADDED SIX PLANTS—TWO IN CANADA AND FOUR IN THE UNITED STATES—AS WELL AS 1,233 EMPLOYEES.

In addition, Agropur announced during the year that it had concluded an agreement for the purchase of Sobeys' dairy processing operations in Canada, which includes the acquisition of four plants—two located in Edmonton, one in Winnipeg and one in Burnaby—as well as long-term supply agreements. Finally, on November 10, 2014, Agropur concluded the purchase of the dairy and food distribution assets of Northumberland Dairy Cooperative in New Brunswick. The acquisition includes the Miramichi plant in New Brunswick, which processes 27 million litres of milk per year, distribution centres and brands. These agreements will enable us to pursue our objective to remain an essential player by enhancing our ability to serve our customers from coast to coast.

Following the announced merger and acquisitions, our Cooperative will have 40 plants in Canada and the United States. In the United States, Agropur is present in Wisconsin, Iowa, Michigan, Minnesota, Idaho and South Dakota. As a result of these transactions, the annual volume of milk processed should reach 5.4 billion litres.

GOVERNANCE

The Audit Committee reviewed the financial statements in this Annual Report. The Committee consists of five members of the Board of Directors and a Guest Member. A few Agropur senior executives as well as representatives of our external auditors participate in Committee meetings. They, along with the Internal Audit Department, periodically present their findings at these meetings. Moreover, there is a hierarchical certification process, inspired by National Instrument 52-109, under which senior executives must certify the quality of the financial information presented in the financial statements.

REVIEW OF THE 2014 FINANCIAL STATEMENTS

ACCOUNTING POLICIES

As announced in 2013, the Cooperative adopted the revised accounting standard IAS 19, "Employee Benefits", during the year. The amended version of the standard requires additional disclosures concerning employee future benefits. In addition, as required by the standard, the Cooperative used the same discount rate to calculate the employee future benefits obligation and the expected return on plan assets. Finally, administrative costs were included in current service cost. This application called for restatement of the 2013 financial statements, which is why the notation "restated" appears in the Cooperative's financial statements. The impact of the restatement was a $2.5 million reduction in 2013 net earnings, net of income taxes, as well as an equivalent increase in the actuarial gain recognized in comprehensive income. Members' equity remained unchanged, and this restatement had no impact on the cash position. No new accounting standard applicable to Agropur is anticipated in the next fiscal year.

EARNINGS

Sales reached a record $4.7 billion in fiscal 2014, up by $818.4 million, or 21.3%, compared with the previous year. The 2014 merger and business acquisitions contributed sales of $430 million. Agropur generated 35.9% of its sales outside Canada in 2014, compared with 28.6% in 2013.

Sales from the Canadian operations of the Cheese and Ingredients Division totalled $1.4 billion, an increase of $190.3 million, or 15.6%, compared to 2013. The merger and business acquisitions contributed $135.4 million to the increased revenues. The volume of milk processed by the Division in Canada was up by 18.4 million litres, or 1.9%. The Quebec volume was down, while the Alberta volume was up because the Lethbridge, Alberta plant now has an increased processing capacity. Furthermore, we should note the addition of operations in the Atlantic provinces this year. Sales from the Division's U.S. operations reached $1.4 billion, up by $549.4 million, or 61.8%, compared with the previous year. Of this increase, 53.6% is due to the acquisition of Davisco in the last quarter. Furthermore, since June 30, 2014, the Division has benefited from the increased volume generated by the commissioning of the new cheese plant in Luxemburg, Wisconsin. In terms of milk supply, we have all the milk we need to meet customer demand, and even more than we need, on account of the start-up phase of the Luxemburg plant. Among the external factors that favoured us in 2014 were higher cheese block prices in the United States, as well as the conversion of our U.S. sales into Canadian dollars.

In the Division Natrel and Fresh Products, sales reached $1.9 billion, up by $112 million, or 6.3%, compared to the previous year. Canadian sales volumes, up by 4.1%, accounted for an $89 million increase in sales, despite a drop in milk consumption in Canada. The higher sales volume is due in part to the contribution of Farmers, which operated within Agropur for 12 months in 2014, versus six months in 2013. For Natrel's U.S. operations, sales rose by $23 million, or 9.8%, essentially due to higher prices stemming from an increase in the cost of milk and the impact of the U.S.-Canada exchange rate fluctuations.

The chart on page 28 presents the development of consolidated sales over the past five years. Sales went from $3.2 billion in fiscal 2010 to $4.7 billion in fiscal 2014, for an increase of close to 50%, or 10.1% on average each year. This growth is mainly due to the mergers and business acquisitions carried out over the period. Figures for 2010 are presented according to Canadian accounting principles, which we have adjusted in order to be comparable to the following years in which International Accounting Standards were applied.

MERGER AND ACQUISITIONS
(in billion of dollars)

1.1

MEMBERS' EQUITY
(in billion of dollars)

1.2

MILK PROCESSED
(in millions of litres)

3,831.5

Earnings from operations or EBITDA reached $254.7 million, down 2.5% compared with the previous year. These earnings include substantial non-recurring expenses related to the merger and acquisitions announced during the year as well as the impact of the recognition of Davisco's inventories at the time of the acquisition. Regarding this last point, the accounting standards specify that, in a business acquisition, inventories acquired at the time of the transaction must be stated at their fair value and not at manufacturing cost. Consequently, the profit margin on these products was lower when they were sold in the months following the acquisition. If the inventories had been recognized in the normal course of operations, the Cooperative's consolidated earnings from operations would have been $9.4 million higher.

It is important to note that this accounting requirement has no impact on the Cooperative's cash position. Moreover, this accounting presentation does not reflect the real contribution of the operations acquired from Davisco.

Excluding the impact of recognition of the $9.4 million of inventories at the time of the Davisco acquisition, adjusted earnings from operations were $264.1 million, up $3 million, compared with 2013. There were substantial non-recurring expenses of $6.5 million in fees related to the merger and acquisitions announced and the start-up costs for the Luxemburg, Wisconsin cheese plant.

Before the impact of the merger and business acquisitions, the two divisions saw a reduction in their respective earnings this year. For the Cheese and Ingredients Division, earnings from operations were down $12 million compared with 2013. For the Division's U.S. operations, the change in cheese block prices compared to the average cost of milk was favourable, but this simply compensated for the negative impact of the change in whey powder prices. The commissioning of the new dryer at the Luxemburg, Wisconsin plant and the decline of the Canadian dollar made a positive contribution to earnings. In spite of the higher volume of powder sales, the impact on earnings from operations was negative because of the unfavourable change in whey prices, mainly during the second half of the year. The start-up costs for the Luxemburg cheese plant and a highly competitive Canadian market, which put strong pressure on prices, also had a negative impact on the Division's total earnings. Also, certain projects were undertaken this year as part of our brands' development strategy. As a result, we invested significantly in the OKA brand. Finally, the initiatives related to Agropur 2015 generated more savings than expected on an annualized basis, enabling us to deal with less favourable markets.

Division Natrel and Fresh Products also recorded a decline in earnings from operations, which were down $13.8 million compared with 2013. These results reflect the highly competitive Canadian environment in which the Division operates, where strong pressure has been put on prices for a number of months. The decrease in Canada's overall milk consumption also directly affected Division Natrel's results. The decline in earnings was mitigated by the contribution of a full year of Farmers and Coast Mountain Dairy operations within Agropur in 2014, as well as by projects that generated efficiency gains and lower costs. For Division Natrel's U.S. operations, production problems at the Grand Rapids, Michigan facility reduced earnings compared with the previous year, but the action taken at the beginning of the year started to produce tangible results in the last quarter.

In addition, merger and business acquisitions realized in 2014 contributed positively overall to the earnings from operations, despite non-recurring transaction costs of $4.3 million. In 2015, we will be able to fully benefit from the contribution of the merger and acquisitions realized in 2014.

This year's earnings demonstrate the relevance of the actions taken in 2014 and of our expansion and development strategy to ensure Agropur's sustainability.

The first chart on page 29 illustrates the changes in consolidated EBITDA over the past five years. Please note that as for sales, 2010 figures are presented according to Canadian accounting principles, adjusted so that they are comparable to subsequent years, when International Accounting Standards are applied. This presentation provides a good idea of changes in EBITDA. The EBITDA presented for 2014 has been adjusted to exclude the impact of accounting for Davisco's inventories. Consolidated EBITDA therefore rose from $228.3 million in 2010 to $264.1 million in 2014, up $35.8 million, or 3.7% on average per year.

From the earnings from operations, we deducted a depreciation and amortization expense of $90 million, up $21.2 million this year compared with 2013, mainly due to the assets acquired in business combinations, the commissioning of the new cheese plant in Wisconsin, the major investments in our plants in previous years and the impact of the U.S.-Canada exchange rate fluctuations. Financial expenses were up $9.4 million, chiefly as a result of the interest paid in the last quarter of 2014 on the term loan. The income tax expense of subsidiaries was $1.2 million, down $0.6 million. The share of our joint venture Ultima Foods resulted in a loss of $13.9 million in earnings, which were up $3.7 million. In the second year following its launch, iögo continued to grow and reached close to 12% of market share and, as a result, is becoming a major brand despite a stable Canadian yogurt market. Ultima Foods' financial results were down because of the expected narrower margins on its subcontracting operations with a major client. The Cooperative therefore posted earnings before patronage dividends and the Cooperative's income taxes of $140.8 million, down $32.6 million or 18.8%.

After reviewing the earnings and impact of the recognition of inventories related to the transaction involving Davisco, the Board of Directors approved patronage dividends of $92.3 million, compared to $110.5 million in 2013. The approved patronage dividends were payable 25% in cash and 75% as investment shares. According to the by-laws, members who have not reached the minimum capital investment will be issued shares in exchange for the cash component of their patronage dividends, until the minimum investment is reached. The portion of dividends allotted to former Dairytown shareholders takes into account the business combination date with the Cooperative.

