Better dairy. Better world.

ANNUAL REPORT 2017

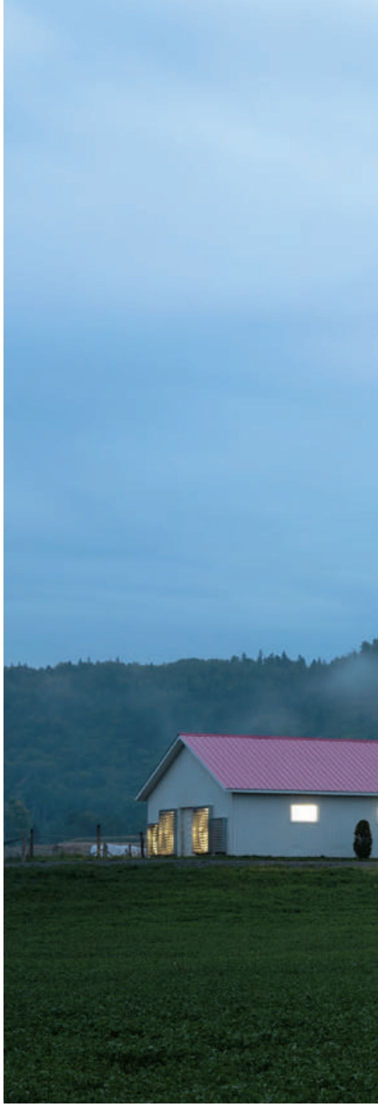


TABLE OF CONTENTS

Ferme Rodrigue et fils inc.

Introduction

Our Cooperative fared well during the past year, posting $6.4 billion in sales, a 7.7% year-over-year increase, and $444 million in earnings from operations, a 7.9% increase, despite continuing aggressive competition in the Canadian market and still-volatile global markets.

Caroline Guimond, Mégane, Justin, Jacob, Jean-Philippe and Élyse Rodrigue, from Ferme Rodrigue et fils inc., Saint-Anaclet, Est du Québec

Better dairy. Better world.

At a time when the sharing economy is meeting growing needs and is being embraced as a win-win solution, our cooperative model supports fair, structural wealth distribution and makes a difference for the community. Our model has been contributing to the social fabric, to local development and to the health of rural communities for nearly 80 years.

Agropur held its course and stepped up the pace of its transformation. Our strategy organized around five growth pillars was adopted in 2012 and remains appropriate today, as this report will show.

The year was punctuated by major changes. We followed up by introducing new structures that reflect our desire to take an even more customer- and consumer-focused approach.

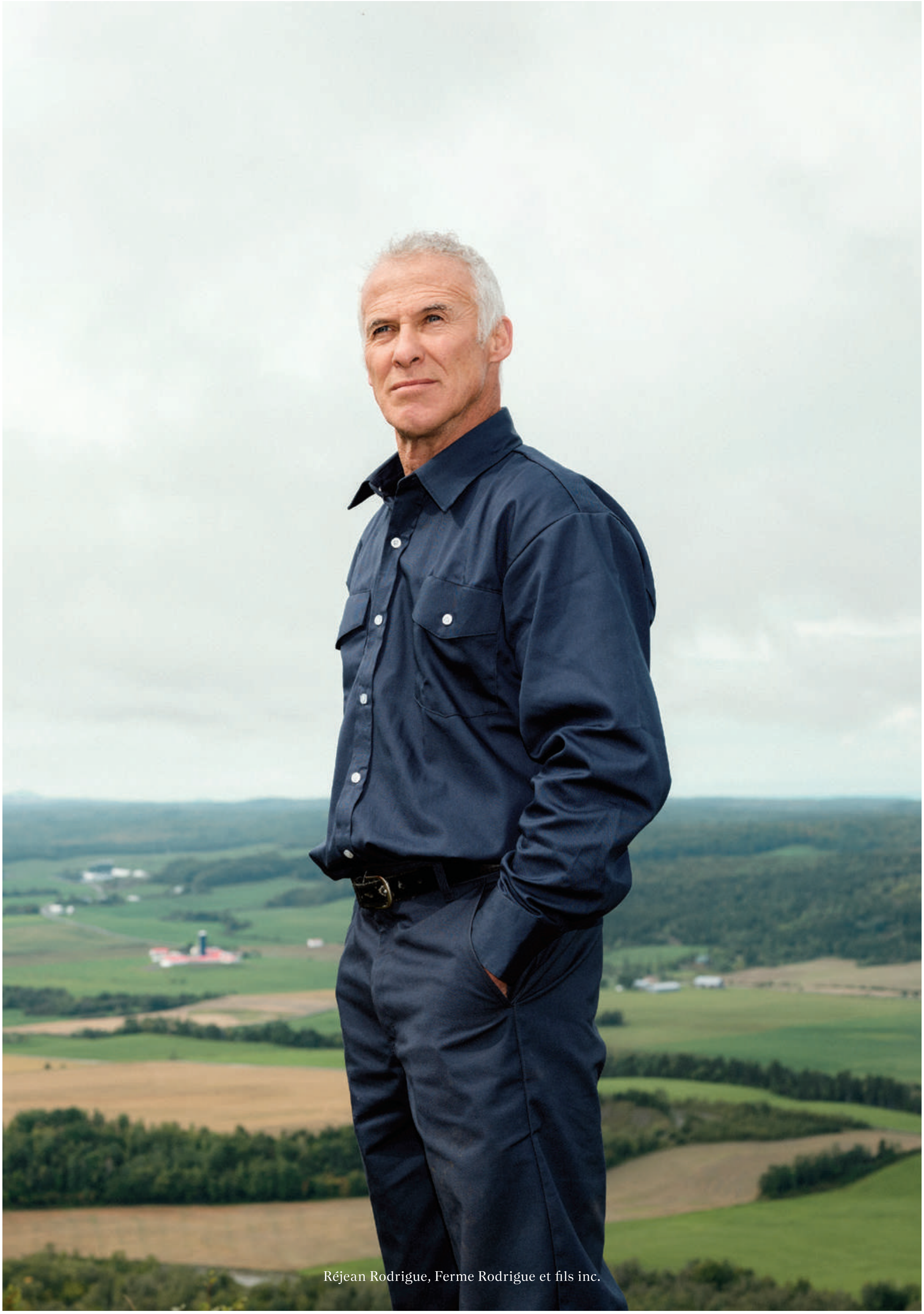
Agropur is now the first dairy processing Cooperative in North America,* and the 20th largest dairy processor in the world for the second year in a row. It was ranked Canada's most trusted dairy brand by the University of Victoria's Gustavson Index for a third year in a row.

At a time when the sharing economy is meeting growing needs and is being embraced as a win-win solution, our cooperative model supports fair, structural wealth distribution and makes a difference for the community. Our model has been contributing to the social fabric, to local development and the health of rural communities for nearly 80 years.

Agropur owes its sustainability to its members vision and its ability to adapt to the needs of its customers and consumers. The new generation of consumers has very different expectations than did previous generations. We need to incorporate the new demographic realities into our strategies. Our corporate positioning has therefore been redefined and we have articulated a new promise: "Better dairy. Better world." We are therefore committed to taking meaningful action and trying to change the world in our own way.

When consumers purchase Agropur products, they not only obtain products of the highest quality but they also contribute to better distribution of wealth across rural communities.

*Source: www.dairyfoods.com



Réjean Rodrigue, Ferme Rodrigue et fils inc.

Ferme Rodrigue et fils inc.

Jean-Philippe Rodrigue, Ferme Rodrigue et fils inc.

Together, our 3,290 dairy-producer members and 8,300 employees bring out the best in dairy.

Réjean and his grandson, Jacob

We are 13,000 families strong seeking better dairy. Our quest for perfection leads us to innovate and improve constantly, on the farm and at the processing plant alike.

Réjean and his grandchildren, Justin and Mégane

BETTER FOR THE COMMUNITY

We are engaged with the community because, as a cooperative, we come from the community. We contribute to the vitality of rural communities.

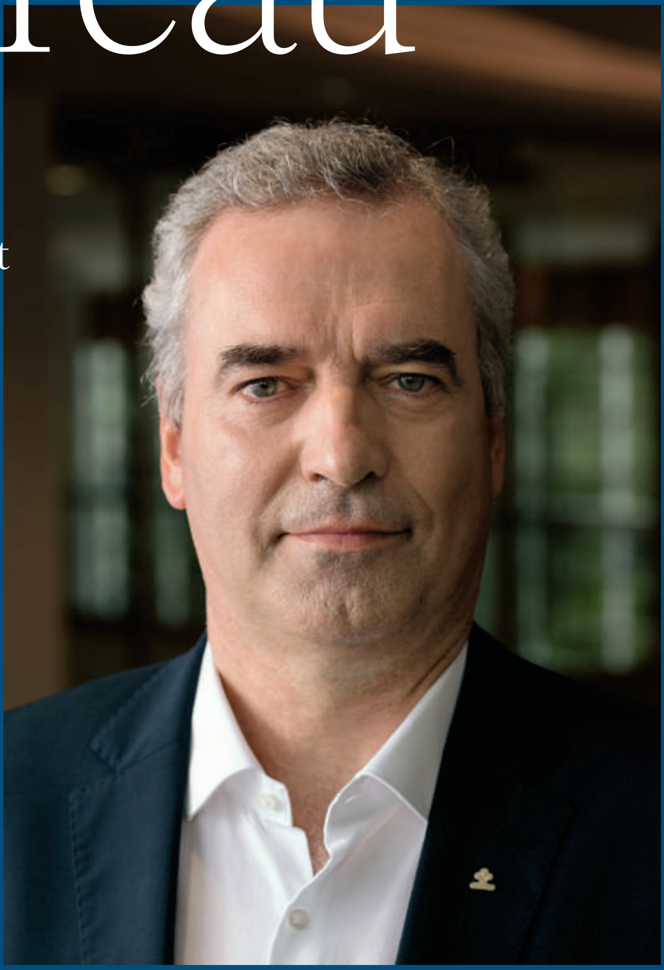
Jacob and Justin

Anne Routhier, Élyse, Mégane, Justin and Caroline

Our values spur us to pursue a shared mission: Better dairy. Better world.

Jacob

René Moreau



Message from the President

CONTINUING OUR DEVELOPMENT

We posted a robust performance in fiscal 2017 in a persistent environment of strong competition in Canada and volatile prices in the United States. My first year as president of Agropur was a year of growth: the volume of milk processed rose to nearly 6.1 billion litres, a 2.0% increase from last year. Sales, earnings from operations and net earnings were also up significantly.

We continued our strategy of combining organic growth with mergers and acquisitions. During the year, Agropur acquired Scotsburn, consisting of two frozen dairy product plants in Truro, Nova Scotia and Lachute, Quebec, as well as the Scotsburn brand. After the end of the 2017 fiscal year, we became the owners of all shares of Ultima Foods by acquiring the interest that our partner Agrifoods held for 24 years.

During the year, we invested more than $174 million in our facilities, including $133 million in Canada. We also approved a US$255 million investment in our Lake Norden, South Dakota plant. The project will triple the plant's capacity and accelerate our development in the US Midwest.

As a result of our financial results, our Cooperative was able to declare a $65.2 million patronage dividend in 2017 and will also make a redemption of members' capital and debt certificates in the amount of $39.9 million, notwithstanding considerable upcoming capital expenditures.

THE COOPERATIVE MODEL: THE KEY TO EMPOWERMENT

Nearly 80 years ago, our founders joined together to face the challenges of a tough business environment. They chose the cooperative model and that was no trivial decision. A cooperative is more than a legal status; it is an instrument of empowerment, a way to take our future into our hands.

A cooperative is also imbued with values rooted in solidarity and sharing. Our business model contributes to the economic vitality of local communities. Cooperatives are by no means a thing of the past; they constitute a form of organization that resonates with young people who want their economic endeavours to be consistent with human values.

Agropur creates wealth and also redistributes it. Over the past five years, the Cooperative has declared nearly $369 million in patronage dividends.

For employees, Agropur is an employer of choice that offers attractive job opportunities and career prospects. For suppliers, Agropur is not only a business opportunity but also an opportunity to build partnerships and grow their own business.

CHALLENGES AHEAD

Today, we must follow the example of our predecessors: we need to demonstrate leadership and boldness to secure our cooperative's future and rise to the challenges we face.

In the US as in Canada, our markets are changing fast. We must continue and indeed accelerate our transformation.

In Canada, the marketplace remains extremely competitive, and our competitors are multinationals that are up to four times our size. We have therefore stepped up the pace of our expansion in recent years. Today, nearly 50% of our sales are south of the border. We must grow with our customers and seize opportunities for profitable business development.

SUPPLY MANAGEMENT HAS STOOD THE TEST OF TIME

We are also concerned about the global environment, particularly the renegotiation of international trade agreements.

On the sidelines of the trade talks between Canada, Asia and particularly the US, we have heard voices challenging Canada's supply management system.

Since it was created nearly 50 years ago, this system has guaranteed farmers a fair and predictable income, while eliminating shortages and surpluses. It has been adapted and modernized to meet changing market needs. It has accomplished its mission by putting food on the tables of Canadian consumers at a reasonable price.

For decades the retail price of dairy products in Canada has been increasing in tandem with consumer goods generally – neither faster nor slower. Today, retail prices for Canadian dairy products compare favourably with those in most countries around the world.

All countries support their dairy industry. In most cases, they do it through large direct subsidies. In other cases, government intervention takes the form of regulatory support. Canada has chosen supply management, a system that has withstood the test of time, promotes competition and requires no subsidies.

In this critical time for you and your Cooperative, your Board of Directors continues to play a frontline role in informing stakeholders about the potential impacts of trade agreements that undermine our supply management system. At the same time, we are holding the strategic course charted several years ago.

Our results to date show those decisions were sound. I am grateful to my fellow directors for their dedication and engagement. I also want to thank you, the members of Agropur Cooperative, for your trust and support.

In conclusion, on behalf of all our members, I would also like to thank our CEO Robert Coallier, the entire management team and Agropur's 8,300 employees. Their skills and vision sustain our Cooperative's performance and success, day after day.

René Moreau
President

Robert Coallier

Message from the CEO

Our Cooperative registered another year of strong increases in sales, efficiency and profitability. Against a backdrop of fierce competition in Canada and wide market fluctuations in the US, we continued our development on the basis of our five strategic pillars.

Our sales and earnings hit record levels: sales were up 7.7% year-over-year to $6.4 billion and EBITDA increased 7.9% to $444 million. During the year, we became the largest dairy processing cooperative in North America.

The increase in our earnings was due to, among other things, higher cheese prices and higher whey and cheese sales volumes in the US. In Canada, the volume added by the acquisition of Scotsburn's operations generated growth in sales and earnings from operations, which was however tempered by lower sales of industrial cheese and fluid milk.

We had a productive year in terms of national and international development. The acquisition of Scotsburn has strengthened our presence in the ice cream space. Becoming the sole owner of Ultima Foods will support our long-term development in the yogurt category. With these acquisitions, Agropur now offers customers and Canadian consumers a more complete product line than any other dairy processor.