Therefore, after deduction of patronage dividends, the Cooperative's income taxes of $10.2 million were recorded. Net earnings of $38.3 million were therefore added to the reserve.

Comprehensive income amounting to $80 million for fiscal 2014 is detailed as follows: Added to net earnings of $38.3 million were the items recorded under accumulated other comprehensive income, consisting of a gain of $37 million to take into account the effect of the decline in the Canadian dollar on the consolidation of the assets and liabilities of our U.S. subsidiaries and on the translation of the term loan into Canadian dollars. As at November 1, 2014, the exchange rate was US$0.89 for C$1, compared to US$0.96 for C$1 as at November 2, 2013. The Canadian dollar's weakness resulted in a cumulative unrealized currency translation gain of $26.4 million for foreign operations and the term loan. However, these accounting currency translation gains will continue to fluctuate depending on changes in the Canadian dollar in relation to the U.S. dollar. Other comprehensive income items were

CASH FLOWS

Cash flows from operating activities kept pace with earnings from operations, totalling $255.1 million. During the year, $18.7 million resulted from non-cash items, presented in detail in note 8 to the financial statements. Primarily, the increase in account receivables and inventories was offset by the increase in milk payable as a result of the year-end cut-off for payables.

Capital redemptions amounting to $47.1 million plus the portion of patronage dividends paid in cash of $23 million, net of issues, totalled outflows of $69.9 million associated with capital and members.

The numerous investments in 2014 totalled close to $1.4 billion. Of this amount, $1.1 billion was used for acquisitions of MLI, Damafro and Davisco, $7.5 million was invested in our joint venture Ultima Foods, and $232.8 million was invested in property, plant and equipment and intangible assets, net of disposals. This year, a number of projects aimed to increase our plants' production capacity: $9 million was used for the project to increase the feta cheese production capacity at the Weyauwega, Wisconsin plant, and $29.7 million was applied to the Fine Cheese plants in Oka and Saint-Hyacinthe to also increase their production capacities. These two major projects are still under way. The Enterprise Resource Planning (ERP) system and the future head office on Montreal's South Shore are also some of the major projects in 2014 that are still being implemented. Finally, the new cheese plant in Luxemburg, Wisconsin, was commissioned in the third quarter, and $32.5 million was required to complete the project in 2014.

In order to finance acquisitions and our plant investment plans, we have consolidated and increased our aggregate credit facilities to $1.9 billion from a group of financial institutions, including a term loan of US$1.15 billion.

the components transferred to the reserve, consisting of actuarial gains on defined benefit pension plans for an aggregate amount of $5.6 million. These gains were attributable to the combination of higher-than-expected actual returns on pension plan assets reduced by the lower discount rate on future pension plan promises, and the use of a new actuarial life table.

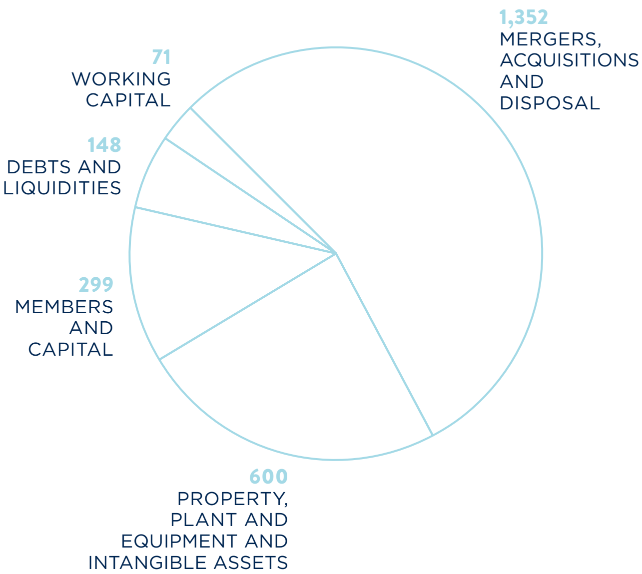
INFLOWS AND OUTFLOWS
(in millions of dollars)


ISO
ISO CHILL® 9000
WHEY PROTEIN ISOLATE
ISOLAT DE PROTÉINE DE
LACTOSÉRUM
agropur
INGREDIENTS
GARDER AU SEC ET ÉVITER D'EXPOSER
À LA LUMIÈRE DU SOLEIL
KEEP DRY AVOID DIRECT SUNLIGHT
Net Wt. 33.07 lb. (15 KG)
PLANT NO. 55-0642
DAIRY
550

Cash flows over the past five years have totalled $2.5 billion, of which $299 million or 12.1% was turned over to members as patronage dividends paid in cash and capital redemptions. Outflows related to mergers, business acquisitions and disposal totalled $1.4 billion. Another $600 million was added for investments in property, plant and equipment and intangible assets.

USE OF FUNDS ($2.5 BILLION) – 2010[1] TO 2014

(in millions of dollars)



[1] According to Canadian GAAP with investments in joint ventures using the equity method.

BALANCE SHEET

As at November 1, 2014, the Cooperative's net assets totalled $1.2 billion. Assets stood at $3.2 billion, up $1.7 billion, primarily due to merger, business acquisitions and capital investments. Liabilities amounted to $2 billion. The main item that increased liabilities was a term loan obtained for US$1.15 billion.

During the year as well, following members' approval, the Cooperative's by-laws were amended to allow the issuance of senior preferred shares to external investors. This new flexibility in our sources of financing, coupled with our credit facilities, will enable us to pursue our development objectives.

Note 17 to the financial statements details members' capital. Patronage dividends distributed as Class A investment shares in the amount of $69.3 million, net of redemptions amounting to $47 million, were added to the 2013 capital. In addition, during the business combination with Dairytown, member shares, Class M investment shares, Series 2, and certificates of indebtedness were issued to former Dairytown shareholders. As a result of this merger, there has been a contributed surplus in members' capital. The certificates of indebtedness presented as capital items are redeemable according to the same terms and conditions as for Class A investment shares, and upon the Board of Directors' decision. Consequently, members' equity totalled $1.2 billion as at November 1, 2014.

LOOKING AHEAD

Even though Agropur has acquired new debts, it is in a sound financial position. Our Cooperative operates in a Canadian market where increased competition triggers substantial pressure on prices. The next few years will be marked by decisions guided by our resolve to be a strategically positioned player able to serve customers across the country, North America and the world. The acquisition of Davisco will allow us to tap a market with a big potential. We will therefore pursue our development objectives both nationally and internationally, while continuing to make investments in our facilities and remaining open to potentially attractive opportunities. However, according to the preponderance of our U.S. operations, we could be facing to more volatile results.

The year 2015 will also see the integration of the various companies acquired during the year that has just ended. Our teams are already in place to maximize potential synergies and improve the efficiencies of our processes. Next year, we will be in a position to benefit from the contribution of these most recent business combinations.

I would like to thank the Board of Directors and the Chief Executive Officer for the trust they have placed in me.

JOCELYN LAUZIÈRE
Senior Vice-President and
Chief Financial Officer

RISKS AND UNCERTAINTIES

PRODUCT-RELATED RISKS

Given its processing activities, the Cooperative is exposed to the risk of contamination of its ingredients or its products by possible internal or external agents. If this should occur, a product recall could prove to be costly and have a negative impact on our reputation, and therefore future sales.

RAW MATERIAL RISKS

Price volatility and the availability of raw materials used in processing products, notably milk, which represents the major processing cost component, as well as the necessary packaging materials could have a negative impact on product costs. In a competitive market context, the impact of a price increase in inputs will depend on the Cooperative's ability to convert this increase into a comparable increase in the selling price of our products.

CUSTOMER-RELATED RISKS

In the last few years, we have been seeing concentration in the food distribution industry, resulting in a more limited number of customers and an increase in the relative importance of certain customers. Since the Cooperative serves this industry, such concentration could make some distributors exert pressure on prices, causing an adverse effect on operating earnings.

COMPETITION RISKS

Fiercer competition in the dairy industry, the possible arrival of new competitive entrants on the market as well as changes in consumer needs are risks to which the Cooperative is exposed. Business combinations observed in recent years in the dairy industry have intensified international competition. In Canada, the dairy industry is divided among three main competitors, including the Cooperative. In the United States, we are faced with numerous regional and national competitors. Regional, national and international competitors seeking to strengthen their market position could force the Cooperative to make additional discounts on products in order to maintain its market share.

U.S. MARKET RISKS

Milk prices as well as whey product and cheese prices in the United States depend on fluctuations in market supply and demand, influenced, among other things, by global economic conditions.

BUSINESS CONDITION RISKS

The demand for our products could be affected by an economic slowdown or market recession, which would consequently impact results.

SUPPLIER CONCENTRATION RISKS

For certain goods and services, the concentration of suppliers within certain sectors means that our supplies have been restricted to a limited number of suppliers. Shortages, in terms of quantities, quality or delays, could have negative repercussions on our results.

RISKS RELATED TO AN UNPLANNED DISRUPTION OF OPERATIONS

Major events, such as a fire, equipment failure, an epidemic, a natural disaster, etc. could occur and cause harm to employees or property damage, and would likely lead to an unplanned disruption of the Cooperative's operations. The impact would depend on the Cooperative's crisis management ability. The Cooperative has insurance coverages to share certain risks arising from a business interruption.

ACQUISITION RISKS

In a global dairy industry undergoing full-scale consolidation, the Cooperative has grown through acquisitions in the past and intends to pursue its growth in the future through new business acquisitions. The impact will depend on our ability to identify strategic acquisitions, determine their fair value, put into place the resources required to integrate the acquired companies and realize the expected synergies. The success of this strategy will also depend on our ability, as a cooperative, to access liquidity on capital markets.

INTEREST RATE RISKS

Due to the multiple acquisitions realized, a long-term debt has been contracted. The Cooperative is exposed to cash flow risk due to the interest rate fluctuation on this financial instrument. The cash flow impact would be negative in the event of an increase in the interest rates, while the impact would be the opposite in the event of a decrease in the interest rates.

INFORMATION SYSTEM RISKS

The use of computer applications integrated into the Cooperative's operations makes the Cooperative more dependent on such applications. The availability of computer services, comprehensiveness and confidentiality are the main risks associated with the use of such computer applications. A system malfunction could lead to poor decisions or affect the production level.

REGULATORY RISKS

The Cooperative is governed by multiple government laws, regulations and policies, more specifically concerning food product production and distribution. Amendments to, or tightening of, these laws and regulations could modify our operations or lead to additional costs in order to comply with new obligations. Sanctions, penalties or fines could be imposed if we failed to comply with such laws and regulations. Regulatory risks are growing due to the current context of growth by acquisitions in different countries, provinces and states.

LABOUR RELATION RISKS

A number of employee groups at our various worksites are unionized. Negotiating collective agreements can create disputes that could lead to work stoppages or slowdowns. We make every effort to maintain good relations with the unions.

RISKS ASSOCIATED WITH TARIFF RULES

The Cooperative operates in an industry where tariff rules apply to milk product imports. International trade rules may be modified by international treaties, and could change the competitive environment on the markets in which the Cooperative does business. The Cooperative's future profitability will depend on its ability to adapt to the new rules by offering its customers competitive products in terms of quality and price.

RISKS RELATED TO EMPLOYEE FUTURE BENEFITS

The Cooperative offers defined benefits plans to certain groups of its employees. Changes in long-term interest rates, volatility of returns and government regulations could potentially require the Cooperative to make contributions which are substantially different than those currently paid. A review of the Cooperative's obligations under these plans was initiated and most of these plans are closed to new participants.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT

December 15, 2014

To the members of Agropur cooperative

We have audited the accompanying consolidated financial statements of Agropur cooperative, which comprise the consolidated balance sheet as at November 1, 2014 and the consolidated earnings, comprehensive income, cash flows and changes in members' equity for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Agropur cooperative as at November 1, 2014 and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP[1]

Montréal, Quebec

[1] CPA auditor, CA, public accountancy permit no. A119427

CONSOLIDATED EARNINGS

Years ended (IN THOUSANDS OF CANADIAN DOLLARS)	**November 1 2014**	November 2 2013 (restated)
Sales	**4,662,270**	3,843,920
Operating expenses excluding depreciation and amortization	**4,407,530**	3,582,777
Earnings before interest, income taxes, depreciation, amortization and joint ventures	**254,740**	261,143
Depreciation and amortization (notes 10 and 11)	**90,010**	68,841
Operating earnings	**164,730**	192,302
Net financial expenses (revenues)	**9,215**	(197)
Gain on disposal of assets	**(405)**	(654)
Accounting gain as a result of a business combination (note 3)	**-**	(21,907)
Goodwill impairment (note 11)	**-**	24,371
Income taxes of subsidiaries (note 5)	**1,177**	1,744
Share of net earnings of joint ventures	**13,916**	10,242
Loss on investment in a joint venture (note 7)	**-**	5,282
Earnings before patronage dividends and the Cooperative's income taxes	**140,827**	173,421
Patronage dividends (note 6)	**92,326**	110,481
Cooperative's income taxes (note 5)	**10,194**	11,492
Net earnings	**38,307**	51,448

CONSOLIDATED COMPREHENSIVE INCOME

Years ended (IN THOUSANDS OF CANADIAN DOLLARS)	November 1 2014	November 2 2013 (restated)
Net earnings	**38,307**	51,448
Items recorded under accumulated other comprehensive income		
Net change in fair value of derivative instruments designated as cash flow hedges, net of income tax recovery of $339 (income tax expense in 2013 – $45)	**(838)**	122
Change in foreign currency translation adjustment of foreign operations	**71,465**	22,869
Change in foreign currency translation adjustment of term loan designated as hedge of a net investment in foreign operations	**(34,500)**	-
Share of other comprehensive income of joint ventures	**4**	20
	36,131	23,011
Items transferred to the reserve		
Actuarial gain on the accrued benefit obligation, net of income taxes of $2,145 (2013 – $5,355) (note 21)	**5,759**	15,685
Share of actuarial gain (loss) on the accrued benefit obligation of joint ventures	**(152)**	611
	5,607	16,296
Total other comprehensive income	**41,738**	39,307
Total comprehensive income	**80,045**	90,755

4

CONSOLIDATED CASH FLOWS

Years ended (IN THOUSANDS OF CANADIAN DOLLARS)	**November 1 2014**	November 2 2013
		(restated)
CASH FLOWS FROM		
Operating activities		
Earnings before patronage dividends and the Cooperative's income taxes	**140,827**	173,421
Net financial expenses (revenues)	**9,215**	(197)
Cooperative's current income taxes	**(949)**	(4,998)
Items not involving use of funds		
Depreciation and amortization	**90,010**	68,841
Accounting gain as a result of a business combination (note 3)	**-**	(21,907)
Goodwill impairment (note 11)	**-**	24,371
Share of net earnings of joint ventures	**13,916**	10,242
Deferred income taxes of subsidiaries	**1,821**	(1,002)
Loss on investment in a joint venture (note 7)	**-**	5,282
Others	**264**	(456)
	255,104	253,597
Patronage dividends payable in cash (note 6)	**(23,007)**	(27,482)
Change in non-cash items (note 8)	**18,743**	(34,718)
	250,840	191,397
Financing and share capital activities		
Interest paid	**(6,966)**	-
Long-term debt, net of issuance fees	**1,245,220**	(16,990)
Issuance and redemption of shares and certificates of indebtedness	**(46,880)**	(38,486)
	1,191,374	(55,476)
Investing activities		
Business combinations (note 3)	**(1,138,708)**	(37,581)
Property, plant and equipment and intangible assets (notes 10 and 11)	**(232,765)**	(154,994)
Disposal of investment in a joint venture (note 7)	**-**	(5,282)
Subordinated loan to a joint venture (note 7)	**(7,500)**	-
Proceeds from disposal of assets	**748**	924
	(1,378,225)	(196,933)
Effect of exchange rate fluctuations on cash position	**749**	2,135
Net change in cash position over the year	**64,738**	(58,877)
Cash position – Beginning of year (note 8)	**71,975**	130,852
Cash position – End of year (note 8)	**136,713**	71,975
Additional information:		
Member and share capital activities		
Patronage dividends payable in cash	**(23,007)**	(27,482)
Issuance of shares	**191**	54
Redemption of shares and certificates of indebtedness	**(47,071)**	(38,540)
	(69,887)	(65,968)

CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS OF CANADIAN DOLLARS)	**November 1 2014**	November 2 2013
ASSETS		
Current assets		
Cash and temporary investment	**155,887**	71,975
Accounts receivable	**389,967**	244,212
Inventories (note 9)	**558,541**	324,902
Income taxes	**6,258**	1,111
Prepaid expenses	**15,860**	12,946
	1,126,513	655,146
Investments (note 7)	**12,383**	17,574
Property, plant and equipment (note 10)	**1,103,884**	641,279
Intangible assets (note 11)	**167,415**	79,282
Goodwill (note 11)	**739,659**	132,430
Other assets (note 12)	**30,220**	24,759
Deferred income taxes (note 5)	**43,492**	1,909
	3,223,566	1,552,379
LIABILITIES		
Current liabilities		
Bank overdrafts and bank loans (note 13)	**19,174**	-
Accounts payable and accrued liabilities (note 14)	**616,200**	423,483
Income taxes	**112**	3,360
Current portion of long-term debt (note 15)	**95,149**	159
	730,635	427,002
Long-term debt (note 15)	**1,190,046**	214
Deferred income taxes (note 5)	**52,809**	38,234
Employee future benefits obligation (note 21)	**15,589**	23,472
Other long-term liabilities (note 16)	**4,061**	-
	1,993,140	488,922
MEMBERS' EQUITY		
Share capital (note 17)	**751,310**	664,386
Reserve	**453,467**	409,553
Accumulated other comprehensive income (loss) (note 18)	**25,649**	(10,482)
	1,230,426	1,063,457
	3,223,566	1,552,379

Approved by the Board of Directors, on December 15, 2014.

Serge Riendeau, Director

René Moreau, Director

CONSOLIDATED CHANGES IN MEMBERS' EQUITY

(IN THOUSAND OF CANADIAN DOLLARS)	Class M and member shares	Classes A and B shares	Contributed (deficit) surplus	**Total shares (note 17)**	Certificates of indebtedness	**Total share capital**	Reserve	Comprehensive income (loss) ("AOCI")[3]	**Total**
As at November 4, 2012	**1,033**	**606,326**	**-**	**607,359**	**-**	**607,359**	**341,809**	**(33,493)**	**915,675**
Net earnings	-	-	-	**-**	-	**-**	51,448	-	**51,448**
Other comprehensive income	-	-	-	**-**	-	**-**	16,296	23,011	**39,307**
Issuance of shares as payment for patronage dividends	-	82,999	-	**82,999**	-	**82,999**	-	-	**82,999**
Issuance of shares for cash	32	22	-	**54**	-	**54**	-	-	**54**
Redemption of shares	(25)	(38,515)	-	**(38,540)**	-	**(38,540)**	-	-	**(38,540)**
Issuance of shares and certificates of indebtedness in a business combination[1]	1,119	-	(516)	**603**	11,911	**12,514**	-	-	**12,514**
As at November 2, 2013	**2,159**	**650,832**	**(516)**	**652,475**	**11,911**	**664,386**	**409,553**	**(10,482)**	**1,063,457**
As at November 3, 2013	**2,159**	**650,832**	**(516)**	**652,475**	**11,911**	**664,386**	**409,553**	**(10,482)**	**1,063,457**
Net earnings	-	-	-	**-**	-	**-**	38,307	-	**38,307**
Other comprehensive income	-	-	-	**-**	-	**-**	5,607	36,131	**41,738**
Issuance of shares as payment for patronage dividends	-	69,319	-	**69,319**	-	**69,319**	-	-	**69,319**
Issuance of shares for cash	45	146	-	**191**	-	**191**	-	-	**191**
Redemption of shares and certificates of indebtedness	(32)	(45,319)	-	**(45,351)**	(1,720)	**(47,071)**	-	-	**(47,071)**
Issuance of shares and certificates of indebtedness in a business combination[2]	1,727	-	51,696	**53,423**	11,062	**64,485**	-	-	**64,485**
As at November 1, 2014	**3,899**	**674,978**	**51,180**	**730,057**	**21,253**	**751,310**	**453,467**	**25,649**	**1,230,426**

[1] Par value of the shares and certificates of indebtedness issued to former members of Farmers Co-operative Dairy Limited as well as the contributed deficit generated when merging with this cooperative (see note 3).