On the investment front, we are studying major projects in the Atlantic region. In the US, we are investing to triple the dairy processing capacity of our facility in Lake Norden, South Dakota in order to take advantage of markets and the growing milk supply in the area.

We also continued our cost-cutting initiatives during the year and realized savings of more than $48 million, contributing to the improvement in our earnings.

For the third year in a row, the University of Victoria's Gustavson Index rated Agropur as Canada's most trusted dairy brand. Our strong brands, Natrel, OKA and iögo, each achieved new levels of consumer appreciation. And Interbrand included Agropur on the list of 150 brands that make us authentically Canadian.

This recognition is a testament to the quality of our products. It also testifies to the relevance of our business model, which helps share the wealth and contributes to the economic vitality of many regions.

The trust we have earned also motivates us to continue listening to our customers and consumers. At the same time, our consumers are changing, and so are their needs. Today, millennials are coming into the market; they are our planet's new consumers, employees and citizens, and their expectations contrast with those of previous generations, both as consumers and as job-seekers.

It is therefore crucial that we factor these new realities into our strategy for reaching consumers. We need to let them know about Agropur's positioning and its redefined promise: "Better dairy. Better world." Every day, we engage with the community by guaranteeing our customers and consumers top quality and compliance with the strictest regulatory requirements at our facilities. We offer our employees meaningful work and upholding corporate values. We treat animals with respect and we protect the environment. Agropur is changing the world in its own way.

More specifically, we have continued improving our structures to focus our organization on customers' and consumers' expectations.

It is clear that the linear manufacturer–distributor–retailer–consumer relationship is a thing of the past. Together, we must establish integrated relationships with consumers to serve them better.

The importance of millennials is spurring us to find new ways to reach out to consumers directly and to develop new products and business processes. We have therefore stepped up the pace of innovation.

Our moves to adapt to the rise of a new generation of consumers and employees extend to all sectors of the organization. In human capital management, it means a stronger push to attract and retain the best talent. We have introduced a series of training, succession planning and succession management initiatives for our employees, as well as a knowledge transfer program.

In conclusion, I would like to emphasize that every link in our supply chain needs to adapt and become consumer-centric. This applies to production and even to Agropur's dairy farmer members.

In view of the projects we have launched in recent years and the quickening pace of change, we need, more than ever, to actively manage change.

I thank the members of the Board and particularly our president, René Moreau. To all Agropur members, let me say that your support and solidarity are very much appreciated and are indeed essential to the success of our organization.

Lastly, I want to pay tribute to the work of the entire management team and of all Agropur employees. Day after day, they translate our strategy into reality and into success on the ground.

Robert Coallier
CEO

Board of Directors

1 / 2 / 3

1. Jeannie van Dyk
Vice-President
Atlantique 2013
2. René Moreau
President
Nicolet–Bois-Francs 1998
3. Roger Massicotte
Vice-President
Mauricie–Portneuf 2003
4. Michel Boisvert
Montérégie 2017
5. Stéphanie Benoit
Presented and elected
by universal suffrage 2015

6. Michel Couture
Second Member of the Executive
Chaudière-Appalaches 2001
7. Céline Delhaes
First Member of the Executive
Presented and elected
by universal suffrage 2011
8. Jean-Pierre Lacombe
Third Member of the Executive
Salaberry–Richelieu 2007

4 / 5

6 / 7 / 8

9 / 10

9. Claude Cressier
Érable–Seigneuries 2015

10. Valère Lieutenant
Estrie–Granby 2012

11. Roger Beaulieu
Est du Québec 2014

12. Alain Forget
Laurentides–Lanaudière 2014

11

12

13. Jim Walker
Guest member of the Board 2014

14. Ralph Ballam
Guest member of the Board 2013

15. Suzanne Blanchet
Guest member of the Board 2015

13 / 14 / 15

Senior Management Committee

1 / 2 / 3

1. Robert Coallier
Chief Executive Officer
2. Jocelyn Lauzière
Senior Vice-President
and Chief Financial Officer
3. Lorraine Bédard
Senior Vice-President,
Legal Affairs, Member Relations
and Corporate Secretary

4

4. Émile Cordeau
Senior Vice-President
and Chief Financial Officer
(as of February 2018)
5. Pierre Corriveau
Senior Vice-President,
Human Capital
6. Dominique Benoit
Senior Vice-President,
Institutional Affairs
and Communications

5 / 6

7 / 8

7. Serge Paquette
President, Canada Operations

8. Doug Simon
President, US Operations

9

10

11

9. Michael Aucoin
President, Canada Operations
(since September 2017)

10. Benoît Zolnaï
Senior Vice-President,
Operational Excellence and Quality

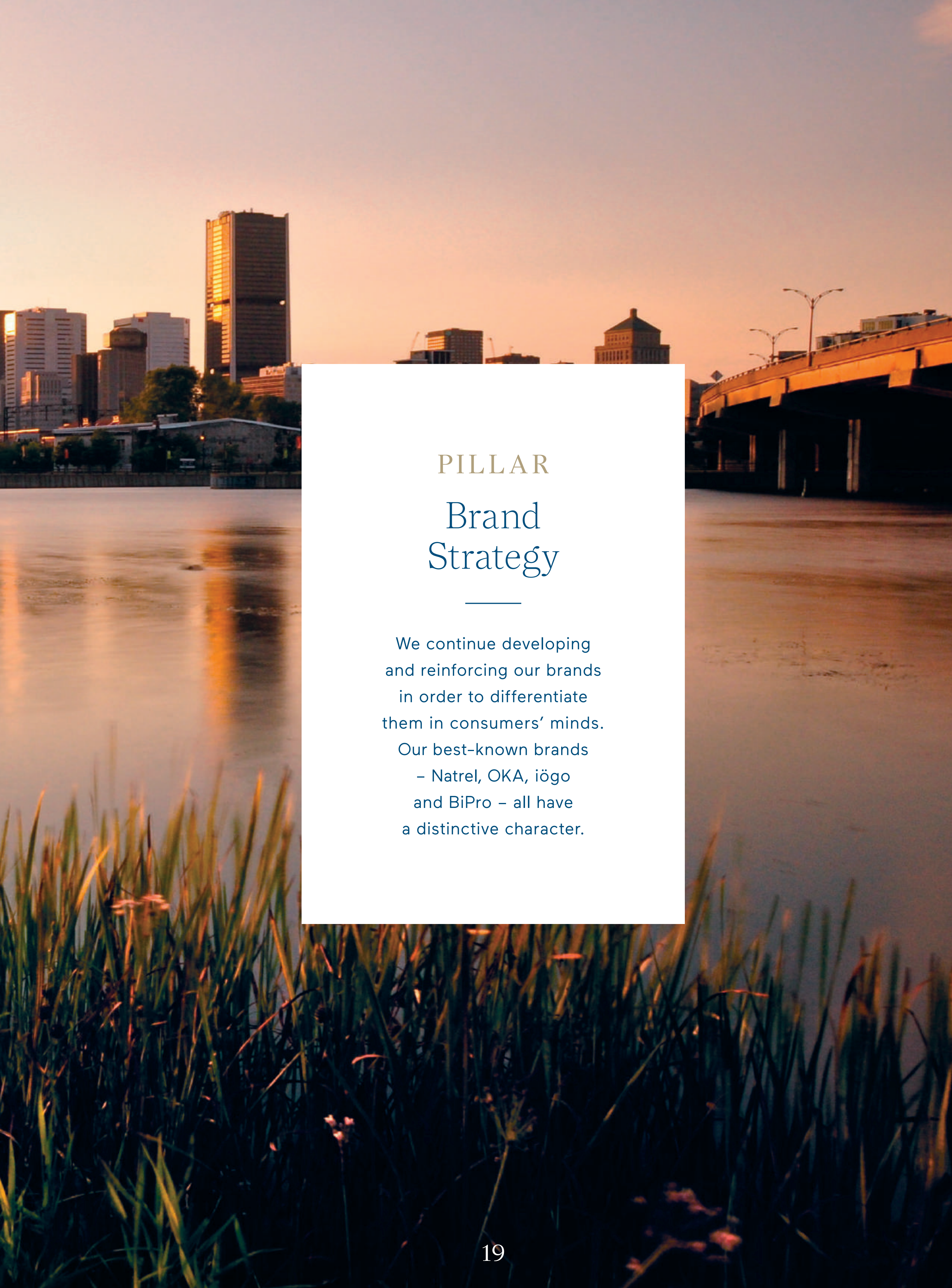
11. Nicolas Marie
Senior Vice-President —
General Manager Ice Cream

12. Serge Fortier
Senior Vice-President,
Information Technology

13. Simon Olivier
Senior Vice-President,
Strategy and Innovation

12 / 13


strawberry
fraise
Natrel
CHOCOLATE
200 mL



PILLAR

Brand Strategy

We continue developing and reinforcing our brands in order to differentiate them in consumers' minds. Our best-known brands – Natrel, OKA, iögo and BiPro – all have a distinctive character.

Our brands position us as a leader in all our markets.

The campaign highlighting our pride in making products with 100% Canadian milk, launched at the beginning of fiscal 2017 in partnership with Dairy Farmers of Canada, was highly successful. It publicized our business model and increased Agropur's prompted awareness to 56% nationally in Canada. Packaging featuring the Dairy Farmers of Canada "Quality Milk" logo is being phased in.

NATREL, STILL NUMBER 1 IN THE HEARTS OF CANADIANS

The Natrel brand maintained its market dominance as Canada's most popular brand in the "fine filtered" (45% market share), "lactose free" (64% market share) and "organic" (40% market share) categories. The brand was represented at numerous events during the year, including Montreal's YUL EAT festival and Osheaga music festival, where the *Bistro Natrel* traveling milk bar was launched. Brand ambassadors also visited many other gathering places and events across Canada, such as the Dragon Boat Festival in Victoria, British Columbia and the Harbourfront Centre skating rink in Toronto, Ontario, sponsored by Natrel. From June to September, the Natrel brand conducted a vast sponsorship program on television and was associated with a number of cooking shows across Canada, including *Les Chefs*.

Also at the national level, a large-scale campaign was conducted for Natrel lactose free products across several platforms, including out of home, digital and social media. It also included a widely praised mockumentary about a lactose-intolerant giant whose life was changed by Natrel lactose free products.

Source: Nielsen

OKA, FINE CHEESE FOR ALMOST 125 YEARS

OKA continues winning over Canadian consumers, who have made it the best-known cheese in Canada. Backed by investments in modernized manufacturing facilities and significant marketing efforts, the brand continues to grow and meet expectations. Since 2013, sale volume has jumped 83%.

A Canada-wide television campaign was conducted for the OKA brand for the first time in its history. OKA was also present on the occasion of Canada's 150th birthday with its "OKANADA" campaign, aimed at strengthening OKA's image as the quintessential Canadian fine cheese.

The ultimate goal is to make OKA cheese to Canada what Brie is to France, Gouda to the Netherlands and Gruyère to Switzerland.

As an additional 17,700 metric tons of imported cheese will soon arrive on the Canadian market as a result of the Comprehensive Economic and Trade Agreement, it is critically important that we prepare by strengthening the relationship between our emblematic brand and consumers.

The OKA brand also moved into the single-serving space with the launch of OKA and OKA L'Artisan portion packs, small wedges that make an ideal snack. The numbers speak for themselves: OKA portion packs beat our net sales targets by 28% and the arrival of OKA L'Artisan in August 2017 boosted sales of OKA portion packs by 41%!

IÖGO, FIVE YEARS OF SUCCESS

In August 2017, the iögo yogurt brand celebrated five years of existence. In that short time, it has carved out a prominent place on Canada's dairy landscape.

Iögo was launched in 2012, into a market where a number of players were already fighting for shelf space. It won over consumers of all ages with its boldness, diverse offerings and high-quality products. Iögo has a more than 12% market share in Canada and is growing twice as fast as the category. Since it came on the Canadian market, iögo has helped drive the category's growth by embracing innovation, responding to consumers' expressed needs and adapting to their lifestyles.

THE QUALITY AND PURITY OF BIPRO PROTEIN PRODUCTS HAVE EARNED THEM THE TRUST OF ATHLETES AND CONSUMERS ALIKE.

BIPRO, A TRUSTED BRAND

The BiPro brand teamed up with several professional athletes in 2017, including Los Angeles Lakers basketball players Brandon Ingram and Larry Nance Jr., who appeared in a BiPro commercial that aired in California.

BiPro also added three varieties of flavoured protein drinks to its product line in 2017.

FOR THE THIRD CONSECUTIVE YEAR, THE GUSTAVSON INDEX, PUBLISHED BY THE UNIVERSITY OF VICTORIA IN BRITISH COLUMBIA, FOUND THAT AGROPUR WAS THE DAIRY BRAND MOST TRUSTED BY CANADIANS.

Peggy Ponce, Senior Scientist, Protein Applications Center, Eden Prairie

PILLAR

Innovation

Innovation has always been part of Agropur's DNA. But today, innovation goes well beyond research and the introduction of new products. Our new innovation process is demonstrating the immense potential for rethinking dairy more convincingly than ever.

We have one of the largest research and development teams dedicated to dairy products in North America, and we spend tens of millions of dollars on R&D per year.

A process, Inno Agropur, was introduced in October 2016, and is helping us differentiate ourselves by developing new products and business approaches, particularly for the new generations of consumers. It will enable us to be more responsive to their needs and offer them buying and consuming "experiences." Inno Agropur consists of four main components: Inno Fabrik, Inno Challenge, Inno Expo and Inno Boutique.

INNO FABRIK

Inno Fabrik is an annual in-house process. Employees from different sectors and all age groups come together and brainstorm. About 60 employees took part in the last session, which yielded a hundred ideas. They were promptly submitted to consumers to measure their attractiveness, relevance and uniqueness. Eliciting consumer feedback at the beginning of the process quickly identified the ideas with the greatest potential. The most promising ideas were then prioritized.

INNO CHALLENGE

Inno Challenge, our first crowd-sourced innovation initiative, was launched at the beginning of the financial year under the theme "Together, let's rethink dairy!" Innovators from the world over were invited to submit projects designed to deliver new ways to experience dairy products and to meet consumers' needs. A large number of innovators submitted ideas in response to this first call. Three were selected in February 2017 and subsequently presented at Inno Expo.

INNO EXPO

Some 50 Agropur employees from all sectors and both sides of the border attended this year the second edition of Inno Expo to assess the potential of numerous prototyped concepts generated by Inno Fabrik and the three Inno Challenge winners. A large contingent of consumers were also invited to test the products in person and give their opinions. Together, the two groups give us an optimal read on the potential of the products we are developing.

INNO BOUTIQUE

Inno Boutique is our internal incubator that moves the ideas to the small-scale production stage in a few months, as in a start-up. This year, a number of prototypes were quickly brought to the test market to assess consumer response.

GLYCOMACROPEPTIDE, A PROMISING INGREDIENT FOR THE FUTURE

A new breakthrough was made in the US with the development of a unique process for extracting a purified form of glycomacropeptide (GMP) with many potential applications. For now, this product that we are manufacturing in our Jerome plant, in Idaho, is being used exclusively to produce foods for people with phenylketonuria, a serious metabolic disorder. Once production capacity has been expanded, it will be possible to use our new discovery in the manufacture of products such as nutrition bars, oral care products, dietary supplements and so forth.

In that context, our glycomacropeptide placed first in the "innovative milk-derived or whey-derived dairy ingredient products" category in the Breakthrough Awards sponsored by the American Dairy Products Institute (ADPI), which were presented in Chicago in April 2017.

Lindsay Budin, Associate Applied Scientist, Protein Research Center, Le Sueur


Devan Wollenberg, Associate Scientist, Protein Applications Center, Eden Prairie

PILLAR

Cost Leadership

Profitability and efficiency go hand in hand, and cost reduction remains part of Agropur's strategy. In February 2016, a target of $100 million in savings over three years was announced. After two years, we are already at $89 million, well on our way to achieving our goal next year.

Our cost structure pared by more than $170 million in 5 years.

WORLD-CLASS FACILITIES SUPPORT GROWTH

Operational excellence is at the core of our process improvement initiatives. Agropur makes ongoing investments in its facilities to ensure they are world-class and to support corporate growth. Over the past 5 years, more than $989 million has been injected into our plants and in many other projects in Canada and the US.

Most recently, Agropur has decided to invest on its plant in Lake Norden, South Dakota. This strategic investment will help Agropur better serve its customers. The plant will make cheese and whey-based products for various markets. Work began in October 2017 and the expanded plant should be fully operational in early 2019.

FIRST SUPPLIER AWARD CEREMONY A SUCCESS

The Strategic Sourcing & Development department continued working with suppliers to find the best ways to optimize costs. In March, it launched the Supplier Awards to recognize our suppliers' contributions to our cost-reduction efforts.

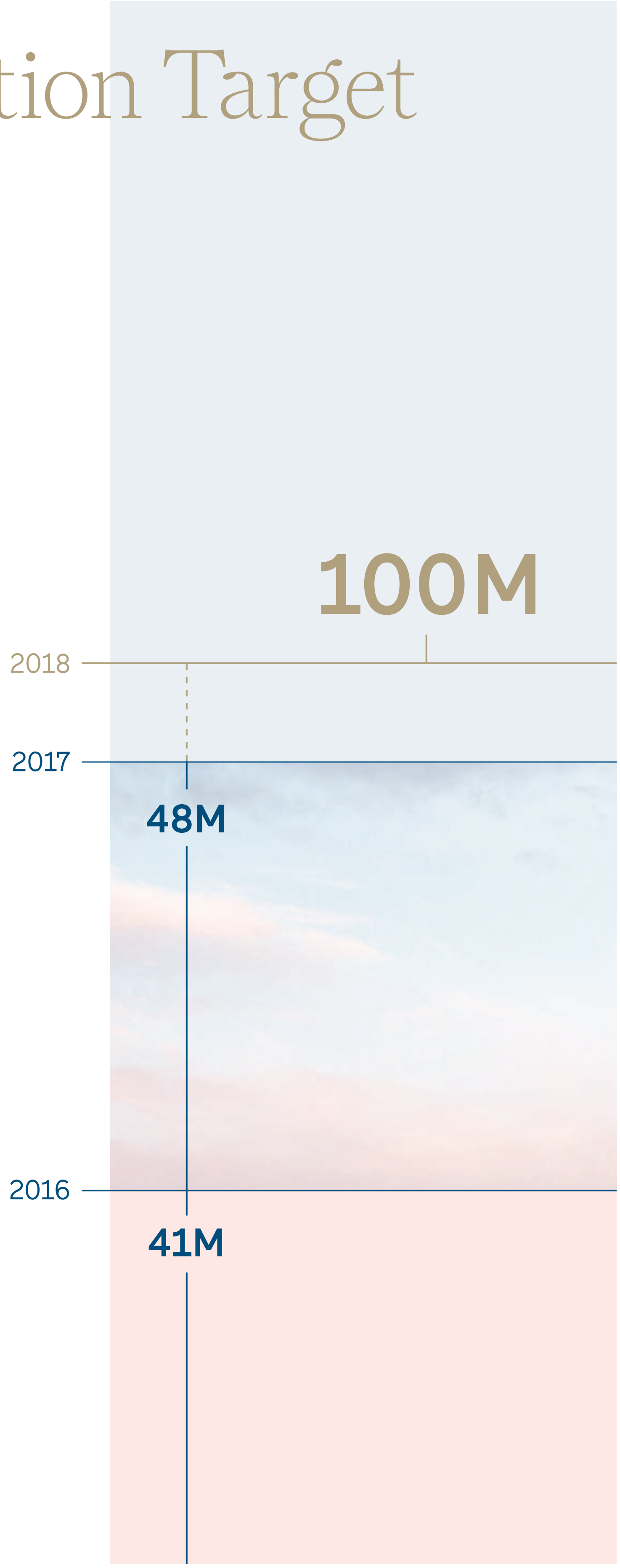
The Supplier Awards are aligned with Agropur's values and operational objectives. The competition stretched over 12 months and culminated in the Supplier Award gala in March 2017, where seven prizes were handed out to suppliers for outstanding collaboration on creative solutions.

ERP PROJECT WILL REDUCE COSTS IN THE MEDIUM TERM

The process of implementing Oracle ERP, Agropur's Enterprise Resource Planning system, is moving forward. This bold program will give the entire organization access to accurate, timely and detailed information and contribute to improved performance.

Cost Reduction Target

IN MILLIONS OF DOLLARS



Misti Delaney, Packer, Truro Plant

PILLAR

Human Capital

The more dynamic approach, initiated in 2015, is making us a more customer- and consumer-centric organization and increasing our agility as we change and innovate.

Agropur is an employer of choice and devotes considerable effort to developing innovative programs.

In the wake of the creation of Canada Operations and US Operations, we continued evolving our structures. Among other things, we moved towards matrix management to flatten our organizational structure and promote agility and collaboration. The new structures are also more focused on supporting and responding to the needs of customers and consumers.

REVIEW OF ORGANIZATIONAL STRUCTURES FOLLOWING ULTIMA FOODS ACQUISITION

Following the acquisition of Ultima Foods at the beginning of fiscal year 2018, we also reviewed our Canadian operations with a view to optimizing the structures while preserving expertise and talent in the yogurt sector.

As part of the same process, new organizational structures have been put in place to intensify our customer focus. Multifunctional teams with a mix of areas of expertise will be assigned to major customers in order to identify their needs more accurately and respond with greater agility.

VIBE SURVEY

The VIBE survey was conducted in the fall of 2016 to measure the well-being of Agropur managers and office employees in Canada and the US. It had three goals: to measure employee buy-in to the transformation and the new corporate values, to determine the level of pride in working for Agropur and to ensure that employees had the support they needed to perform during the transformation.

The process concentrated mainly on the areas over which our managers have influence and on differentiating ourselves from other organizations by focusing our efforts on the quality of our leadership.

The survey results were published in February 2017. The engagement index for all Agropur salaried employees compares favourably with the North American consumer staples industry average.

Even with this positive result, specific action plans were established for each workplace in response to the feedback and the findings.

MODERNIZATION OF HUMAN CAPITAL MANAGEMENT

To achieve its ambitious business objectives and ensure its sustainability, Agropur is working to modernize its human capital management practices. The organization needs to set itself apart and institute modern management mechanisms to create a work environment that meets the expectations of new generations. It must also contend with virtually full employment, which means it must differentiate itself in order to attract the best candidates.

2017 was a banner year in this respect. Among other things, focus groups were used to pinpoint Agropur's strengths as an employer in both Canada and the US.

HARMONY PROJECT COLLABORATION TO SUPPORT GROWTH

Harmony project will transform Agropur's human capital service delivery model by implementing a human capital and payroll management system and updating the time management system. These new systems will support Agropur's growth. Upon completion, planned for 2019, the new payroll and human capital management system will be up and running, providing more effective management and a uniform experience for employees across the organization.

Sam Peters, Operator / Beth Sharpe, Floater / Jay-J Crowe, Packer
Truro Plant

VisionR
SUCCESSION MANAGEMENT PROGRAM TAPS EMPLOYEES' FULL POTENTIAL

Through its VisionR program, Agropur has made the development of high-potential employees a priority. Among other things, this program identifies such employees through an evaluation grid and includes workshops in which managers work on Agropur's business challenges in multidisciplinary groups. The recommendations that emerge serve to review strategies and improve execution.

For employees, the program provides an excellent opportunity to raise their profile in the organization, make their career aspirations known and highlight their talents. Our ongoing succession management process, based on a comprehensive approach, enables us to adapt quickly to our environment and constitutes a clear competitive advantage. We plan to expand the program to all employees.

EVOLUTION PROGRAM

This program is helping to improve health and safety, enhance quality, reduce costs, cut lead time, protect the environment and motivate employees.

Although Agropur has seen major changes in recent years, our commitment to a culture of prevention in occupational health and safety (OHS) is unaltered. We continue to deploy our prevention program across the organization and maintain our zero-tolerance approach to accident risk. Our health and safety record improved in 2017. The frequency of accidents causing lost time or temporary reassignment decreased by 19% compared with 2016. Regarding the seriousness of the accidents, the number of days off work or on temporary reassignment decreased by 13%.

Agropur has OHS committees at all its sites and is committed to emphasizing their role and to including health and safety considerations and goals in its annual strategic planning process. As new risk management and OHS leadership standards are established, they are incorporated into the prevention program.

In the US, our "Power of ONE" approach has proven effective. Significant effort was devoted to a detailed assessment and analysis of each site in order to identify opportunities for improvement and synergy. Subsequently, a plan was developed for strengthening our best practices and improving our training approach at all levels of the organization.

We plan to continue along this path in 2018 to support continuous improvement of our health and safety programs and performance.


Truro Plant

PILLAR

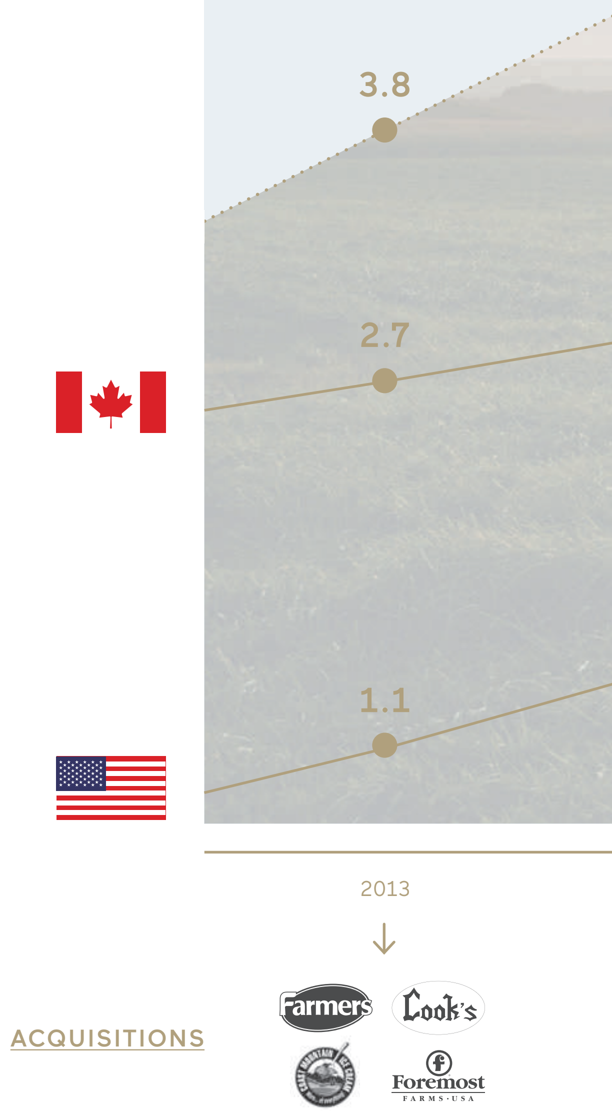
National and International Development

Like our other pillars, national and international development saw accelerated growth and transformation in 2017. It was also a year of balanced development, driven by both organic growth and acquisitions.

Our strategy of growth through mergers and acquisitions rests on our solid foundations and our peoples' know-how.

Sales

IN BILLIONS OF DOLLARS



I-29 CORRIDOR PLANT EXPANSION

The I-29 project will expand our facility in Lake Norden, South Dakota and triple its dairy processing capacity to meet growing demand for our products and take advantage of increasing milk supply in that region. Agropur expects to add more than 100 new employees when the major project is completed.

ACQUISITION OF SCOTSBURN'S ASSETS

In January 2017, Agropur announced the acquisition of the assets of Scotsburn Cooperative Services Limited, thereby expanding our presence in the ice cream and novelties market. We acquired plants in Truro, Nova Scotia and Lachute, Quebec that manufacture more than 50 million litres of frozen dairy products per year. The acquired business had total annual sales of nearly $150 million. The transaction significantly widens Agropur's market presence and its overall offering of national and private brands by adding ice cream products and novelties of the highest quality.

ACQUISITION OF ALL SHARES OF ULTIMA FOODS

In August, an agreement was reached whereby Agropur would become the sole owner of Ultima Foods Inc. The transaction closed on October 29, 2017.

Ultima Foods had been held 50-50 by the Agrifoods and Agropur cooperatives. Ultima Foods has more than 40 years of experience in the yogurt industry. Its brands have been consistently successful in terms of market share, posting industry-leading growth, and have been a model of innovation in their category. With this acquisition, Agropur has become the Canadian processor that offers its customers and consumers the most complete line of dairy products.

+67%

Corporate Social Responsibility

Agropur takes a long, multigenerational view. As a responsible player in the agri-food industry, we use a structured approach to track our operations' social and environmental impacts.

Our cooperative values prompt us to make a difference for the community, our members, our employees, farm animals and the planet.

As a responsible player in the agri-food industry, we use a structured approach to track our operations' economic, social and environmental impacts. It covers five dimensions.

THE PRODUCT DIMENSION

Our first responsibility to our customers and consumers is to guarantee them a product that meets the strictest food safety and compliance standards.

During the past year, we maintained our Safe Quality Food (SQF) certification for all our plants in both Canada and the US. We also support the Global Food Safety Initiative.

THE MEMBER DIMENSION

Our development rests on solid foundations rooted in our history and our cooperative DNA. One of the cornerstones of those foundations is our institutional life. In 2017, we held more than 80 meetings with our members producers across our territory, infusing our democratic structures with vigour throughout the year.

In a fast-changing business environment, we keep our members informed and educated about issues of the industry, milk quality, animal welfare and other matters of concern for them or the cooperative.

Special attention is paid to the young people who are the dairy farmers and Agropur members of the future. In 2017, the 10th edition of the Young Cooperative Leaders Program, which integrates them into our institutional life, was held. In October 2017, 20 former participants in the program went on a study tour of the Midwestern US.

THE HUMAN CAPITAL DIMENSION

Human capital is one of our five strategic pillars but also an important component of corporate social responsibility. We care about providing a healthy and safe work environment so that our employees can achieve their full potential. We also have a succession management program that serves to identify and groom successors in all our areas of activity and for all types of positions, operational and administrative.

Agropur is committed to protecting the occupational health and safety of its employees. Our goal is to prevent any and all working accidents by applying a zero-tolerance approach.