[2] Par value of the shares and certificates of indebtedness issued to former shareholders of Dairytown Products Ltd. as well as the contributed surplus generated when merging with this company (see note 3).

[3] Accumulated other comprehensive income (loss).

NOTES TO THE FINANCIAL STATEMENTS AS AT NOVEMBER 1, 2014

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

1. GENERAL INFORMATION

Agropur cooperative (“the Cooperative”) was established on August 29, 1938 under the Act respecting Cooperative Agricultural Associations and, since October 26, 2000, has been governed by the Canada Cooperatives Act.

The Cooperative, its subsidiaries and joint ventures carry on the business of processing and selling dairy products. Facilities are located in Canada and the United States. The head office is located in Longueuil, Canada.

2. SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

These consolidated financial statements of the Cooperative have been prepared in accordance with International Financial Reporting Standards (“IFRS”) in effect as at November 1, 2014, as issued by the International Accounting Standards Board (“IASB”).

CONSOLIDATION PRINCIPLES

These consolidated financial statements include the accounts of the Cooperative and its subsidiaries. Joint ventures Ultima Foods Inc. and Reliant Transport Ltd. are recognized in investments, in accordance with the equity method.

ESTIMATES

The preparation of financial statements requires management to make estimates and assumptions, in particular with respect to the fair value measurement of net assets combined and the consideration transferred as part of business combinations, the election of depreciation and amortization methods and the estimate of the years of useful life of depreciable or amortizable assets, impairment tests of assets and employee future benefits.

CASH POSITION

Cash position consists of cash and temporary investment, which are cashable at any time, and of bank overdrafts and bank loans.

INVENTORIES

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

Borrowing costs attributable to mature inventories are included in the cost of the finished goods inventory.

INVESTMENTS

The joint ventures are accounted for in accordance with the equity method. Under the equity method, the investment is initially recognized at cost, which is adjusted for changes in the share of the net assets of the joint ventures after the acquisition date. The Cooperative's share of net earnings of the joint ventures is included in earnings.

Investments are tested for impairment by the Cooperative if there is an indication that the carrying amount may not be recovered. To establish the recoverable amount, the Cooperative determines the higher of an investment's value in use using discounted future cash flows and its fair value less costs to sell.

NOTES TO THE FINANCIAL STATEMENTS AS AT NOVEMBER 1, 2014

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at cost less accumulated depreciation and impairment losses, net of applicable government grants.

Depreciation of property, plant and equipment is calculated over their estimated useful lives, mainly using the following methods and rates:

• Buildings	Straight-line	40 years
• Equipment	Diminishing balance	10% and 15%
• Rolling stock	Diminishing balance	30%

Property, plant and equipment are tested for impairment by the Cooperative if there is an indication that the carrying amount may not be recovered. To establish the recoverable amount, the Cooperative determines the higher of the value in use using discounted future cash flows and the fair value less costs to sell. For the purposes of the impairment test, property, plant and equipment are grouped at the lowest level for which there are identifiable cash flows.

Property, plant and equipment under construction are not amortized.

INTANGIBLE ASSETS

Intangible assets mainly consist of customer relationships, trademarks and software. These assets are accounted for under the cost method less accumulated depreciation and impairment losses.

Intangible assets with indefinite useful lives are not amortized, they are subject to an annual impairment test. Intangible assets with definite useful lives are amortized, mainly using the following methods and rates:

• Customer relationships	Straight-line	4 to 12 years
• Software	Straight-line	5 to 15 years
• Trademarks and other rights	Straight-line	5 to 10 years

Intangible assets with finite useful lives are tested for impairment if there is an indication that the carrying amount may not be recovered. To establish the recoverable amount, the Cooperative determines the higher of the value in use using discounted future cash flows and the fair value less costs to sell. For the purposes of the impairment test, intangible assets are grouped at the lowest level for which there are identifiable cash flows.

BORROWING COSTS

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are part of the cost of that asset. The Cooperative ceases to capitalize borrowing costs when substantially all the activities necessary to prepare the qualifying asset for it's intended use or sale are mostly completed. Other borrowing costs are recognized as expense in the period in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS AS AT NOVEMBER 1, 2014

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

GOODWILL

Goodwill is initially recognized as the excess of the fair value of the consideration transferred over the fair value of the identified assets and liabilities.

Goodwill is not amortized. Goodwill is tested annually for impairment by reporting business units in order to determine if there is an impairment loss. Reporting business units are determined according to the smallest identifiable group of assets that generates cash inflows. To evaluate if there is a goodwill impairment loss, the Cooperative compares the recoverable amount of the business unit to the carrying amount. The recoverable amount is the higher of the fair value less costs to sell and the value in use. If the carrying amount exceeds the recoverable amount, an impairment loss is recorded.

For every reporting business unit, the recoverable amount was measured with cash flow projections before income taxes from business plans approved by management. Budgeted gross margins calculated by management are based on previous results and forecasts of market development. This calculation is based on key assumptions made by management. A change in a key assumption could cause an important impact on the recoverable amount.

OTHER ASSETS

Deferred charges for procurement contracts related to customers are amortized on a straight-line basis according to the duration of the contract or on the volume specified in the contract.

BUSINESS COMBINATIONS

The Cooperative uses the acquisition method to account for business combinations. Under this method, the Cooperative determines the fair value of the assets combined, the liabilities assumed and the consideration transferred.The excess of the fair value of the consideration transferred on the fair value of the assets combined and the liabilities assumed is recorded in goodwill. If the excess is negative, it is recorded in earnings. Business combination costs are recognized in earnings during the year in which they are incurred.

REVENUE RECOGNITION

Revenues are recognized when the significant risks and rewards of ownership of the goods are transferred to the buyer. Revenues are recognized, net of annual amortization of procurement contracts.

EMPLOYEE FUTURE BENEFITS

The Cooperative accounts for its obligations arising from employee benefit plans and related costs, net of the plan assets.
The discount rate used to measure the accrued benefit obligation is determined according to the return of high quality corporate bonds on the market as at the valuation date. The cost of pension and other retirement benefits earned by employees is calculated according to the projected benefit method, prorated on years of service, based on management's best estimate assumptions about the salary projections and the retirement ages of employees. The fair value of assets is determined using market value. Actuarial gains (losses) are recorded in other comprehensive income. The cost of past services resulting from changes to the plans is recognized in earnings when the rights are vested.

NOTES TO THE FINANCIAL STATEMENTS AS AT NOVEMBER 1, 2014

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

INCOME TAXES

Income tax expenses include current income tax and deferred income tax expenses. Current income tax expenses are calculated using enacted or substantively enacted income tax rates as at the balance sheet date. Deferred income taxes are measured according to differences between tax bases and carrying amounts of assets and liabilities. However, deferred tax is not recognized on the initial recognition of goodwill and the initial recognition of assets and liabilities when the related transaction is not a business combination and does not affect accounting and tax earnings. Deferred income tax assets and liabilities are measured using the tax rates that are expected to be in effect in the years when these temporary differences are expected to reverse. Income tax assets are recognized when it is more likely than not that the assets will be realized.

TRANSLATION OF FOREIGN CURRENCIES

Foreign currency transactions

Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate prevailing as at the balance sheet date, while transactions denominated in foreign currencies are translated at the average monthly exchange rates for the year. Non-monetary assets and liabilities denominated in foreign currencies are translated at historical exchange rates. The resulting foreign currency translation gains or losses, net of hedging operations, are included in earnings.

Foreign operations

All assets and liabilities of foreign operations are translated into Canadian dollars at the exchange rate prevailing as at the balance sheet date. Unrealized foreign currency gains and losses resulting from this translation are included as a component of accumulated other comprehensive income in members' equity. Foreign currency gains or losses are reduced of hedging operations by using a bank loan in U.S. dollars. Revenues and expenses are translated at the average exchange rate for the year.

FINANCIAL INSTRUMENTS

Recognition or derecognition of financial assets and liabilities

The Cooperative initially recognizes the financial assets and liabilities at the trade date at which the Cooperative becomes a party to the contractual provisions of the instrument. The Cooperative derecognizes a financial asset when the contractual rights to the cash flows from the asset expire. The financial liabilities are derecognized when the Cooperative's contractual obligations are discharged or cancelled or expired.

The following financial assets and financial liabilities are accounted for at their initial transaction value, which approximates their fair value as at the balance sheet date, considering their nature and their short-term maturity and variable interest rate for long-term debt.

Subsequently, the Cooperative accounts for these financial instruments under the prescribed method of the category in which the financial instrument was classified at initial recognition:

	Assets and liabilities held for trading	**Loans and receivables**	**Other liabilities**
Financial instruments	• Exchange contracts	• Cash and temporary investment • Accounts receivable • Subordinated loan	• Bank overdrafts and bank loans • Accounts payable and accrued liabilities • Long-term debt
Subsequent accounting	Fair value[1]	Amortized cost using the effective interest method	Amortized cost using the effective interest method

[1] Gains and losses arising from changes in fair value are included in net earnings, unless the financial instrument is designated as a hedging instrument.

NOTES TO THE FINANCIAL STATEMENTS AS AT NOVEMBER 1, 2014

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

In the event of a material impairment of any of the financial assets, such impairment loss is recorded in earnings.

HEDGING OPERATIONS

The Cooperative documents the risk management strategy for establishing the relationship to apply hedge accounting. At the signing of the hedging contract, management documents the hedged item (an asset, a liability, or an anticipated transaction), details of the hedging instruments used and the method of assessing effectiveness. Realized gains and losses on hedges are consequently deferred until realization of the hedged item for the fairest matching in earnings.

Hedge of net investment

The resultant currency exchange differences from the translation of a financial liability designated as a hedge of a net investment in a foreign operation are recorded in comprehensive income and are presented in members' equity if the hedging of the risks is effective. If the hedge becomes ineffective, those currency exchange differences are recorded in earnings. At the disposal of a hedged foreign investment, the accumulated exchange differences recorded in members' equity shall be reclassified in earnings and shall be recognized as a gain or loss arising from the disposal.

NEW ACCOUNTING POLICIES ADOPTED DURING THE YEAR

Consolidated financial statements

In May 2011, the IASB issued a new standard, IFRS 10, "Consolidated Financial Statements", which replaces SIC-12, "Consolidation Special Purpose Entities", and a portion of IAS 27, "Consolidated and Separate Financial Statements". The standard requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Joint arrangements

In May 2011, the IASB issued a new standard, IFRS 11, "Joint Arrangements", which replaces IAS 31, "Interest in Joint Ventures" and SIC-13, "Jointly Controlled Entities – Non-monetary Contributions by Venturers". The standard defines joint control and requires a venturer to determine the type of joint arrangement in which it is involved as a joint venture or a joint operation and to account for those rights and obligations in accordance with the type of joint arrangement.

Disclosure of interest in other entities

In May 2011, the IASB issued a new standard, IFRS 12, "Disclosure of Interest in Other Entities". The standard requires to disclose information that enables users of its financial statement to evaluate the nature of, and the risks associated with, its interest in other entities, as subsidiaries, associates and unconsolidated structured entities.

Fair value measurement

In May 2011, the IASB issued a new standard: IFRS 13, "Fair Value Measurement". IFRS 13 is a comprehensive standard for fair value measurement that specifies the disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset as at the measurement date. It also establishes fair value measurement disclosure requirements. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards, which may produce different results.

The adoption of these new standards had no significant impact on the consolidated financial statements.

ACCOUNTING POLICIES MODIFIED DURING THE YEAR

Employee future benefits

The Cooperative has adopted the revised version of IAS 19, "Employee Benefits". The updated version of the standard includes a number of amendments, especially the use of asset-performance assumptions and the presentation and disclosure requirements for defined benefit pension plans.

NOTES TO THE FINANCIAL STATEMENTS AS AT NOVEMBER 1, 2014

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

More specifically, IAS 19R eliminates the requirement to present an expected return on plan assets. The standard requires to use the same discount rate to calculate the net benefits expense for the year and the projected return on plan assets.

This standard is applicable retroactively with restatement of prior periods, which justifies the term "restated" to the financial statements.

The restatement of financial statements for the year ended November 2, 2013 resulted in an increase in the employee future benefits expense of $3,294, a decrease of the Cooperative income taxes of $869 and an increase of the actuarial gain of $2,425, net of taxes of $869. Share of net earnings of joint ventures was reduced by $78 and share of actuarial gain of joint ventures have increased for the same amount.

FUTURE ACCOUNTING POLICIES

The IASB issued new standards that are not yet effective for the year ending November 1, 2014.

Financial instruments

In November 2009, the IASB issued IFRS 9, "Financial Instruments", which represents the first phase of the long-term project. Amendments have been made to the standard in October 2010 and November 2013.

The standard, still under development, provides new requirements of classification and measurement of financial assets and liabilities.

These changes and the implementation of the new standard are effective for fiscal years beginning on or after January 1, 2018.

The Cooperative will adopt this new standard as at the first quarter of its 2019 fiscal year and has not completed its assessment of the impact of these changes on its consolidated financial statements.

Revenue from contracts with customers

On May 28, 2014, the IASB issued IFRS 15, "Revenue from Contracts with Customers", a new standard on revenue recognition, superseding IAS 18, "Revenue" and IAS 11, "Construction Contracts and Related Interpretations".

This new standard is effective for the years beginning on or after January 1, 2017.

The Cooperative will adopt this new standard as at the first quarter of its 2018 fiscal year and has not completed its assessment of the impact of these changes on its consolidated financial statements.

3. BUSINESS COMBINATIONS

Merger

On June 30, 2014, the Cooperative and Dairytown Products Ltd., a supplier of dairy products and ingredients to the retail, food services and further processing trades, merged. The consideration accounted for in that business combination amounted to $71,518. In addition to a cash consideraton of $4,453, the Cooperative issued 171 member shares, Class M investment shares Series 2 and certificates of indebtedness with a par value of $12,789 for new members. A sum of $2,580 was also recorded as a payable to 29 additional members. This amount will be refunded or converted into capital when members have met the conditions for membership. A contributed surplus of $51,696 was finally recorded as part of this combination. Certificates of indebtedness presented as part of capital are redeemable under certain conditions, by decision of the Board of Directors. The estimated fair values that were assigned to the assets combined and liabilities assumed are based on a combination of independent evaluations and internal estimates.

NOTES TO THE FINANCIAL STATEMENTS AS AT NOVEMBER 1, 2014
(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

Acquisitions

On November 18, 2013, the Cooperative purchased all the shares of M. Larivée International inc., a Quebec trading house specializing in the export of dairy products and food ingredients.

On December 2, 2013, the Cooperative purchase all the assets of Fromagerie Damafro, located in Quebec.

On August 8, 2014, the Cooperative acquired all the dairy processing assets of Davisco Foods International, a US-based cheese and dairy ingredients company, with processing factories in Minnesota, South Dakota and Idaho.

The cash consideration for these acquisitions totalling $1,149,214 was funded by a term loan (note 15).

The fair value of net assets combined in 2014 is detailed as follows:

	Merger	Acquisitions	Total
Cash and temporary investments, net of bank overdraft	14,907	52	**14,959**
Current assets	19,875	295,009	**314,884**
Property, plant and equipment	17,184	286,766	**303,950**
Intangible assets	4,053	65,869	**69,922**
Goodwill	34,413	551,192	**585,605**
Investments	-	773	**773**
Deferred income taxes	(3,578)	42,554	**38,976**
Accounts payable and accrued liabilities	(10,821)	(89,534)	**(100,355)**
Employee future benefits obligation	-	(3,467)	**(3,467)**
Long-term debt	(4,515)	-	**(4,515)**
Fair value of net assets combined	**71,518**	**1,149,214**	**1,220,732**

The current assets include accounts receivable with a fair value of $113,789, including accounts receivable under contracts, which the gross amount represents $83,666. At the acquisition dates, the best estimate of the contractual cash flows which collection is not expected is $976.

The goodwill accounted for is deductible for income tax purposes for an amount of $470,829. Combination costs amount to $2,987 and are recorded in earnings.

The value of shares issued to the new members has been determined based on discounted future cash flows of Dairytown Products Ltd.

The fair value of the consideration transferred is detailed as follows:

	Merger	Acquisitions	Total
Cash	4,453	1,149,214	**1,153,667**
Certificates of indebtedness	11,062	-	**11,062**
Member shares and Class M Series 2 investment shares	1,727	-	**1,727**
Amount payable to former shareholders of Dairytown Products Ltd.	2,580	-	**2,580**
Contributed surplus	51,696	-	**51,696**
Fair value of the consideration transferred	**71,518**	**1,149,214**	**1,220,732**

The determination of the fair value of the net assets acquired and the consideration related to the acquisition of the assets of Davisco Foods International is not completed

NOTES TO THE FINANCIAL STATEMENTS AS AT NOVEMBER 1, 2014

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

Cash flows from combinations:

	Merger	Acquisitions	Total
Cash and temporary investments acquired, net of bank overdraft assumed	(14,907)	(52)	**(14,959)**
Cash consideration	4,453	1,149,214	**1,153,667**
Cash flows from business combinations	**(10,454)**	**1,149,162**	**1,138,708**

BUSINESS COMBINATIONS IN 2013

Merger

On April 21, 2013, the dairy cooperatives Agropur cooperative and Farmers Co-operative Dairy Limited merged. The consideration accounted for when merging amounted to $12,514. The Cooperative issued 114 member shares, Class M investment shares Series 2 and certificates of indebtedness for a par value of $13,030 to the new members, and recorded a contributed deficit of $516. The certificates of indebtedness presented as part of the share capital are redeemable under certain conditions, further to a resolution by the Board of Directors. The estimated fair values assigned to assets combined and liabilities assumed are based on a combination of independant valuations and internal estimates. The fair value of net assets combined amounts to $34,421 and as it is greater than the consideration transferred, this gives rise to a negative goodwill amount. This difference, which amounts to $21,907, was recorded in earnings as an accounting gain as a result of a business combination. This gain is attributable to the fact that this is a combination of two Canadian dairy cooperatives and the Cooperative, by its position of leader in the industry, will be able to further optimize the use of the combined assets.

Acquisitions

Other acquisitions were also made during the year 2013 for a cash consideration of $21,656:

- On December 31, 2012, the purchase of Foremost Farms USA's dry blending business;
- On August 1, 2013, all the assets of Coast Mountain Dairy, an ice cream manufacturing company located in British Columbia;
- On August 16, 2013, all the shares of Cook's Dairy, a dairy located in Nova Scotia.