THE ENVIRONMENTAL DIMENSION

To manage the environmental footprint of its operations in a responsible manner, Agropur has implemented an environmental management system. The priorities are comprehensive water management, reduction of greenhouse gas (GHG) emissions, and recovery of organic wastes. In 2017, Agropur reduced water usage at its plants in Canada and the US by 80,000 m^3. The Cooperative also achieved its goal of having its greenhouse gas emissions calculated by an independant third party.

THE COMMUNITY DIMENSION

In keeping with our values of solidarity and mutual aid, we are involved in the community. During the past year, we made donations and sponsorships worth the equivalent of nearly 1% of our earnings before patronage dividends and income taxes. Much of

our support goes to organizations working for the well-being of children and families.

We engage with the Pacific Path Institute, an organization that promotes conflict resolution and works to prevent psychosocial problems and violence in all settings.

We are one of the main partners of the Fondation OLO, which provides vulnerable families with nutritional support to help mothers give birth to healthy babies and give children a good start in life.

We support Breakfast Clubs of Quebec and Canada to give as many Canadian children as possible a hearty breakfast and an equal chance at success.

We support the Moisson network of food banks and many other food banks by donating foodstuffs.

Agropur has been sponsoring Make-A-Wish® Québec's 48-Hour Ride for years. In 2017, a number of employees rode in the fundraiser to help grant the wishes of sick children. They raised a total of $147,000 for the cause.

In our annual Employee Fundraising Campaign, employees in Canada and the US choose a cause they care about and organize fundraising drives. The Cooperative matches the funds collected by employees. As a result, substantial donations were made to a dozen foundations in Canada and the US.

In the spring of 2017, Agropur stood with the people affected by flooding in eastern Canada and made a $25,000 donation. Later in the year, the Cooperative donated equal amounts to help victims of the summer wildfires in BC and Hurricane Harvey in the US in the fall.

Agropur also supports hospital, college and university foundations across North America.

FIGHTING HOMELESSNESS WITH BEEKEEPING

Beehives were installed on the grounds of our head office in the spring of 2017. Through a partnership with the Accueil Bonneau homeless shelter and the Alvéole urban beekeeping company, homeless and at-risk people were trained in honey production and public education.

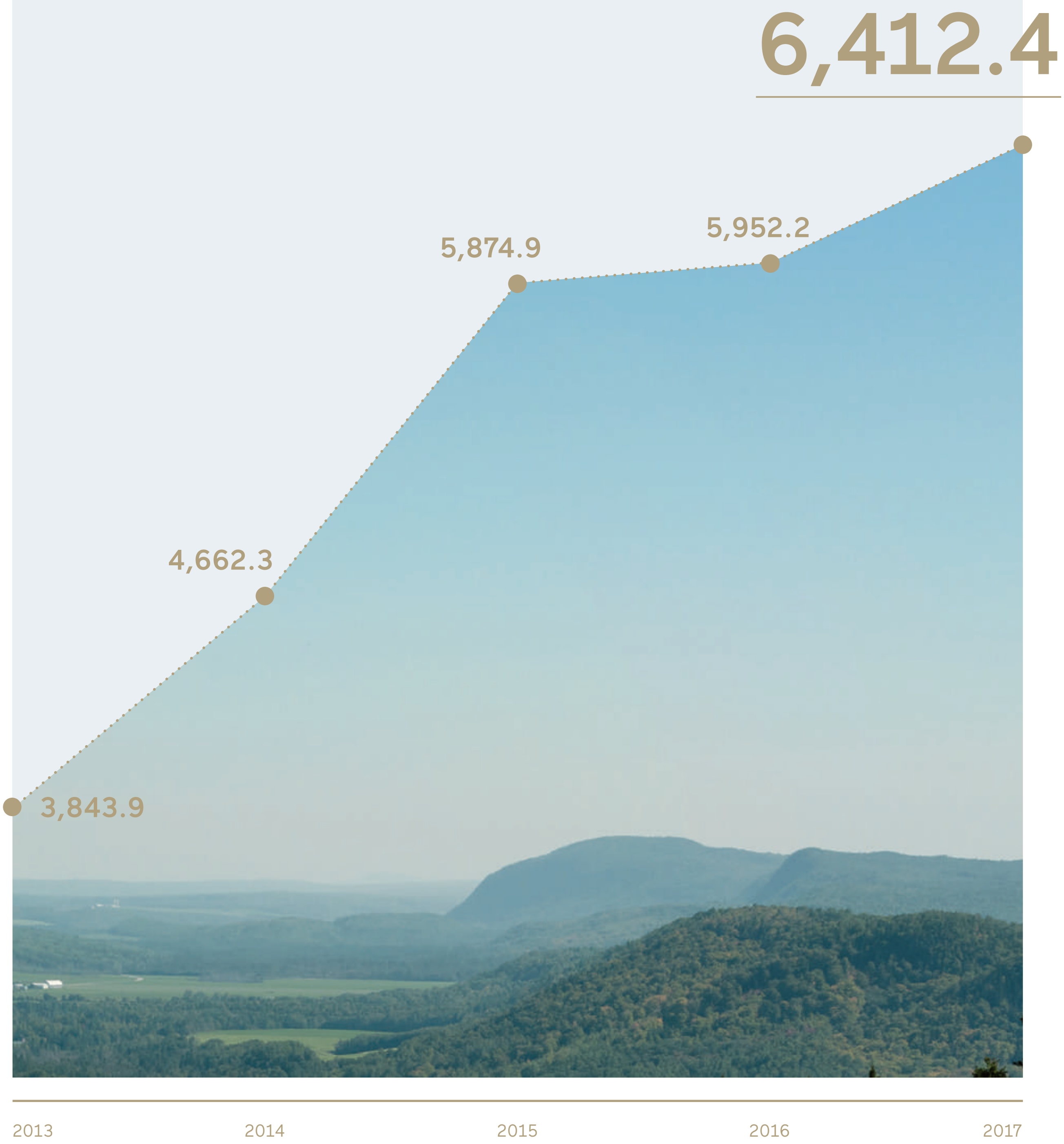
Le Sueur Plant

Financial Review

Agropur registered healthy growth during the fiscal year ended October 28, 2017.

Sales

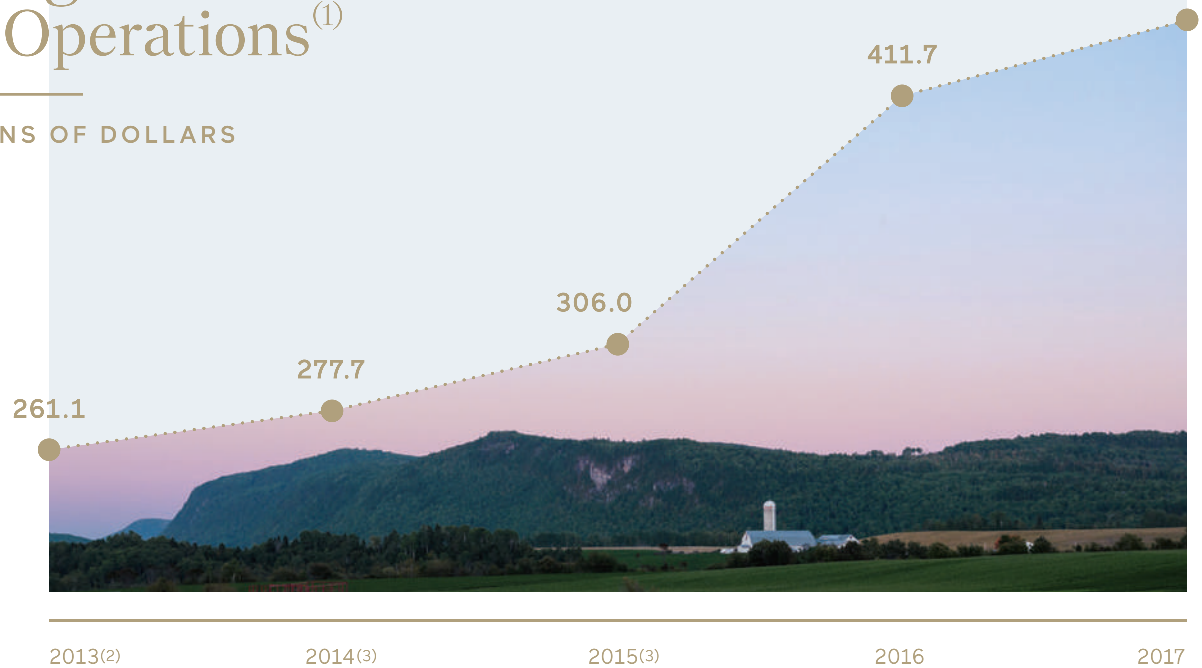
IN MILLIONS OF DOLLARS



Earnings from Operations[1]

IN MILLIONS OF DOLLARS

444.1

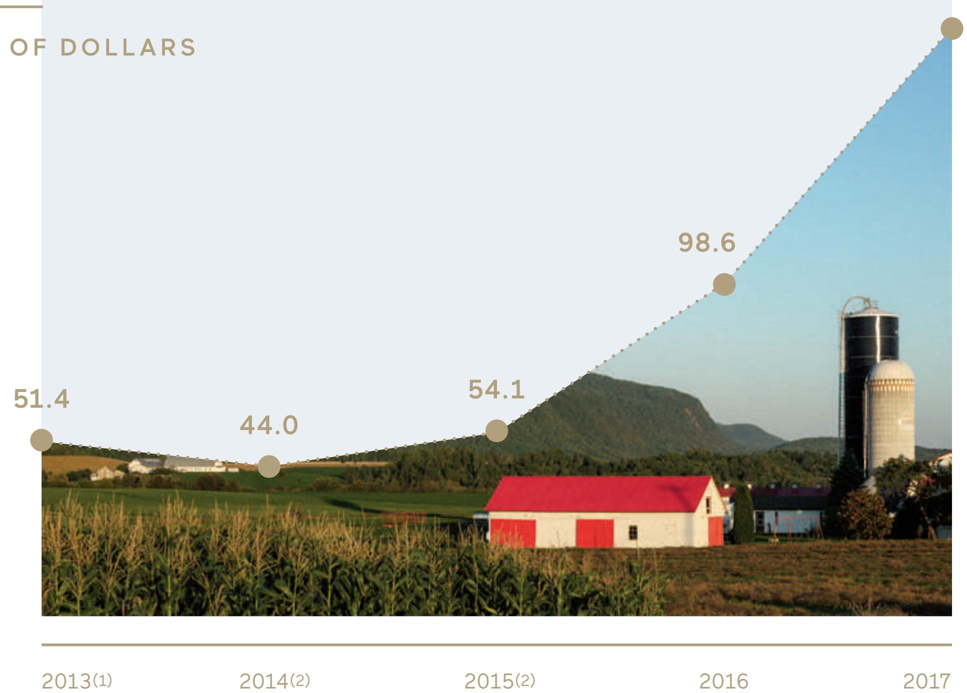


(1) Earnings before interest, income taxes, depreciation, amortization, restructuring costs, integration and other non-recurring costs and joint ventures.
(2) Restated to reflect the adoption of the revised employee future benefits accounting standard.
(3) Excluding the impact of Davisco's inventories accounting treatment.

Net Earnings

IN MILLIONS OF DOLLARS

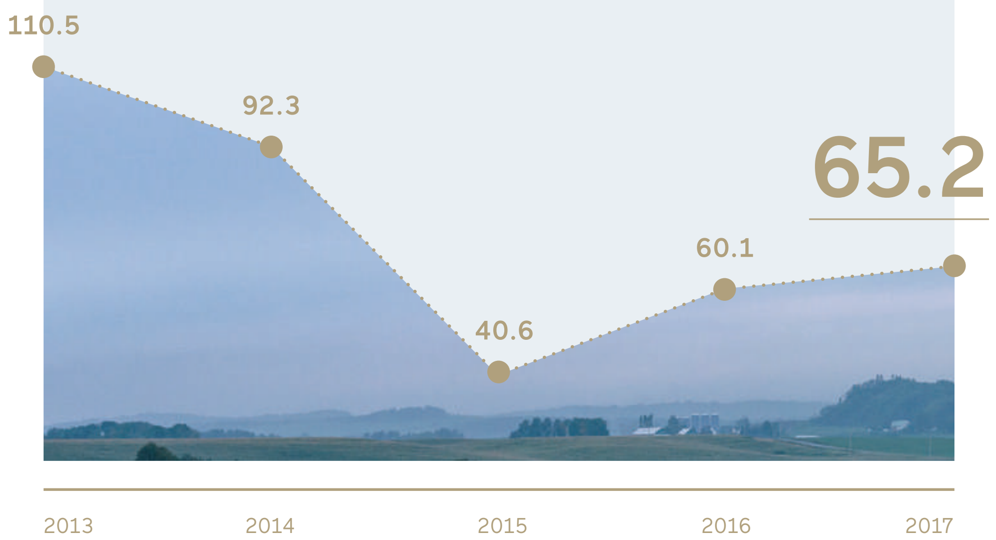
174.9



(1) Restated to reflect the adoption of the revised employee future benefits accounting standard.
(2) Excluding the impact of Davisco's inventories accounting treatment, net of income taxes.

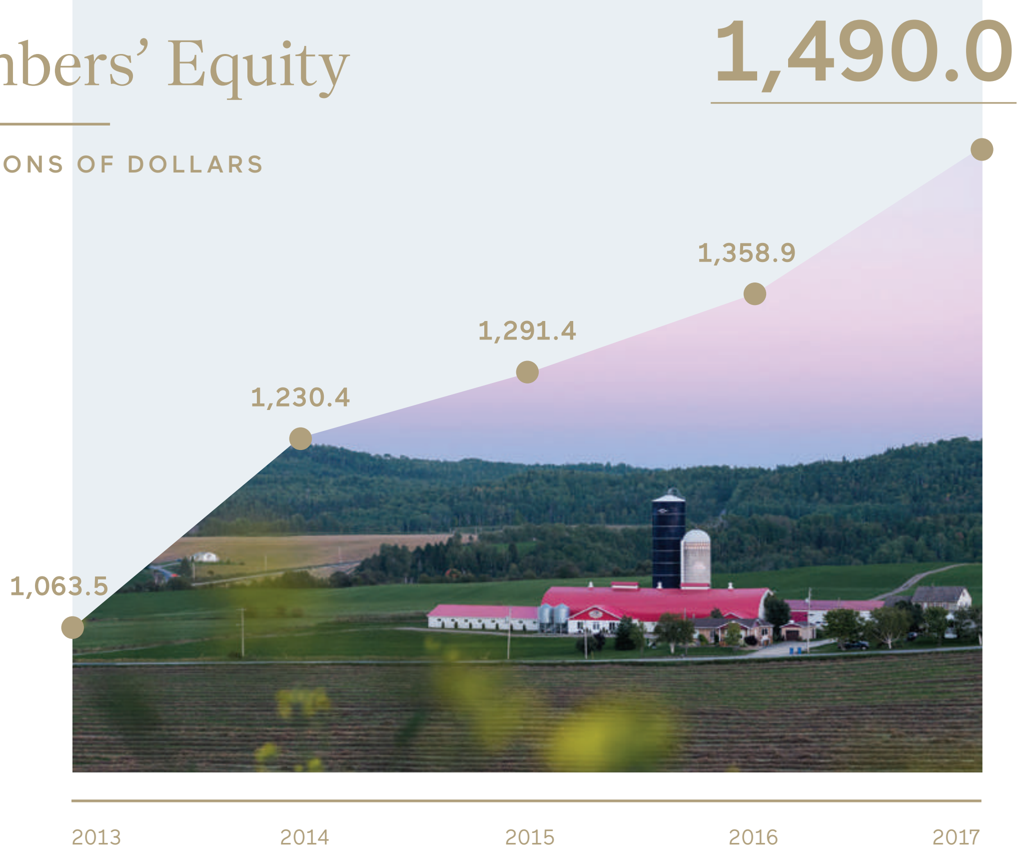
Patronage Dividends

IN MILLIONS OF DOLLARS



Members' Equity

IN MILLIONS OF DOLLARS



Milk Processed[1]

IN MILLIONS OF LITRES

(1) Milk processed includes joint ventures.

Jocelyn Lauzière

Message from the Senior Vice-President and Chief Financial Officer

Agropur registered healthy growth during the fiscal year ended October 28, 2017.

The Cooperative's sales continued to grow, rising by 7.7% year-over-year to a record $6.4 billion.

Earnings from operations were up 7.9% to $444.1 million. In the US, cheese sales volumes increased and whey prices were favourable.

In Canada, the market remained highly competitive, exerting downward pressure on prices. However, initiatives under our three-year, $100-million cost-reduction program continued, yielding savings of $48 million during the year and cumulative savings of $89 million after two years. The acquisition of Scotsburn's operations on January 31 also had a positive impact.

Earnings before patronage dividends and the Cooperative's income taxes totalled $249.1 million, an increase of $95.1 million or 61.8% from the previous year. Excluding extraordinary gains related to acquisitions, the increase was $26.0 million or 16.9%.

Nearly 6.1 billion litres of milk were processed at our plants in 2017, a 2.0% increase from the previous year. Volumes of processed milk rose by 3.7% to 2.5 billion litres in Canada and by 0.9% to 3.6 billion litres in the US.

GOVERNANCE

The financial statements were prepared in accordance with International Financial Reporting Standards and reviewed by the Audit Committee. On the Committee's recommendation, the Board of Directors approved the 2017 financial statements.

REVIEW OF THE 2017 FINANCIAL STATEMENTS

EARNINGS

Sales passed the $6-billion mark, increasing by $460 million to $6.4 billion in 2017.

Canadian sales increased by 4.0% to $3.4 billion. Fresh and Frozen Dairy Products sales volume increases were supported primarily by Scotsburn's operations acquired in January 2017.

As for cheese operations, sales were negatively impacted by certain customers. Powder sales volumes were also down from 2016. Lastly, growing consumer demand for fine cheese generated increased sales for the category.

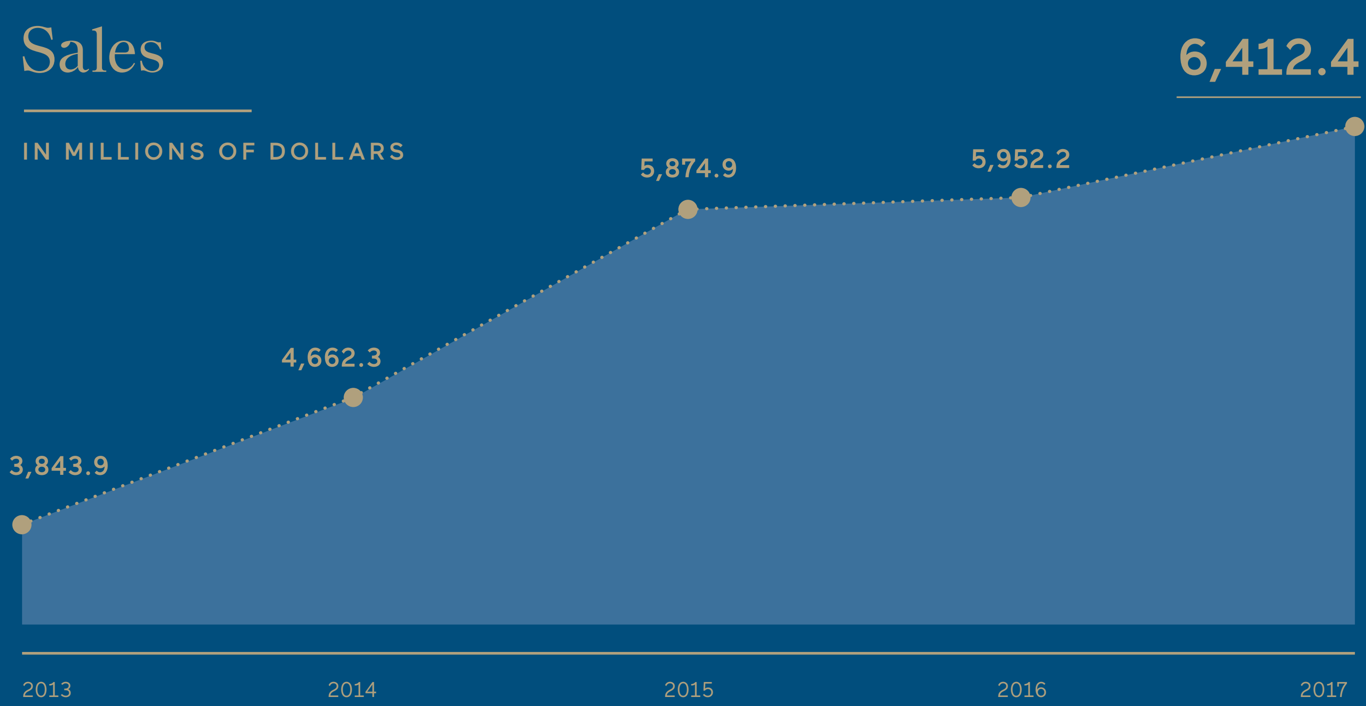
As for US operations, sales totalled $3.0 billion, up 12.4% due to a 7.2% increase in the average cheese price and higher cheese and whey product sales volumes. Our US operations generated 46.3% of consolidated sales in 2017, compared with 44.3% in 2016.

The following chart shows the evolution of consolidated sales over the past five years. The increase from $3.8 billion in 2013 to $6.4 billion today amounts to a compound annual growth rate of more than 13%. The growth was due, among other things, to the mergers and acquisitions carried out during the period, as well as expanded production capacity as a result of multiple capital expenditures.

Earnings from operations amounted to $444.1 million, a year-over-year increase of $32.4 million or 7.9%.

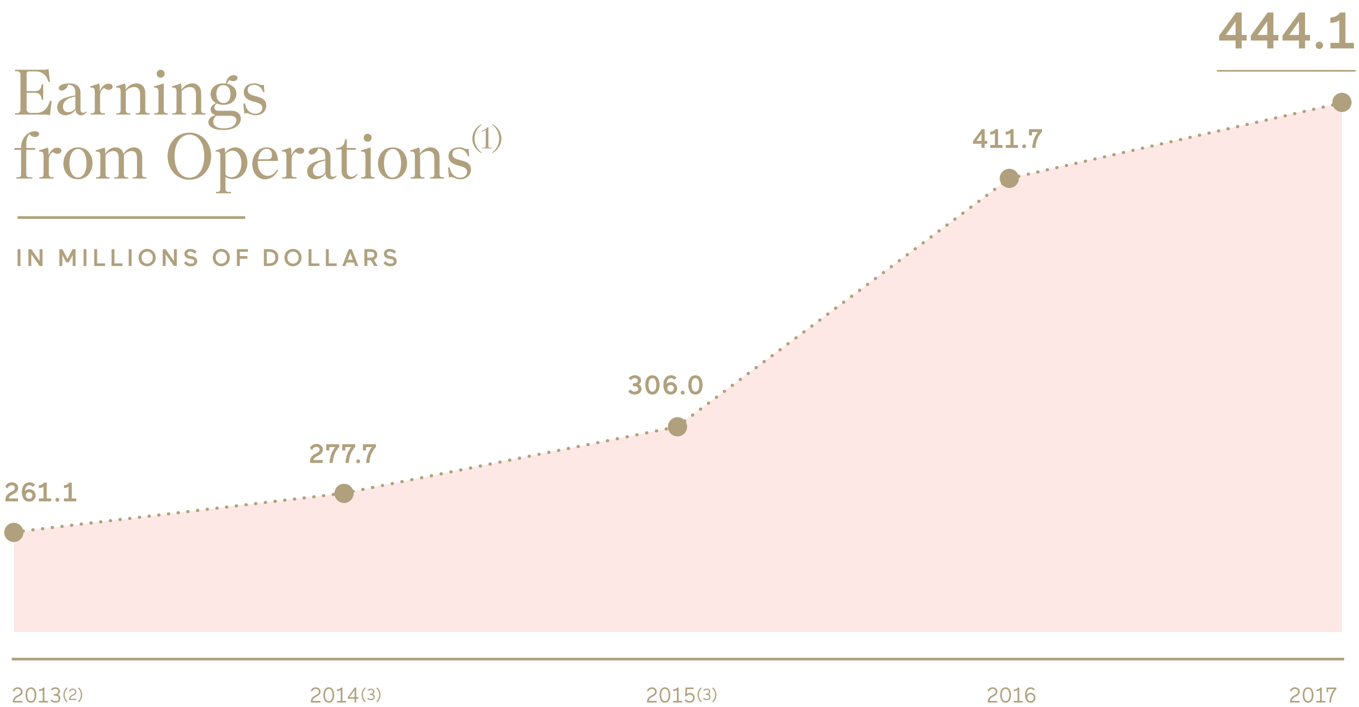
Earnings from Canadian operations rose by 4.2% compared to prior year. Lower sales volumes and prices in the very competitive Canadian market had a negative impact. Positive factors included the savings generated by the various initiatives in our cost-reduction program. Those initiatives alone reduced our operating costs in Canada by $33.5 million during the year. The addition of Scotsburn's operations also had a positive impact.

Earnings from US operations increased by 10.5% from 2016. Higher cheese and whey product sales volumes were a significant factor in the increase. Among other things, the increased capacity of our feta production line was operated for the full year in 2017. Another positive factor was the decrease in the premiums paid to producers in 2017 compared with 2016 due to abundant milk supply, generating substantial savings. Lastly, higher prices on whey markets and the results of our cost-reduction efforts had beneficial effects. However, labour costs increased in the US as a direct result of labour shortages in some of the regions where our plants are located.



Earnings from Operations(1)

IN MILLIONS OF DOLLARS



(1) Earnings before interest, income taxes, depreciation, amortization, restructuring costs, integration and other non-recurring costs and joint ventures.
(2) Restated to reflect the adoption of the revised employee future benefits accounting standard.
(3) Excluding the impact of Davisco's inventories accounting treatment.

The above chart shows the evolution of consolidated earnings from operations over the past five years. The $183.0-million increase from $261.1 million in 2013 to $444.1 million in 2017 amounts to a compound annual growth rate of 14.2%. This was due in large part to our development in the US, which has sustained our earnings, while the Canadian market has been negatively impacted by strong competition.

From earnings from operations, we deducted a $168.1-million depreciation and amortization expense, up $4.8 million essentially because of the acquisition of Scotsburn's assets and the commissioning of some major projects, including the Enterprise Resource Planning (ERP) system. We then deducted restructuring costs, integration and other non-recurring costs in the amount of $11.0 million, which included costs related to the acquisition and integration of Scotsburn's operations and some business transformation.

Financial expenses were down from the previous year. Despite higher market interest rates, our improved earnings combined with lower debt translated into a decrease in our interest expense. A $55.2-million gain was recorded during the financial year in connection with a purchase price adjustment, upon application of some price adjustment mechanisms provided for in a prior-period acquisition contract. Furthermore, following the acquisition of Scotsburn's assets in January 2017, the Cooperative completed the valuation of the assets acquired and liabilities assumed. The measurement of the fair value of the acquired assets and liabilities, net of the consideration transferred, generated a $14.0-million accounting gain. Lastly, the income tax expenses recorded by our subsidiaries increased by $16.7 million, essentially because of the improved US earnings. Earnings before patronage dividends therefore totalled $249.1 million, an increase of $95.1 million or 61.8% from the previous year. Excluding extraordinary gains related to acquisitions, the increase was $26.0 million or 16.9%.

The Board of Directors approved patronage dividends of $65.2 million. As in the past, the patronage dividends were payable 25% in cash and 75% as investment shares.

After deducting patronage dividends, the Cooperative recorded a $9.0-million income tax expense. Agropur therefore generated net earnings of $174.9 million, which were added to the reserve.

Comprehensive income totalled $154.4 million in fiscal 2017, broken down as follows: net earnings of $174.9 million plus the items recorded under accumulated other comprehensive income, including the $35.0-million negative impact of the Canadian dollar's appreciation on consolidation of the assets and liabilities of our US subsidiaries, net of translation of long-term debt into Canadian dollars. As at October 28, 2017, the exchange rate was C$1 for US$0.78, compared

Inflows and Outflows

IN MILLIONS OF DOLLARS

Inflows

Total 509

OPERATIONS - **485**

WORKING CAPITAL - **7**

PROCEEDS FROM DISPOSAL OF ASSETS - **17**

Outflows

Total 509

BUSINESS COMBINATION - **55**

PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS - **174**

LOAN TO A JOINT VENTURE - **3**

MEMBERS AND CAPITAL - **55**

DEBT SERVICE AND DIVIDENDS - **187**

LIQUIDITIES - **35**

with US$0.75 at October 29, 2016. The appreciation of the Canadian dollar resulted in recognition of a net cumulative unrealized translation gain of $64.7 million on the balance sheet for foreign operations and long-term debt. However, these accounting translation variances will continue to fluctuate with the movements of the Canadian dollar against the US dollar over time. The other elements of comprehensive income are the items transferred to the reserve, which consist of actuarial gains on the defined benefit pension plans in the amount of $14.4 million, net of income taxes.

CASH FLOWS

Cash flows from operating activities, before the change in non-cash items, totalled $485.4 million. During the year, the funds generated by non-cash items totalled $6.7 million, as presented in detail in note 8 to the financial statements.

With respect to financing activities, $47.4 million in dividends were paid on first preferred shares, down from the previous year. Liquidities in the amount of $139.5 million were used for debt service in 2017.

Regarding investing activities, $54.8 million was disbursed for business combinations and $174.3 million for investments in property, plant and equipment and intangible assets, including ongoing spending on ERP implementation and installation of a new integrated human capital and payroll system. Our investments also included a number of projects to increase capacity, maintain our assets and improve operational efficiencies. Lastly, we received $16.5 million during the financial year from the sale of an investment and other assets.

With respect to member activities, the cash portion of patronage dividends declared in 2016 was paid in 2017 and amounted to $14.9 million. Redemption of shares and certificates of indebtedness amounted to $40.5 million. Shares and certificates of indebtedness in the amount of $16.1 million were issued to some members of Scotsburn in connection with the business combination.