The fair value of net assets combined in 2013 is detailed as follows:

	Merger	Acquisitions	Total
Current assets	38,262	6,973	**45,235**
Property, plant and equipment	43,703	3,046	**46,749**
Other long-term assets	260	-	**260**
Intangible assets	21,911	5,098	**27,009**
Goodwill	-	7,285	**7,285**
Accounts payable and accrued liabilities	(20,333)	(478)	**(20,811)**
Deferred income taxes	(8,396)	-	**(8,396)**
Bank overdraft assumed, net amount	(15,788)	(137)	**(15,925)**
Long-term debt	(13,717)	(131)	**(13,848)**
Employee future benefits obligation, net of income taxes of $4,225	(11,481)	-	**(11,481)**
Fair value of net assets combined	**34,421**	**21,656**	**56,077**

The business combinations costs that occurred in 2013 amounted to $ 1,205 and are recognized in earnings.

NOTES TO THE FINANCIAL STATEMENTS AS AT NOVEMBER 1, 2014
(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

4. EARNINGS

The following items are included in the consolidated earnings:

	2014	2013
Raw materials and other inputs	**3,126,479**	2,412,212
Salaries and employee benefits	**444,646**	407,431
Interest on long-term debt	**6,406**	66

5. INCOME TAXES

The income tax expense is as follows:

	2014	2013 (restated)
Current income taxes	**306**	7,744
Deferred income taxes	**11,065**	5,492
	11,371	13,236
Comprised of:		
The Cooperative's income taxes	**10,194**	11,492
Income taxes of subsidiaries	**1,177**	1,744

Reconciliation of income taxes:

	2014	2013 (restated)
Income taxes, calculated at Canadian statutory rates of 26.49% (2013 – 26.39%)	**16,824**	19,770
Differences attributable to the following:		
Accounting gain as a result of a business combination	**-**	(5,782)
Goodwill impairment	**-**	955
Non-deductible portion of capital losses	**-**	667
Tax benefit on capital losses not booked	**-**	667
Difference in tax rates of foreign subsidiaries	**3,306**	1,830
Changes in tax laws and rates	**59**	196
Foreign operations financing	**(9,289)**	(4,687)
Others	**471**	(380)
Income tax expense	**11,371**	13,236

During the year, there has been no change in the tax rate prescribed by law.

NOTES TO THE FINANCIAL STATEMENTS AS AT NOVEMBER 1, 2014

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

The income tax consequences of temporary differences that result from deferred tax assets and liabilities are as follows:

	November 3 2012	Earnings	Comprehensive income and others	Business combination	November 2 2013
Deferred tax assets					
Goodwill	13,100	3,927	-	71	**17,098**
Accounts payable and accrued liabilities	8,046	(2,074)	-	(70)	**5,902**
Tax losses carry forward	8,077	(2,940)	-	4,306	**9,443**
Employee future benefits obligation	7,968	(588)	(5,355)	4,176	**6,201**
Alternative minimum tax	-	1,397	-	-	**1,397**
Intangible assets	4,698	1,043	-	-	**5,741**
Others	986	347	53	(60)	**1,326**
	42,875	**1,112**	**(5,302)**	**8,423**	**47,108**
Deferred tax liabilities					
Property, plant and equipment	56,266	4,406	-	6,700	**67,372**
Intangible assets and other assets	5,439	1,718	-	5,894	**13,051**
Outside basis difference on investment in subsidiaries	2,530	480	-	-	**3,010**
	64,235	**6,604**	**-**	**12,594**	**83,433**
Total deferred tax liabilities	**(21,360)**	**(5,492)**	**(5,302)**	**(4,171)**	**(36,325)**

	November 2 2013	Earnings	Comprehensive income and others	Business combination	November 1 2014
Deferred tax assets					
Goodwill	17,098	(6,821)	-	-	**10,277**
Accounts payable and accrued liabilities	5,902	(1,360)	231	8,379	**13,152**
Tax losses carry forward	9,443	9,184	-	159	**18,786**
Employee future benefits obligation	6,201	(870)	(2,145)	-	**3,186**
Alternative minimum tax	1,397	(642)	-	-	**755**
Intangible assets	5,741	2,676	-	-	**8,417**
Others	1,326	852	83	(170)	**2,091**
	47,108	**3,019**	**(1,831)**	**8,368**	**56,664**
Deferred tax liabilities					
Property, plant and equipment	67,372	12,661	(927)	(31,483)	**47,623**
Intangible assets and other assets	13,051	1,306	-	874	**15,231**
Outside basis difference on investment in subsidiaries	3,010	117	-	-	**3,127**
	83,433	**14,084**	**(927)**	**(30,609)**	**65,981**
Total deferred tax assets (liabilities)	**(36,325)**	**(11,065)**	**(904)**	**38,977**	**(9,317)**

NOTES TO THE FINANCIAL STATEMENTS AS AT NOVEMBER 1, 2014

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

	2014	2013
Deferred tax assets – balance sheet	**43,492**	1,909
Deferred tax liabilities – balance sheet	**(52,809)**	(38,234)
	(9,317)	(36,325)

The analysis of deferred tax assets and liabilities are presented below:

	2014	2013
Deferred tax assets		
Deferred tax assets to be recovered after more than 12 months	**43,697**	35,336
Deferred tax assets to be recovered within the next 12 months	**12,967**	11,772
	56,664	47,108
Deferred tax liabilities		
Deferred tax liabilities to be settled after more than 12 months	**(65,981)**	(83,433)
Total of deferred tax liabilities	**(9,317)**	(36,325)

The Cooperative has also accumulated $27,750 of capital losses for which no deferred tax asset has been accounted for. These losses may be carried forward indefinitely.

6. PATRONAGE DIVIDENDS

Patronage dividends are paid out to members as follows: $23,007 (2013 – $27,482) in cash and $69,319 (2013 – $82,999) through the issuance of investment shares.

7. INVESTMENTS AND LOAN

	2014	2013
Joint ventures	**3,517**	17,449
Subordinated loan to a joint venture, bearing interest at a rate of 7.00% and cashable in January 2017	**7,806**	-
Others	**1,060**	125
	12,383	17,574

NOTES TO THE FINANCIAL STATEMENTS AS AT NOVEMBER 1, 2014
(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

INVESTMENTS IN JOINT VENTURES

Earnings and balance sheets of the joint ventures are summarized as follows:

	2014	2013
Current assets	**51,923**	64,097
Long-term assets	**99,849**	102,916
Current liabilities	**51,021**	53,549
Current financial liabilities	**4,544**	66,914
Long-term liabilities	**3,746**	8,337
Long-term financial liabilities	**76,024**	-
Sales	**291,972**	306,371
Depreciation and amortization	**11,236**	10,184

The Cooperative's share of commitments of joint ventures is $2,038 for the next year, $1,502 from 2016 to 2019 and $41 thereafter.

On June 6, 2013, the Cooperative disposed its participation in the La Lácteo joint venture in Argentina. The net cost associated with this disposition is $5,282 (US$5,100).

8. CASH FLOWS

Cash flows related to non-cash items have increased (decreased) as follows:

	November 1 2014	November 2 2013 (restated)
Accounts receivable	**(23,179)**	(14,525)
Inventories	**(21,007)**	(30,322)
Income taxes	**(8,214)**	5,077
Prepaid expenses	**(763)**	(2,597)
Accounts payable and accrued liabilities	**79,292**	15,579
Other assets and others	**(7,386)**	(7,930)
	18,743	(34,718)

Income taxes paid are as follows:

	2014	2013
Income taxes paid	**5,301**	2,032

The cash position is as follows:

	2014	2013
Cash and temporary investment	**155,887**	71,975
Bank overdrafts and bank loans	**(19,174)**	-
	136,713	71,975

NOTES TO THE FINANCIAL STATEMENTS AS AT NOVEMBER 1, 2014

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

9. INVENTORIES

	2014	2013
Finished goods	**441,895**	246,395
Raw materials, goods in process and supplies	**116,646**	78,507
	558,541	324,902

The cost of goods sold amounting to $4,062,822 (2013 – $3,251,305) mainly comprises the amount of inventories accounted for in expenses, including an impairment loss of $19,183.

10. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	**Equipment**	**Rolling stock**	**Total**
As at November 3, 2012				
Cost	297,591	745,998	48,071	**1,091,660**
Accumulated depreciation and amortization	(93,102)	(458,992)	(36,955)	**(589,049)**
Net carrying amount	**204,489**	**287,006**	**11,116**	**502,611**
Year 2013				
Additions	48,730	82,998	9,203	**140,931**
Business combinations	16,923	29,000	826	**46,749**
Disposals	(12)	(198)	(60)	**(270)**
Depreciation and amortization	(6,950)	(47,927)	(3,978)	**(58,855)**
Translation adjustment	3,685	6,401	27	**10,113**
Balance as at November 2, 2013	**266,865**	**357,280**	**17,134**	**641,279**
Cost	364,106	861,934	55,703	**1,281,743**
Accumulated depreciation and amortization	(97,241)	(504,654)	(38,569)	**(640,464)**
Net carrying amount	**266,865**	**357,280**	**17,134**	**641,279**
Year 2014				
Additions	75,964	122,121	8,884	**206,969**
Business combinations	107,285	190,592	6,073	**303,950**
Disposals	(76)	(111)	(156)	**(343)**
Depreciation and amortization	(9,826)	(61,892)	(6,651)	**(78,369)**
Translation adjustment	11,577	18,735	86	**30,398**
Balance as at November 1, 2014	**451,789**	**626,725**	**25,370**	**1,103,884**
Cost	559,466	1,197,660	69,058	**1,826,184**
Accumulated depreciation and amortization	(107,677)	(570,935)	(43,688)	**(722,300)**
Net carrying amount	**451,789**	**626,725**	**25,370**	**1,103,884**

Buildings and equipment include major works in progress of which an amount of $104,518 (2013 – $84,667) is unamortized.