Use of Funds 2013 to 2017

IN MILLIONS OF DOLLARS

3.1 billion dollars

For the past five years, inflows totalled $3.1 billion, of which $285 million, or 9.2%, was paid out to members as patronage dividends in cash and capital redemptions. Outflows related to mergers, acquisitions and disposal totalled $1.629 billion. In addition, $989 million was disbursed for investments in property, plant and equipment and intangible assets.

BALANCE SHEET

As at October 28, 2017, the Cooperative's net assets were $2.3 billion. Assets totalled $4.2 billion, a $121.7-million increase due primarily to the acquisition of Scotsburn, investments in property, plant and equipment and intangible assets and increased inventory. The asset growth would have been greater had translation of the US subsidiaries' assets into Canadian dollars not been affected by appreciation of the Canadian dollar. Liabilities were $2.0 billion, a $9.3-million decrease. Accounts payable increased while debt net of cash decreased by $177.0 million due to the impact of translation of US-denominated debt into Canadian dollars and debt repayment.

Note 17 to the financial statements provides details of share capital. Patronage dividends distributed as Class A investment shares in the amount of $49.1 million were added to the 2016 capital. Redemption of shares and certificates of indebtedness totalled $40.5 million. Furthermore, as noted above, the Cooperative issued shares and certificates of indebtedness in the amount of $16.1 million to some members of Scotsburn in connection with the business combination. Consequently, equity totalled $2.3 billion as at October 28, 2017. Excluding the first preferred shares, members' equity stood at $1.490 billion, up $131.0 million from 2016.

OUTLOOK

We took several initiatives in 2017 to address the impact of dairy market volatility and the effects of strong competition in Canada. We are continuing our efforts in areas such as the cost-reduction program which, as noted above, has generated savings of $89 million after two years. We are also pursuing our development with the acquisition of Scotsburn's operations during the year and the acquisition of our partner's interest in Ultima Foods at the beginning of fiscal 2018. After a 24-year partnership with Agrifoods, Agropur is now the sole owner of Ultima Foods. Those two transactions in the ice cream and yogurt markets enable us to offer our customers and Canadian consumers a more complete product line. In 2017, we also approved the expansion of one of our cheese plants in the US, which will triple its processing capacity and make it our largest manufacturing plant. These projects and our sound financial position will enable us to continue our development.

Over the past five years, Agropur has achieved exceptional performance with 67% growth in sales and 70% growth in operating earnings. Despite excellent results, we must maintain our prudent management approach in order to meet our commitment and desire to invest in our infrastructure.

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 products by 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, by extension, on future sales.

RAW MATERIAL RISKS

Price volatility and the availability of raw materials used in the manufacturing of goods, particularly milk, which represents the major cost component, as well as the necessary packaging materials, could have a negative impact on product costs. In a competitive market environment, 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 prices of its products.

CUSTOMER-RELATED RISKS

Increasing concentration in the food distribution industry in recent years has resulted in a more limited number of customers and an increase in the relative importance of some customers. Since the Cooperative serves this industry, such concentration could lead some distributors to exert pressure on prices, causing an adverse effect on operating earnings.

CONSUMPTION TREND RISKS

Changing consumption trends could affect demand for our products and thus affect the earnings of the Cooperative. The repercussions of such changes will depend on our ability to meet consumers' needs, develop new products and innovate.

COMPETITION RISKS

The Cooperative is exposed to risks associated with heightened competition in the dairy industry, the possible arrival of new competitors on the market, and changing consumer needs. Business combinations in the dairy industry in recent years have intensified international competition. In Canada, the dairy industry is dominated by three main players, including the Cooperative. In the United States, we face numerous regional and national competitors. Regional, national and international competitors seeking to strengthen their market position could force the Cooperative to grant additional discounts on its products in order to maintain its market share.

MARKET RISKS

Prices for milk and whey products on international markets and cheese prices in the United States are dependent on fluctuations in supply and demand, which in turn are influenced by global economic conditions.

BUSINESS ENVIRONMENT RISKS

Demand for our products could be affected by an economic slowdown or market recession, which would consequently impact earnings.

SUPPLIER CONCENTRATION RISKS

The concentration of suppliers means that for some goods and services, our supplies are restricted to a limited number of suppliers. Insufficient quantities, quality or timeliness could negatively impact our earnings.

RISKS RELATED TO UNPLANNED DISRUPTION OF OPERATIONS

Major events such as a fire, equipment failure, epidemic, natural disaster, etc., may occur and cause harm to employees or damage to property, which could lead to an unplanned disruption of the Cooperative's operations. The impact would depend on the Cooperative's ability to manage the crisis. The Cooperative has insurance coverage to reduce its exposure to some business interruption-related risks.

ACQUISITION RISKS

In a fast-consolidating global dairy industry, the Cooperative has grown through business combinations and intends to continue doing so in the future. The impact will depend on our ability to identify strategic acquisitions, determine their fair value, put in place the resources needed to integrate the acquired businesses, and achieve the expected synergies. The success of this strategy will also depend on our ability, as a cooperative, to access liquidity in the capital markets.

INTEREST RATE RISKS

The Cooperative has assumed long-term debt as a result of the numerous business combinations it has carried out. It is therefore exposed to risk arising from fluctuations in interest rates on this financial instrument. The cash flow impact will be negative if interest rates rise and positive if interest rates fall.

INFORMATION SYSTEM RISKS

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

REGULATORY RISKS

The Cooperative is subject to multiple governmental and tax laws, regulations and policies. Amendments to, or tightening of, those laws and regulations could affect our operations or lead to additional costs for compliance with such new obligations, particularly with respect to the production and distribution of food products. Sanctions, penalties or fines could be imposed if we fail to comply with such laws and regulations. Regulatory risks are growing due to the current context of growth through business combinations in different countries, provinces and states.

ENVIRONMENTAL RISKS

The Cooperative is subject to a number of environmental protection laws and regulations concerning, in particular, wastewater discharge, air pollution, the use of toxic chemicals, and the clean-up of contaminated sites. Any amendments to such laws and regulations could involve additional outlays for compliance.

LABOUR RELATIONS RISKS

Several groups of employees at our various worksites are unionized. Negotiating collective agreements can create conflicts resulting in work stoppages or slowdowns. We make the necessary efforts to maintain good relations with the unions.

PERSONNEL RISKS

The Cooperative's success is dependent on its people's efforts and skills. Workforce availability and engagement, as well as occupational health and safety present risks to our ability to achieve our growth objectives. Each of our plants has a health and safety plan. A succession management plan has been established.

RISKS ASSOCIATED WITH TARIFF RULES

The Cooperative operates in the dairy industry, in which imports are subject to tariff rules. International trade rules may be modified by international treaties, which could have the effect of changing the competitive environment in the markets in which the Cooperative operates. The Cooperative's future profitability will depend on its ability to adapt to new rules by offering its customers products that are competitive in quality and price.

RISKS RELATED TO EMPLOYEE FUTURE BENEFITS

The Cooperative offers some groups of employees defined benefit plans. Changes in long-term interest rates, volatility of returns, and regulations governing such plans could potentially require the Cooperative to make contributions which are significantly different from those currently paid. The Cooperative's obligations under those plans was reviewed and most of them are now closed to new participants.

Consolidated Financial Statements

CONSOLIDATED FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT

December 15, 2017

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 October 28, 2017 and the consolidated statements of earnings, of comprehensive income, of cash flows and of 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 October 28, 2017 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)	**October 28 2017**	October 29 2016
Sales	**6,412,409**	5,952,187
Operating expenses excluding depreciation and amortization	**5,968,279**	5,540,505
Earnings before interest, income taxes, depreciation, amortization, restructuring costs, integration and other non-recurring costs	**444,130**	411,682
Depreciation and amortization (notes 10 and 11)	**168,080**	163,290
Restructuring costs, integration and other non-recurring costs (note 4)	**11,035**	18,868
Operating earnings	**265,015**	229,524
Net financial expenses	**35,661**	43,786
Gain on disposal of assets and impairment of assets (note 10)	**326**	(591)
Purchase price adjustment (note 3)	**(55,156)**	-
Accounting gains as a result of business combinations (note 3)	**(13,971)**	-
Income taxes of subsidiaries (note 5)	**49,042**	32,340
Earnings before patronage dividends and the Cooperative's income taxes	**249,113**	153,989
Patronage dividends (note 6)	**65,236**	60,107
Cooperative's income taxes (note 5)	**8,972**	(4,685)
Net earnings	**174,905**	98,567

CONSOLIDATED COMPREHENSIVE INCOME

Years ended (IN THOUSANDS OF CANADIAN DOLLARS)	**October 28 2017**	October 29 2016
Net earnings	**174,905**	98,567
Other comprehensive income		
Components that may be reclassified to net earnings:		
Net change in fair value of derivative instruments designated as cash flow hedges, net of income tax recovery of $426 (2016 income tax expense – $603)	**(417)**	690
Change in foreign currency translation adjustment of foreign operations	**(76,659)**	46,689
Change in foreign currency translation adjustment of term loan designated as hedge of a net investment in foreign operations	**42,109**	(40,791)
	(34,967)	6,588
Components that will not be reclassified to net earnings:		
Actuarial gain (loss) on the accrued benefit obligation, net of income tax expense of $5,229 (2016 income tax recovery – $7,697) (note 21)	**14,417**	(21,202)
Total other comprehensive income	**(20,550)**	(14,614)
Total comprehensive income	**154,355**	83,953

CONSOLIDATED CASH FLOWS

Years ended (IN THOUSANDS OF CANADIAN DOLLARS)	**October 28 2017**	October 29 2016
CASH FLOWS FROM		
Operating activities		
Earnings before patronage dividends and the Cooperative's income taxes	**249,113**	153,989
Net financial expenses	**35,661**	43,786
Cooperative's current income taxes	**-**	126
Items not involving use of funds		
Depreciation and amortization	**168,080**	163,290
Accounting gains as a result of business combinations (note 3)	**(13,971)**	-
Deferred income taxes of subsidiaries	**46,142**	31,730
Gain on disposal of assets and impairment of assets (note 10)	**326**	(591)
	485,351	392,330
Patronage dividends paid	**(14,946)**	(10,025)
Change in non-cash items (note 8)	**6,664**	(104,996)
	477,069	277,309
Financing and share capital activities		
Interest paid	**(36,960)**	(43,367)
Long-term debt, net of issuance expenses	**(102,586)**	(380,096)
Issuance of first preferred shares, net of issuance expenses (note 17)	**-**	297,637
Dividends on first preferred shares	**(47,380)**	(57,495)
Issuance and redemption of members' shares and certificates of indebtedness	**(40,245)**	(990)
	(227,171)	(184,311)
Investing activities		
Business combinations (note 3)	**(54,815)**	-
Property, plant and equipment and intangible assets (notes 10 and 11)	**(174,285)**	(148,091)
Subordinated loan to a joint venture (note 7)	**(3,000)**	-
Proceeds from disposal of assets	**16,542**	7,415
	(215,558)	(140,676)
Effect of exchange rate fluctuations on cash position	**664**	816
Net change in cash position over the year	**35,004**	(46,862)
Cash position – Beginning of year (note 8)	**49,527**	96,389
Cash position – End of year (note 8)	**84,531**	49,527
Additional information:		
Member and share capital activities		
Patronage dividends paid	**(14,946)**	(10,025)
Issuance of shares and certificates of indebtedness (excluding business combination)	**218**	64
Redemption of shares and certificates of indebtedness	**(40,463)**	(1,054)
	(55,191)	(11,015)

CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS OF CANADIAN DOLLARS)	**October 28 2017**	October 29 2016
ASSETS		
Current assets		
Cash and temporary investment	**89,614**	49,527
Accounts receivable	**449,142**	429,177
Inventories (note 9)	**806,732**	727,257
Income taxes	**2,226**	2,611
Prepaid expenses	**25,386**	20,502
	1,373,100	1,229,074
Investments and loan (note 7)	**17,280**	13,462
Property, plant and equipment (note 10)	**1,433,223**	1,423,091
Intangible assets (note 11)	**337,146**	319,050
Goodwill (note 11)	**1,005,158**	1,034,091
Other assets (note 12)	**50,251**	38,520
Deferred income taxes (note 5)	**-**	37,174
	4,216,158	4,094,462
LIABILITIES		
Current liabilities		
Bank overdrafts and bank loans (note 13)	**5,083**	-
Accounts payable and accrued liabilities (note 14)	**791,215**	650,124
Income taxes	**379**	9,136
Current portion of long-term debt (note 15)	**43,836**	150,791
	840,513	810,051
Long-term debt (note 15)	**1,022,906**	1,057,983
Deferred income taxes (note 5)	**65,230**	48,648
Employee future benefits obligation (note 21)	**23,427**	42,089
Other long-term liabilities (note 16)	**4,127**	6,779
	1,956,203	1,965,550
EQUITY		
Members' capital (note 17)	**795,706**	770,837
First preferred shares (note 17)	**770,000**	770,000
Reserve	**629,508**	488,367
Accumulated other comprehensive income (note 18)	**64,741**	99,708
	2,259,955	2,128,912
	4,216,158	4,094,462

Approved by the Board of Directors, on December 15, 2017.

René Moreau, Director

Roger Massicotte, Director

CONSOLIDATED CHANGES IN EQUITY

(IN THOUSANDS OF CANADIAN DOLLARS)	Class M and member shares	Classes A and B shares	Contributed surplus	**Total shares (note 17)**	Certificates of indebtedness	**Total members' capital**	First preferred shares (note 17)	**Total share capital (note 17)**	Reserve	Comprehensive income ("AOCI")[3]	**Total**
As at November 1, 2015	**4,194**	**651,313**	**51,180**	**706,687**	**19,979**	**726,666**	**470,000**	**1,196,666**	**471,623**	**93,120**	**1,761,409**
Net earnings	-	-	-	**-**	-	**-**	-	**-**	98,567	-	**98,567**
Other comprehensive income (loss)	-	-	-	**-**	-	**-**	-	**-**	(21,202)	6,588	**(14,614)**
Issuance of shares as payment for patronage dividends	-	45,161	-	**45,161**	-	**45,161**	-	**45,161**	-	-	**45,161**
Issuance of shares for cash and issuance expenses net of income taxes of $214	60	4	-	**64**	-	**64**	300,000	**300,064**	(2,149)	-	**297,915**
Dividends on first preferred shares including income taxes of $977	-	-	-	**-**	-	**-**	-	**-**	(58,472)	-	**(58,472)**
Redemption of shares and certificates of indebtedness	(55)	(968)	-	**(1,023)**	(31)	**(1,054)**	-	**(1,054)**	-	-	**(1,054)**
As at October 29, 2016	**4,199**	**695,510**	**51,180**	**750,889**	**19,948**	**770,837**	**770,000**	**1,540,837**	**488,367**	**99,708**	**2,128,912**
As at October 30, 2016	**4,199**	**695,510**	**51,180**	**750,889**	**19,948**	**770,837**	**770,000**	**1,540,837**	**488,367**	**99,708**	**2,128,912**
Net earnings	-	-	-	**-**	-	**-**	-	**-**	174,905	-	**174,905**
Other comprehensive income (loss)	-	-	-	**-**	-	**-**	-	**-**	14,417	(34,967)	**(20,550)**
Issuance of shares as payment for patronage dividends	-	49,058	-	**49,058**	-	**49,058**	-	**49,058**	-	-	**49,058**
Issuance of shares for cash	109	109	-	**218**	-	**218**	-	**218**	-	-	**218**
Dividends on first preferred shares including income taxes of $801[1]	-	-	-	**-**	-	**-**	-	**-**	(48,181)	-	**(48,181)**
Redemption of shares and certificates of indebtedness	(51)	(38,435)	-	**(38,486)**	(1,977)	**(40,463)**	-	**(40,463)**	-	-	**(40,463)**
Issuance of shares and certificates of indebtedness in a business combination[2]	695	-	-	**695**	15,361	**16,056**	-	**16,056**	-	-	**16,056**
As at October 28, 2017	**4,952**	**706,242**	**51,180**	**762,374**	**33,332**	**795,706**	**770,000**	**1,565,706**	**629,508**	**64,741**	**2,259,955**

[1] Dividends on first preferred shares net of current income tax expense of $11,845 and deferred income tax recovery of $11,044.

[2] Par value of the shares and certificates of indebtedness issued to former shareholders of Scotsburn Co-operative Services Ltd. (see note 3).

[3] Accumulated other comprehensive income.

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 venture 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 Saint-Hubert, 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 October 28, 2017, as issued by the International Accounting Standards Board ("IASB").

CONSOLIDATION PRINCIPLES

These consolidated financial statements include the accounts of the Cooperative and its subsidiaries. The joint venture Ultima Foods Inc. is 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, the estimate of the years of useful life of depreciable or amortizable assets, the impairment tests of assets, and the valuation of standard costs for finished goods and of 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 venture is 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 venture after the acquisition date.

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.

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 impairment testing purposes, 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 40 years

Intangible assets 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 impairment testing purposes, intangible assets are grouped at the lowest level for which there are identifiable cash flows.

Intangible assets under construction are not amortized.

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 its intended use or sale are completed. Other borrowing costs are recognized as an expense in the period in which they are incurred.

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. An impairment test is also performed when there is an indication that the carrying amount may not be recovered. 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 reporting business units to their 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 using 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 over the term of the contract or based 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 over 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 plan amendment occurs or on the date when the related costs are recognized.

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 from the difference 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 nor 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 asset 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 during 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 equity. Foreign currency gains or losses are reduced by hedging operations using a bank loan in US 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, cancelled or expired.

The following financial assets and 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 • Commodity futures contracts • Interest rate swaps	• 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.

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

HEDGING OPERATIONS

Cash flow hedge

The Cooperative documents the risk management strategy used to apply hedge accounting. At the signing of the hedging contract, management documents the hedged item as 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 in order to match the designations to earnings.

The portion of the gain or loss on the hedging instrument that is considered to be an effective hedge is recorded in other comprehensive income. The ineffective portion of the gain or loss on the hedging instrument is recorded in earnings. Upon cessation of hedge accounting, the cumulative gain or loss that has been recorded in other comprehensive income is reclassified in earnings.

Hedge of net investment

Currency exchange differences resulting from the translation of a financial liability designated as a hedge of a net investment in a foreign operation are recorded in other comprehensive income and are presented in equity as long as the hedge is effective. If the hedge is ineffective, these currency exchange differences are recorded in earnings. At the disposal of a hedged foreign investment, the accumulated exchange differences recorded in equity shall be reclassified in earnings and shall be recognized as a gain or loss arising from the disposal.

NEW ACCOUNTING STANDARD ADOPTED DURING THE YEAR

Presentation of financial statements

In December 2014, the IASB issued an amended version of IAS 1, "Presentation of Financial Statements" clarifying guidance related to the materiality consideration, the business combinations, the presentation of subtotals, the structure of financial statements, and the disclosure requirements in accounting policies.

The application of this amended standard in the first quarter of 2017 had no significant impact on the consolidated financial statements.

FUTURE ACCOUNTING POLICIES

The IASB issued new standards that are not yet effective for the year ended October 28, 2017.

Statement of cash flows

On January 29, 2016, the IASB issued amendments to IAS 7, "Statement of Cash Flows", to improve information provided to users of financial statements about financing activities.

These amendments are effective for fiscal years beginning on or after January 1, 2017, with earlier application being permitted.

The Cooperative will adopt this new standard as at the first quarter of its 2018 fiscal year and does not expect the adoption of these amendments to have a significant impact on the information presented in its consolidated financial statements.

Financial instruments

On July 24, 2014, the IASB issued the final version of IFRS 9, "Financial Instruments", which replaces IAS 39, "Financial Instruments: Recognition and Measurement". At the same time, the IASB modified IFRS 7, "Financial Instruments: Disclosures" to include disclosure items in the financial statements as part of the initial IFRS 9 adoption.

This new standard is 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".

The standard defines the requirements for revenue recognition. It introduces more prescriptive guidelines than those included in previous standards and may result in changes in the classification, the disclosure, and the time of recognition of certain types of revenue.

This new standard is effective for the 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.

Leases

On January 13, 2016, the IASB issued IFRS 16, "Leases", which replaces IAS 17, "Leases". The new standard introduces a single on-balance sheet recognition and measurement model for lessees and will eliminate the distinction between operating and finance leases.

This new standard is effective for the years beginning on or after January 1, 2019.

The Cooperative will adopt this new standard as at the first quarter of its 2020 fiscal year and has not completed its assessment of the impact of these changes on its consolidated financial statements.

Uncertainty over income tax treatments

On June 7, 2017, the IASB issued IFRIC 23, "Uncertainty over Income Tax Treatments", which clarifies the accounting for uncertainty in income taxes prescribed by IAS 12 "Income Taxes".

This new standard is effective for the years beginning on or after January 1, 2019.

The Cooperative will adopt this new standard as at the first quarter of its 2020 fiscal year and has not completed its assessment of the impact of these changes on its consolidated financial statements.

3. BUSINESS COMBINATIONS

On January 31, 2017, the Cooperative acquired frozen dairy product assets from Scotsburn Co-operative Services Limited ("Scotsburn"), a dairy cooperative established in Nova Scotia.

The consideration transferred for this acquisition totalled $73,651.

As a result of this acquisition, the Cooperative now owns 100% of the shares of Reliant Transport Ltd. ("Reliant"), previously a joint venture.

Fair values that have been allocated to the combined assets and liabilities of Scotsburn and Reliant are based on a combination of independent valuations and internal estimates. Fair values of the consolidated net assets total $87,622 and, since they are higher than the price paid, this results in negative goodwill amounts. These differences, which amount to $13,971, were recorded in earnings as accounting gains as a result of business combinations. These gains are attributable to the synergies, so the Cooperative will be able to further optimize the use of the combined assets.

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

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

	2017
Cash	2,655
Current assets	39,142
Investments	12,977
Property, plant and equipment	40,985
Intangible assets	14,741
Accounts payable and accrued liabilities	(17,502)
Deferred income taxes	(4,750)
Employee future benefits obligation	(626)
Fair value of net assets combined	**87,622**

Current assets include accounts receivable with a fair value of $10,365, including accounts receivable under contracts which represent a gross amount of $7,544. At the acquisition date, the best estimate of the contractual cash flows for which collection is not expected is $175.

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

	Acquisition of the year
Cash	57,470
Shares and certificates of indebtedness	16,056
Investment	125
Fair value of the consideration transferred	**73,651**

The business acquisition costs recognized in earnings during the year amounted to $653.

Cash flows from combinations:

	2017
Cash acquired	**(2,655)**
Cash consideration	**57,470**
Cash flows from business combinations	**54,815**

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

BUSINESS COMBINATIONS IN 2016

During the year 2016, the Cooperative has completed and has made some adjustments to the fair value of the assets combined related to the acquisition of Sobeys' dairy processing plants. The adjustments reflected in 2016 are detailed as follows:

	Business acquisitions presented as at October 31 2015	Adjustments	Total
Current assets	21,587	-	**21,587**
Investments	160	-	**160**
Property, plant and equipment	81,926	-	**81,926**
Intangible assets	138,966	1,046	**140,012**
Goodwill	177,470	(1,046)	**176,424**
Bank overdraft	(209)	-	**(209)**
Accounts payable and accrued liabilities	(4,819)	-	**(4,819)**
Deferred income taxes	(22,470)	-	**(22,470)**
Employee future benefits obligation	(945)	-	**(945)**
Fair value of net assets combined	**391,666**	**-**	**391,666**

In January 2017, following the application of some price adjustment mechanisms planned during the acquisition, the Cooperative recorded a purchase price adjustement of $55,156.

4. EARNINGS

The following items are included in the consolidated earnings:

	2017	2016
Raw materials and other inputs	**4,146,061**	3,804,791
Salaries and employee benefits	**682,212**	638,608
Interest on long-term debt	**32,554**	44,457

Restructuring costs, integration and other non-recurring costs include costs for the business combination and the major restructuring of certain activities.

5. INCOME TAXES

The income tax expense is detailed as follows:

	2017	2016
Current income taxes	**2,900**	484
Deferred income taxes	**55,114**	27,171
	58,014	27,655
Comprised of:		
The Cooperative's income taxes	**8,972**	(4,685)
Income taxes of subsidiaries	**49,042**	32,340
	58,014	27,655

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

Reconciliation of income taxes:

	2017	2016
Income taxes, calculated at Canadian statutory rates of 26.65% (2016 – 26.63%)	**62,068**	33,609
Differences attributable to the following:		
Difference in tax rates of foreign subsidiaries	**(1,080)**	(7,746)
Accounting gain as a result of a business combination	**(3,689)**	-
Changes in tax rates and provincial allocation	**45**	857
Others	**670**	935
Income taxes	**58,014**	27,655

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

	October 31 2015	**Earnings**	**Comprehensive income and Others**	**Business combinations**	**October 29 2016**
Deferred tax assets					
Goodwill	(9,463)	(19,854)	(797)	-	**(30,114)**
Tax losses carry forward	90,683	18,494	2,377	-	**111,554**
Property, plant and equipment	(33,535)	(33,155)	(1,754)	-	**(68,444)**
Intangible assets and other assets	11,231	2,757	346	-	**14,334**
Accounts payable, accrued liabilities and others	9,114	954	(224)	-	**9,844**
	68,030	**(30,804)**	**(52)**	**-**	**37,174**
Deferred tax liabilities					
Goodwill	233	2,419	-	-	**2,652**
Tax losses carry forward	22,083	(34,251)	13,387	-	**1,219**
Employee future benefits obligation	4,555	(2,440)	7,697	-	**9,812**
Property, plant and equipment	(51,700)	28,793	-	-	**(22,907)**
Intangible assets and other assets	(50,533)	1,504	213	-	**(48,816)**
Outside basis difference on investment in subsidiaries	(3,740)	2,521	-	-	**(1,219)**
Accounts payable, accrued liabilities and others	5,486	5,087	38	-	**10,611**
	(73,616)	**3,633**	**21,335**	**-**	**(48,648)**
Total deferred tax assets (liabilities)	**(5,586)**	**(27,171)**	**21,283**	**-**	**(11,474)**

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

	October 29 2016	Earnings	Comprehensive income and Others	Business combinations	October 28 2017
Deferred tax assets					
Goodwill	(30,114)	-	30,114	-	**-**
Tax losses carry forward	111,554	-	(111,554)	-	**-**
Property, plant and equipment	(68,444)	-	68,444	-	**-**
Intangible assets and other assets	14,334	-	(14,334)	-	**-**
Accounts payable, accrued liabilities and others	9,844	-	(9,844)	-	**-**
	37,174	**-**	**(37,174)**	**-**	**-**
Deferred tax liabilities					
Goodwill	2,652	(23,133)	(28,409)	663	**(48,227)**
Tax losses carry forward	1,219	(22,082)	118,712	-	**97,849**
Employee future benefits obligation	9,812	33	(5,229)	166	**4,782**
Property, plant and equipment	(22,907)	(6,726)	(65,472)	(1,665)	**(96,770)**
Intangible assets and other assets	(48,816)	(1,361)	13,768	(3,914)	**(40,323)**
Outside basis difference on investment in subsidiaries	(1,219)	(469)	-	-	**(1,688)**
Accounts payable, accrued liabilities and others	10,611	(1,376)	9,912	-	**19,147**
	(48,648)	**(55,114)**	**43,282**	**(4,750)**	**(65,230)**
Total deferred tax assets (liabilities)	**(11,474)**	**(55,114)**	**6,108**	**(4,750)**	**(65,230)**

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

	2017	2016
Deferred tax assets		
Deferred tax assets to be recovered within the next 12 months	**-**	37,174
Deferred tax liabilities		
Deferred tax liabilities to be settled in more than 12 months	**(65,230)**	(48,648)
Total of deferred tax liabilities	**(65,230)**	(11,474)

The Cooperative has also accumulated $105,289 of deferred capital losses for which no deferred tax asset was recorded. These losses may be carried forward indefinitely.

Deferred income tax liabilities have not been recognized for the withholding tax and taxes that would be payable on the unremitted earnings of certain subsidiaries amounting to $185,226 as of October 28, 2017 (2016 - $142,017). Such amounts are permanently reinvested and will not reverse in the foreseeable future.

6. PATRONAGE DIVIDENDS

Patronage dividends are paid out to members as follows: $16,178 (2016 – $14,946) in cash and $49,058 (2016 – $45,161) through the issuance of investment shares.

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

7. INVESTMENTS AND LOAN

	2017	2016
Joint ventures (note 23)	**-**	136
Subordinated loan to a joint venture, bearing interest at a rate of 7.00%	**17,122**	12,995
Others	**158**	331
	17,280	13,462

INVESTMENTS IN JOINT VENTURES

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

	2017	2016
Cash	**-**	195
Current assets	**46,997**	47,861
Long-term assets	**107,535**	98,360
Current liabilities	**52,055**	50,823
Current financial liabilities	**3,058**	1,571
Long-term liabilities	**2,078**	3,889
Long-term financial liabilities	**98,725**	80,965
Sales	**292,951**	283,463
Depreciation and amortization	**8,954**	9,473

The Cooperative's share of commitments of the joint venture is $688 for the next year, and $434 for 2019 to 2022.

8. CASH FLOWS

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

	2017	2016
Accounts receivable	**(17,813)**	(12,383)
Inventories	**(67,483)**	(45,603)
Income taxes	**(19,866)**	(5,662)
Prepaid expenses	**(4,604)**	870
Accounts payable and accrued liabilities	**130,676**	(28,636)
Other assets and others	**(14,246)**	(13,582)
	6,664	(104,996)

Income taxes paid are detailed as follows:

	2017	2016
Income taxes paid	**23,342**	6,255

The cash position is detailed as follows:

	2017	2016
Cash and temporary investment	**89,614**	49,527
Bank overdrafts and bank loans	**(5,083)**	-
	84,531	49,527

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

9. INVENTORIES

	2017	2016
Finished goods	**649,091**	586,098
Raw materials, goods in process and supplies	**157,641**	141,159
	806,732	727,257

The cost of goods sold amounting to $5,488,917 (2016 – $5,123,146) is mainly composed of the amount of inventories accounted for in expenses, including an impairment loss of $12,772.

10. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Equipment	Rolling stock	Total
As at October 31, 2015				
Cost	769,471	1,438,384	78,799	**2,286,654**
Accumulated depreciation and amortization	(125,027)	(688,606)	(51,059)	**(864,692)**
Net carrying amount	**644,444**	**749,778**	**27,740**	**1,421,962**
Year 2016				
Additions[1]	30,896	92,459	1,737	**125,092**
Transfers	(125)	(3,671)	3,796	**-**
Disposals	(2,251)	(3,955)	(618)	**(6,824)**
Depreciation and amortization	(17,701)	(107,164)	(9,188)	**(134,053)**
Translation adjustment	7,256	9,615	43	**16,914**
Balance as at October 29, 2016	**662,519**	**737,062**	**23,510**	**1,423,091**
Cost	800,877	1,523,483	88,670	**2,413,030**
Accumulated depreciation and amortization	(138,358)	(786,421)	(65,160)	**(989,939)**
Net carrying amount	**662,519**	**737,062**	**23,510**	**1,423,091**
Year 2017				
Additions[1]	31,211	95,711	8,681	**135,603**
Transfers	-	29	(29)	**-**
Business combinations	17,547	22,723	715	**40,985**
Disposals	(2,311)	(478)	(269)	**(3,058)**
Depreciation and amortization	(19,068)	(109,727)	(7,410)	**(136,205)**
Impairment	-	(532)	(6)	**(538)**
Translation adjustment	(11,927)	(14,671)	(57)	**(26,655)**
Balance as at October 28, 2017	**677,971**	**730,117**	**25,135**	**1,433,223**
Cost	832,602	1,604,545	96,336	**2,533,483**
Accumulated depreciation and amortization	(154,631)	(874,428)	(71,201)	**(1,100,260)**
Net carrying amount	**677,971**	**730,117**	**25,135**	**1,433,223**

[1] Additions of property, plant and equipment include an amount of $45 (2016 – $2,211) of capitalized interest, at an annual rate ranging from 2.52% to 2.72%.

Buildings and equipment include major works in progress of which an amount of $7,279 (2016 – $18,076) is unamortized.

Following a plant closure, the Cooperative recorded an impairment of its property, plant and equipment of $538.

(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 October 31, 2015				
Cost	133,239	290,187	**423,426**	**1,048,249**
Accumulated depreciation and amortization	(48,318)	(52,876)	**(101,194)**	**(30,648)**
Net carrying amount	**84,921**	**237,311**	**322,232**	**1,017,601**
Year 2016				
Additions[1]	-	23,303	**23,303**	**-**
Transfers	3,557	(3,557)	**-**	**-**
Business combinations	76	970	**1,046**	**(1,046)**
Depreciation and amortization	(14,024)	(15,669)	**(29,693)**	**-**
Translation adjustment	1,826	336	**2,162**	**17,536**
Balance as at October 29, 2016	**76,356**	**242,694**	**319,050**	**1,034,091**
Cost	140,223	311,461	**451,684**	**1,065,463**
Accumulated depreciation and amortization	(63,867)	(68,767)	**(132,634)**	**(31,372)**
Net carrying amount	**76,356**	**242,694**	**319,050**	**1,034,091**
Year 2017				
Additions[1]	-	38,682	**38,682**	**-**
Business combinations	8,207	6,534	**14,741**	**-**
Depreciation and amortization	(13,270)	(19,087)	**(32,357)**	**-**
Translation adjustment	(2,516)	(454)	**(2,970)**	**(28,933)**
Balance as at October 28, 2017	**68,777**	**268,369**	**337,146**	**1,005,158**
Cost	142,472	343,626	**486,098**	**1,035,335**
Accumulated depreciation and amortization	(73,695)	(75,257)	**(148,952)**	**(30,177)**
Net carrying amount	**68,777**	**268,369**	**337,146**	**1,005,158**

[1] Additions of intangible assets include an amount of $547 (2016 – $1,319) of capitalized interest at an annual rate ranging from 2.52% to 2.72%.

Software includes a major work in progress of which an amount of $40,944 (2016 – $53,339) is unamortized.

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

	2017	2016
Business sector – Canada Operations	**279,649**	279,842
Business sector – United States Operations	**675,147**	701,892
Business sector – Natrel United States	**50,362**	52,357
	1,005,158	1,034,091

The impairment tests performed as at July 29, 2017 and October 29, 2016 did not result in the recognition of any impairment loss.

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

12. OTHER ASSETS

	2017	2016
Procurement agreements and others	**35,304**	29,732
Income tax credits receivable	**14,947**	8,788
	50,251	38,520

13. BANK OVERDRAFTS AND BANK LOANS

The Cooperative and its subsidiaries have lines of credit of a maximum of $49,260 (unused as at October 28, 2017), 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 at October 29, 2016.

14. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2017	2016
Members	**140,182**	134,802
Third parties	**648,593**	513,950
Joint ventures	**2,440**	1,372
	791,215	650,124

15. LONG-TERM DEBT

	2017	2016
Term loan (2017 – US$696,786 and 2016 – US$759,650)[1]	**889,602**	1,007,930
Revolving term loan[2]	**176,772**	9,000
Revolving term loan (2017 – US$0 and 2016 – US$143,000)[2]	**-**	191,391
Obligation under finance lease[3]	**368**	453
	1,066,742	1,208,774
Current portion	**43,836**	150,791
	1,022,906	1,057,983

[1] US dollar term loan bearing interest at an average variable rate of 2.70% and refundable at 5% per year on average until maturity in August 2022. The 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 October 28, 2017.

As at October 28, 2017, the term loan was designated as hedge of a net investment in a foreign operation.

[2] Revolving term loan of $600,000, of which $176,772 is used as at October 28, 2017, bearing interest at a rate of 2.90% and repayable in August 2022 if no request for an extension is submitted to the lenders and accepted by them. Should the remaining amount of the revolving term loan be used, the interest rate would not generally exceed the prime rate plus 1.50% or the US base 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.

[3] Obligation under finance lease, bearing interest at a rate of 3.85% and maturing in May 2022.

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

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

2018	45,493
2019	45,498
2020	45,502
2021	45,508
2022 and thereafter	892,181

16. OTHER LONG-TERM LIABILITIES

	2017	2016
Deferred income tax credits	**4,127**	4,611
Other long-term liabilities	**-**	2,168
	4,127	6,779

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 the 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, from the redemption of capital, and from milk deliveries, where necessary. The minimum threshold of capital per member varies from $5 to $10 per hectolitre, according to the application date and can be modified by the Board of Directors on the same basis. 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.

In the Cooperative's recent combinations with Farmers Co-operative Dairy Limited, Dairytown Products Ltd. and Scotsburn Co-operative Services Limited, certificates of indebtedness were issued to former members of Farmers Co-operative Dairy Limited, Dairytown Products Ltd. and Scotsburn Co-operative Services Limited. Certificates of indebtedness, presented as an item of members' equity, can be transferred to auxiliary members and are not eligible for 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 to 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.

On December 17, 2014, the Cooperative issued 4,700,000 first preferred shares, Series 1, for a par value of $100 each, for a cash consideration of $470,000,000. These shares are entitled to an annual cumulative minimum dividend of 5.9% of the par value and payable semi-annually when declared by the Board of Directors. They do not have a maturity date and can be redeemed, in whole or in part, further to a resolution by the Board of Directors, under certain conditions, with effect since April 1, 2017.

On December 16, 2015, the Cooperative issued 3,000,000 first preferred shares, Series 2, for a par value of $100 each, for a cash consideration of $300,000,000. These shares are entitled to an annual cumulative minimum dividend of 6.55% of the par value and payable semi-annually when declared by the Board of Directors. They do not have a maturity date and can be redeemed, in whole or in part, further to a resolution by the Board of Directors, under certain conditions, with effect from April 1, 2019.

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

18. ACCUMULATED OTHER COMPREHENSIVE INCOME, NET OF INCOME TAXES

	2017	2016
Gains (losses) on financial instruments designated as cash flow hedges	**(244)**	173
Foreign currency translation adjustment of foreign operations, net of hedging operations	**309,024**	385,683
Foreign currency translation adjustment of term loan designated as hedge of a net investment in foreign operations	**(243,821)**	(285,930)
Share of accumulated other comprehensive loss of joint ventures	**(218)**	(218)
	64,741	99,708

19. FINANCIAL INSTRUMENTS

The following analysis explains the financial risks associated with financial instruments as at October 28, 2017:

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 and the subordinated loan to a joint venture, 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. Centralization of 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 applied to the repayment of the debt.

CREDIT RISK

Accounts receivable mainly relate to trade receivables generated in the normal course of business. Although some major accounts are derived 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, 2% of accounts receivable exceeded normal terms of payment by more than 30 days.

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 flow risk associated with interest payments due to interest rate fluctuations 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.

To guard against the impact of interest rate fluctuations on a portion of the term loan, the Cooperative entered into interest rate swaps on July 10, 2017, for a term of 10 years. The notional amount of the swaps corresponds to US$275,000, and under these interest rate swaps, the Cooperative has agreed to exchange variable interest payments against fixed-rate payments at specified intervals. In accordance with its risk management strategy, the Cooperative has designated these swaps as cash flow hedge of interest rate risk on the term loan.

As at October 28, 2017, the cash flow hedge of interest rate risk was assessed to be highly effective. An unrealized gain of $613 (net of income taxes of $223) was recorded in other comprehensive income.

Sensitivity analysis for interest rate risk
The term loan is subject to market interest rate fluctuation risk. If the average interest rate had been higher by 1%, and assuming all other variables remained constant, earnings before patronage dividends and the Cooperative's income taxes would have decreased by $12,001.

FOREIGN EXCHANGE RISK

The Cooperative carries on activities outside of 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 October 28, 2017, if the US 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 $7,602.

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 US dollars and euros. 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$24,472 against CA$
Sales of CA$8,733 against US$
Purchases of 5,113 euros against CA$
Purchases of 672 euros against US$
Sales of US$200 against euros

US MARKET RISK

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.

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

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	2017	2016
Interest rate swaps	-	836	-	**836**	-
Foreign exchange contracts	-	65	-	**65**	(535)
Commodity futures contracts	(1,294)	-	-	**(1,294)**	986

The commodity futures contracts, mainly cheese futures contracts, designated as fair value hedges are of a nominal value of $46,443, and their maturities do not exceed fourteen months.

20. COMMITMENTS AND CONTINGENCIES

a) Commitments relating to operating leases are as follows: $14,967 for the following year, $45,423 for 2019 to 2022, and $37,366 thereafter.

b) The Cooperative is committed for an amount of $24,112 to purchase property, plant and equipment and intangible assets as part of major projects.

c) 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 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 three years. The most recent valuations were performed in December 2016.

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

The net expense is as follows:

	2017	2016
Defined contribution plans		
Net expense	**23,049**	21,123
Defined benefit plans		
Current service cost	**6,625**	5,244
Administrative costs	**700**	704
Past service cost	**573**	-
Interest cost on accrued benefit obligation	**9,267**	10,298
Interest on asset ceiling impact	**17**	106
Projected return on plan assets	**(8,101)**	(9,944)
Net expense	**9,081**	6,408

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

The information on defined benefit plans is as follows:

	2017	2016
Plan assets		
Fair value – Beginning of year	**248,245**	227,175
Administrative costs	**(700)**	(704)
Projected return on plan assets	**8,101**	9,944
Employer contributions	**9,047**	15,568
Employee contributions	**1,647**	1,761
Benefits paid	**(12,675)**	(14,921)
Actuarial gains	**12,290**	9,422
Fair value – End of year	**265,955**	248,245

Equity securities represented 54% (2016 – 55%) and obligations represented 34% (2016 – 35%) of total plan assets invested mainly in Canada. The fair value is based on inputs other than quoted prices.

	2017	2016
Accrued benefit obligation		
Balance – Beginning of year	**283,120**	240,334
Current service cost	**6,625**	5,244
Interest cost	**9,267**	10,298
Past service cost	**573**	-
Employee contributions	**1,647**	1,761
Benefits paid	**(12,675)**	(14,921)
Actuarial losses (gains)	**(15,563)**	40,404
Balance – End of year	**272,994**	283,120

	2017	2016
Pension plan obligation		
Funding status – Plan assets net of obligation (deficit)	**(7,039)**	(34,875)
Impact of asset ceiling test	**(8,749)**	(525)
Pension plan obligation	**(15,788)**	(35,400)
Other plans	**(7,639)**	(6,689)
Employee future benefits obligation	**(23,427)**	(42,089)

For pension plans with an accrued benefit obligation that is in excess of the asset, the accrued benefit obligation is $129,936 (2016 – $240,016) and the asset is $112,149 (2016 – $201,458).

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

	2017	2016
Actuarial gains (losses) for the year	**27,853**	(30,982)
Impact of asset ceiling test	**(8,207)**	2,083
Amount accounted for in other comprehensive income	**19,646**	(28,899)
Balance – Beginning of year	**(29,540)**	(641)
Balance – End of year	**(9,894)**	(29,540)

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

	2017	2016
Weighted average assumptions		
Accrued benefit obligation		
Discount rate (closing rate)	**3.60%**	3.25%
Long-term inflation rate of salary expense	**4.00%**	4.00%
Net benefit expense for the year		
Discount rate (opening rate)	**3.25%**	4.25%
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 $5,716.

The Cooperative expects to make contributions of $4,561 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 summarizes the effect of a change in these actuarial assumptions on the value of the defined benefit obligation as at October 28, 2017.

	Change in assumption	Increase in obligation
Decrease in discount rate	0.25%	10,487
Increase in long-term inflation rate of salary expense	0.25%	975

22. RELATED PARTIES

SUBSIDIARIES AND JOINT VENTURES

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

		% owned	
	Country of incorporation	2017	2016
Agropur inc.	United States	**100%**	100%
Agropur Export Group Inc.	Canada	**100%**	100%
Ultima Foods Inc. (note 23)	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 $50,097 (2016 – $44,118) in raw materials and finished goods from its joint venture.

KEY MANAGEMENT PERSONNEL COMPENSATION

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

	2017	2016
Salary and other benefits	**23,862**	15,734
Post-employment benefits	**2,175**	1,219
	26,037	16,953

23. SUBSEQUENT EVENT

On October 29, 2017, the Cooperative acquired all the shares of the Ultima Foods joint venture. Ultima Foods, which was owned equally by Agropur cooperative and Agrifoods International Cooperative Ltd., became the exclusive property of the Cooperative. Ultima Foods operates in the field of manufacturing and marketing of yogurts and fresh dairy desserts, and runs two plants in Canada, one located in Quebec, and one in British Columbia.

AGROPUR COOPERATIVE

Head office and Canada Operations

4600 Armand-Frappier Street
Saint-Hubert, QC J3Z 1G5
Canada
Tel.: 450-878-2333
Toll free: 1-844-878-2333

US Operations

3500 East Destination Drive
Appleton, WI 54915
USA
Tel.: 920-944-0990

www.agropur.com

Graphic design: Sid Lee
Graphic production: M&H Polystudios inc.
Production: Sid Lee Studio
Photographers: Alexi Hobbs & Daphné Caron
Printed in Canada

AGROPUR

Dairy Cooperative