NOTES TO THE FINANCIAL STATEMENTS AS AT NOVEMBER 1, 2014
(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

11. INTANGIBLE ASSETS AND GOODWILL

	Customer relationships	Trademarks, software and other rights	Total intangible assets	Goodwill
As at November 3, 2012				
Cost	44,977	55,449	**100,426**	**144,445**
Accumulated depreciation and amortization	(16,355)	(37,566)	**(53,921)**	**-**
Net carrying amount	**28,622**	**17,883**	**46,505**	**144,445**
Year 2013				
Additions	-	14,263	**14,263**	**-**
Business combinations	2,140	24,869	**27,009**	**7,285**
Impairment	-	-	**-**	**(24,371)**
Depreciation and amortization	(5,142)	(5,176)	**(10,318)**	**-**
Translation adjustment	1,344	479	**1,823**	**5,071**
Balance as at November 2, 2013	**26,964**	**52,318**	**79,282**	**132,430**
Cost	49,349	93,260	**142,609**	**156,801**
Accumulated depreciation and amortization	(22,385)	(40,942)	**(63,327)**	**(24,371)**
Net carrying amount	**26,964**	**52,318**	**79,282**	**132,430**
Year 2014				
Additions	-	25,796	**25,796**	**-**
Business combinations	58,914	11,008	**69,922**	**585,605**
Depreciation and amortization	(6,755)	(5,205)	**(11,960)**	**-**
Translation adjustment	3,585	790	**4,375**	**21,624**
Balance as at November 1, 2014	**82,708**	**84,707**	**167,415**	**739,659**
Cost	113,869	132,170	**246,039**	**766,008**
Accumulated depreciation and amortization	(31,161)	(47,463)	**(78,624)**	**(26,349)**
Net carrying amount	**82,708**	**84,707**	**167,415**	**739,659**

Software include a major work in progress of which an amount of $36,070 (2013 – $12,650) is unamortized.

NOTES TO THE FINANCIAL STATEMENTS AS AT NOVEMBER 1, 2014

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

The carrying amount of goodwill is allocated to the reporting business units as follows:

	2014	2013
Cheese and Ingredients Division – Cheese Canada	**46,906**	8,556
Cheese and Ingredients Division – Fine Cheese	**20,837**	-
Division Natrel and Fresh Products – Canada	**34,559**	34,559
Cheese and Ingredients Division – Cheese United States	**548,092**	6,735
Cheese and Ingredients Division – Ingredients United States	**45,174**	41,791
Division Natrel – United States	**44,091**	40,789
	739,659	132,430

No impairment loss resulted from the impairment tests made on November 1, 2014 and November 2, 2013, except for Division Natrel – United States, which was recorded last year.

During fiscal year 2013, the test, based on the fair value less costs to sell (fair value), resulted that the Division Natrel – United States carrying amount exceeded its recoverable amount. Therefore, a goodwill impairment charge of $24,371 has been recorded.

12. OTHER ASSETS

	2014	2013
Procurement agreements and others	**25,844**	24,759
Income tax credits receivable	**4,376**	-
	30,220	24,759

13. BANK OVERDRAFTS AND BANK LOANS

The Cooperative and its subsidiaries have lines of credit for a maximum of $44,932 (of which $15,489 are used as of November 1, 2014), bearing interest at variable rates generally not exceeding the prime rate plus 1.50%. Bank loans are not secured by any of the Cooperative's assets. In general, the Cooperative's lines of credit are renewable annually. Lines of credit were unused as of November 2, 2013.

A bridge loan of $250,000 is available until November 2014, extended until February 2015 and is repayable upon issuance of first preferred investment shares. Should this loan be used, it would expire one year from the disbursement date and bear interest at a variable rate generally not exceeding the prime rate plus 2.00%. This loan is unused as of November 1, 2014.

14. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2014	2013
Members	**134,085**	86,506
Third parties	**481,043**	336,632
Joint ventures	**1,072**	345
	616,200	423,483

NOTES TO THE FINANCIAL STATEMENTS AS AT NOVEMBER 1, 2014

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

15. LONG-TERM DEBT

	2014	2013
Term loan[1]	**1,284,981**	-
Loans of the Cooperative, not bearing interest[2]	**214**	373
	1,285,195	373
Current portion	**95,149**	159
	1,190,046	214

[1] U.S. dollars term loan bearing interest at the U.S. base rate plus 1.50% (2.19% as at November 1, 2014) and refundable at 10% per year on average until maturity in August 2019. Term loan is not secured by any of the Cooperative's assets and the Cooperative must meet certain financial ratios which are respected as at November 1, 2014.

[2] These loans, secured by specific equipment, do not bear interest and mature between December 2015 and February 2016.

Principal repayments of the long-term debt to be made over the next years are as follows:

2015	97,386
2016	129,657
2017	129,616
2018	155,540
2019	784,180

As at November 1, 2014, the term loan was designated as a hedge of a net investment in a foreign establishment.

The Cooperative has a revolving term loan of $400,000 that was unused as at November 1, 2014, maturing in August 2019 if no extension request is submitted to the lenders and accepted by them. The loan interest rate may vary between the prime rate and the prime rate plus 1.50%. The unused portion of this loan is subject to standby fees. The revolving term loan is not secured by any of the Cooperative's assets.

16. OTHER LONG-TERM LIABILITIES

	2014	2013
Deferred income tax credits	**4,061**	-

17. SHARE CAPITAL (in dollars)

The following constitutes a summary of certain privileges, rights and conditions related to the Cooperative's shares. Reference can be made to the statutes of the Cooperative for full text.

Voting rights are restricted to one vote per member. Each member subscribes to one member share, for a par value of $100. Furthermore, each member subscribes to 10 Class M investment shares, whether Series 1 for a par value of $20 each or Series 2 for a par value of $1,000, according to the membership application date. Other Class M investment shares series could be issued later, further to a resolution by the Board of Directors.

Class A investment shares are issued in consideration of patronage dividends. Should a minimum threshold of capital per hectolitre of produced milk fail to be reached, deductions shall be made from the cash payment of patronage dividends and milk deliveries. The minimum threshold of capital per member varies from $5 to $10 per hectolitre, according to the application date and is subject to revision. The Class A investment shares can be transferred to auxiliary members and are also eligible, under certain conditions, for the Registered Retirement Savings Plan, the Cooperative Investment Plan and tax deferral.

NOTES TO THE FINANCIAL STATEMENTS AS AT NOVEMBER 1, 2014

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

During the recent combinations of the Cooperative with Farmers Co-operative Dairy Limited and Dairytown Products Ltd., certificates of indebtedness were issued to former members of Farmers Co-operative Dairy Limited and Dairytown Products Ltd. Certificates of indebtedness, presented as an item of members' equity, can be transferred to auxiliary members and are not eligible to the Registered Retirement Savings Plan, the Cooperative investment Plan and tax deferral.

Share capital is variable and unlimited as to the number of shares in each class, except for Classes B, C and D investment shares, which are limited at 10 shares each. Member shares, Class A investment shares as well as certificates of indebtedness are redeemable under certain conditions at their par value further to a resolution by the Board of Directors, depending on short-and long-term treasury needs.

18. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS), NET OF INCOME TAXES

	2014	2013
Gains (losses) on financial instruments designated as cash flow hedges	**(724)**	114
Foreign currency translation adjustment of foreign operations, net of hedging operations	**60,886**	(10,579)
Foreign currency translation adjustment of term loan designated as hedge of a net investment in foreign operations	**(34,500)**	-
Share of accumulated other comprehensive loss of joint ventures	**(13)**	(17)
	25,649	(10,482)

19. FINANCIAL INSTRUMENTS

The following analysis explains the financial risks associated with financial instruments as at November 1, 2014:

FAIR VALUE

The fair value of a financial instrument corresponds to 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. The carrying amount of short-term financial instruments is assumed to approximate their fair value due to their short-term maturity. These financial instruments generally include cash and temporary investment, accounts receivable, bank overdrafts and bank loans, and accounts payable and accrued liabilities.

The estimated fair value of the long-term debt according to current market conditions approximates the carrying amount as at the balance sheet date.

LIQUIDITY RISK

Liquidity risk is the risk that the Cooperative will encounter difficulty in meeting its financial obligations on time. Centralized treasury and financing management allows the Cooperative to reduce liquidity risk. The Cooperative also reduces this risk by maintaining detailed financial forecasts and strategic long-term plans. If there is a surplus of liquidity, it is invested in quality short-term instruments.

CREDIT RISK

Accounts receivable mainly relate to trade receivables generated in the normal course of business. Although there are some major accounts resulting from a certain volume concentration in the food industry, the diversification of customer market segments (retailers, wholesalers, manufacturers, food services) and the extent of the Cooperative's geographical activities reduce credit risk. Moreover, credit risk is reduced by the terms of payment in connection with the relatively fast cycle of product consumption. At year-end, 4% of accounts receivable exceeded normal terms of payment by more than 30 days.

NOTES TO THE FINANCIAL STATEMENTS AS AT NOVEMBER 1, 2014

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

INTEREST RATE RISK

Financial assets and financial liabilities do not bear interest, except for cash, temporary investment, bank overdrafts and bank loans, and long-term debt.

The Cooperative is exposed to cash flows risk due to interest rate fluctuation on financial instruments bearing interest at variable rates. With respect to long-term debt, an increase in the benchmark rate and preferential rates could have a negative effect on cash flows; the impact would be positive with respect to its cash balances. In the case of a decrease in interest rates, the impact would be the opposite. The use of long-term debt is primarily related to business combinations.

Sensitivity analysis for interest rate risk

Term loan is subject to market interest rate fluctuation risk. If the average interest rate was higher than 1%, and assuming all other variables remained constant, earnings before patronage dividends and the Cooperative's income taxes would have decreased by $3,096.

FOREIGN EXCHANGE RISK

The Cooperative carries on activities outside Canada, mainly in the United States, via subsidiaries. Consequently, the Cooperative is exposed to risks due to exchange rate fluctuations affecting its net investment in foreign subsidiaries.

During the year ended November 1, 2014, if the U.S. dollar had increased by an average of $0.01 compared to the Canadian dollar, and assuming all other variables remained constant, the impact of this increase on earnings before income taxes would have been marginal, and the impact on comprehensive income would have resulted in an increase of $3,491.

The Cooperative also carries on certain purchasing and selling activities in foreign currencies. The Cooperative hedges against foreign exchange risks for projected future transactions by means of currency forward contracts, mainly in U.S. dollars, euros and pounds sterling. Unrealized foreign exchange gains and losses are recorded initially in comprehensive income and reversed in earnings at the expiry of the contracts. As at the reporting date, the foreign exchange contracts, spread out over periods not exceeding one year, are as follows:

Purchases of US$5,096 against CA$
Purchases of 11,247 euros against CA$
Sales of 1,256 GBP against CA$
Purchases of 9,076 euros against US$

MEASUREMENT RISK

Financial instruments recognized at fair value are classified according to the following hierarchy:

a) Level 1: Fair value based on quoted prices in active markets for identical assets.

b) Level 2: Fair value based on data observable either directly or indirectly, other than the quoted prices in Level 1.

c) Level 3: Fair value not based on observable market data.

	Level 1	**Level 2**	**Level 3**	**2014**	2013
Foreign exchange contracts	-	(1,020)	-	**(1,020)**	157

U.S. MARKET RISK

Milk prices as well as whey product and cheese prices in the United States depend on fluctuations in market and demand, influenced, among other things, by global economic conditions.

NOTES TO THE FINANCIAL STATEMENTS AS AT NOVEMBER 1, 2014
(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

20. COMMITMENTS AND CONTINGENCIES

a) Commitments relating mainly to operating leases are as follows: $8,874 for the following year, $15,868 from 2016 to 2019 and $1,182 thereafter.

b) The Cooperative is committed for an amount of $103,900 to purchase property, plant and equipment and intangible assets as part of major projects.

c) On July 8, 2014, the Cooperative concluded an agreement with Sobeys, in Canada, that includes the purchase of dairy processing assets (two plants in Edmonton, Alberta, one plant in Winnipeg, Manitoba, one plant in Burnaby, British Columbia) and long-term supply agreements. The value of the transaction is $356,100 and it should be completed in the first semester of 2015.

d) The Cooperative is party to litigations in the normal course of business. Even if the outcome of these litigations cannot be expressed with certainty, the related liability is recorded when it is likely that it will result in a loss and that the amount can be estimated. Furthermore, management estimates that the losses that could result from these litigations are negligible.

21. EMPLOYEE FUTURE BENEFITS

Employee future benefits relate mainly to pension plans. The obligations of the defined benefit plans are based on the employee's length of service and salary of the last employment years. The pension benefits can be adjusted according to a formula based on the return on plan assets and the consumer price index. Actuarial valuations of the plans are performed every year. The most recent valuations were performed in December 2013.

The Cooperative also offers to certain employees other long-term benefits that provide for the payment of life insurance premiums and health insurance for retirees. The Cooperative also has a deferred compensation plan covering few employees. Other long-term benefits are not capitalized and are presented under other plans.

The net expense is as follows:

	2014	2013 (restated)
Defined contribution plans		
Net expense	**12,615**	12,367
Defined benefit plans		
Current service cost	**5,837**	6,343
Administrative costs	**743**	556
Interest cost on accrued benefit obligation	**9,656**	7,494
Interest on asset ceiling impact	**199**	-
Projected return on plan assets	**(8,759)**	(5,833)
Net expense	**7,676**	8,560

6

NOTES TO THE FINANCIAL STATEMENTS AS AT NOVEMBER 1, 2014

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

The information on defined benefit plans is as follows:

	2014	2013 (restated)
Plan assets		
Fair value – beginning of year	**195,201**	97,958
Business combination	**-**	80,067
Administrative costs	**(743)**	(556)
Projected return on plan assets	**8,759**	5,833
Employer contributions	**9,749**	9,963
Employee contributions	**1,942**	1,552
Benefits paid	**(8,525)**	(9,099)
Actuarial gains	**14,894**	9,483
Fair value – end of year	**221,277**	195,201

Equity securities represented 53% (2013 – 61%) and obligations represented 40% (2013 – 31%) of total plan assets invested mainly in Canada.

	2014	2013
Accrued benefit obligation		
Balance – beginning of year	**212,194**	128,167
Business combination	**-**	93,566
Current service cost	**5,837**	6,343
Interest cost	**9,656**	7,494
Employee contributions	**1,942**	1,552
Benefits paid	**(8,525)**	(9,099)
Actuarial losses (gains)	**10,607**	(15,829)
Balance – end of year	**231,711**	212,194

	2014	2013 (restated)
Pension plan obligation		
Funding status – plan assets net of obligation (deficit)	**(10,434)**	(16,993)
Impact of asset ceiling test	**(1,009)**	(4,433)
Pension plan obligation	**(11,443)**	(21,426)
Other plans	**(4,146)**	(2,046)
Employee future benefits obligation	**(15,589)**	(23,472)

For pension plans with an accrued benefit obligation that is in excess of assets, the accrued benefit obligation is $108,983 (2013 – $187,189) and the assets are $93,395 (2013 – $167,325).

NOTES TO THE FINANCIAL STATEMENTS AS AT NOVEMBER 1, 2014

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

Actuarial gains (losses) are accounted for in other comprehensive income and are as follows:

	2014	2013 (restated)
Actuarial gains for the year	**4,281**	25,473
Impact of asset ceiling test	**3,623**	(4,433)
Amount accounted for in other comprehensive income	**7,904**	21,040
Balance – Beginning of year	**(8,584)**	(29,624)
Balance – End of year	**(680)**	(8,584)

	2014	2013
Weighted average assumptions		
Accrued benefit obligation		
Discount rate	**4.25%**	4.50%
Long-term inflation rate of salary expense	**4.00%**	4.00%
Net benefit expense for the year		
Discount rate	**4.50%**	4.00%
Expected return on plan assets	**4.50%**	4.00%
Long-term inflation rate of salary expense	**4.00%**	4.00%

The Cooperative participates in multi-employer defined benefit plans for certain unionized employee groups. Based on available information, these plans are accounted for as defined contribution plans. Contributions for the year amounted to $1,480.

The Cooperative expects to make contributions of $7,793 to defined benefit plans in the next financial year.

SENSITIVITY ANALYSIS

The significant actuarial assumptions for the determination of the defined benefit obligation are the discount rate and the rate of future compensation increase. The following table summarises the effect of a change in these actuarial assumptions on the value of the defined benefit obligation as at November 1, 2014.

	Change in assumption	**Increase in assumption**
Discount rate	0.25%	9,033
Long-term inflation rate of salary expense	0.25%	1,047

NOTES TO THE FINANCIAL STATEMENTS AS AT NOVEMBER 1, 2014

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

22. RELATED PARTIES

SUBSIDIARIES AND JOINT VENTURES

The main subsidiaries and joint ventures of the Cooperative are as follows:

		% owned	
	Country of incorporation	**2014**	2013
Agropur inc.	United States	**100%**	100%
Agropur Export Group Inc.	Canada	**100%**	0%
Ultima Foods Inc.	Canada	**50%**	50%

The main activities of these subsidiaries and joint ventures are milk processing and exportation of dairy products and food ingredients.

During the year, the Cooperative purchased $44,801 (2013 – $43,419) in raw materials and finished goods from its joint ventures.

KEY MANAGEMENT PERSONNEL COMPENSATION

Compensation of the members of the Board of Directors and key management personnel is broken down as follows:

	2014	2013
Salary and other benefits	**10,080**	10,600
Post-employment benefits	**1,165**	1,233
	11,245	11,833

23. SUBSEQUENT EVENTS

On November 10, 2014, the Cooperative have closed the acquisition of all dairy and food distribution assets of Northumberland Dairy Cooperative, a dairy cooperative located in New Brunswick.

TOGETHER TO PURSUE OUR GOAL

AGROPUR COOPERATIVE
101 Roland-Therrien Blvd., Suite 600
Longueuil, Quebec J4H 4B9
450-646-1010

CHEESE AND INGREDIENTS DIVISION
510 Principale Street
Granby, Quebec J2G 7G2
450-375-1991

CANADA CHEESE BUSINESS UNIT
101 Roland-Therrien Blvd., Suite 600
Longueuil, Quebec J4H 4B9
450-646-1010

US CHEESE BUSINESS UNIT
3500 E. Destination Drive
Appleton, Wisconsin 54915-7305
920-788-2115

INGREDIENTS BUSINESS UNIT
2340 Enterprise Avenue
La Crosse, Wisconsin 54602-1628
608-781-2345

FINE CHEESE BUSINESS UNIT
4700 Armand-Frappier Street
Saint-Hubert, Quebec J3Z 1G5
450-443-4838

DIVISION NATREL AND FRESH PRODUCTS
101 Roland-Therrien Blvd., Suite 600
Longueuil, Quebec J4H 4B9
450-646-1010

US CHEESE BUSINESS UNIT
2080 Rice Street
Maplewood, Minneapolis 55113
651-487-1471

ULTIMA FOODS INC.*
2177 Fernand-Lafontaine Blvd.
Longueuil, Quebec J4G 2V2
450-651-3737

* Joint venture

AGROPUR
Dairy Cooperative

Natrel
Québon
Sealtest
island FARMS
Farmers
Central Dairies

DYNA MOO
NORTHUMBERLAND
OKA
AGROPUR SIGNATURE
agropur IMPORT COLLECTION
Allégro

FROMAGES FINS ANCO FINE CHEESE
AGROPUR Grand Cheddar
Damafro
Masters RESERVE
iÖGO
OLYMPIC

ISO
COR
KEY
CAP
BAK
CRI

DAR
PZ-44
The Original biPro INSTANT WHEY PROTEIN ISOLATE SUPPLEMENT
Dairytown "In the heart of the dairy country!"

FSC
MIXTE
Papier issu de sources responsables
FSC® C002321