QUARTERLY REPORT

For the 13-week period ended January 27, 2018

AGROPUR Dairy Cooperative

TO MEMBERS AND EMPLOYEES

Dear members and colleagues,

Here are the highlights of the first quarter of fiscal 2018:

- Sales were down $49.3 million or 3.0% to $1.6 billion;
- Earnings from operations were down $64.1 million (49.7%) to $65.0 million;
- Various projects in our cost-reduction program added $8.5 million to our earnings from operations;
- The acquisition of all shares of Ultima Foods on October 29, 2017 was accretive to earnings;
- A $47.7-million accounting gain on business combination was recognized during the quarter.

As we announced at our Annual General Meeting, the first quarter of 2018 will have been characterized by heavily declining markets in the U.S. resulting in unfavourable results compared to last year. There was an unprecedented market downturn for cheese and whey. We hope the situation to be temporary and expect a partial turnaround during this financial year. However, we must continue our efforts with respect to the factors under our control, notably our cost-reduction target. The acquisition of all shares of Ultima Foods at the beginning of the financial year was accretive, due in part to the realization of anticipated synergies.

Financial overview

First quarter sales were $1.6 billion, a year-over-year decrease of $49.3 million or 3%. Our U.S. sales declined, mainly because of high price reduction for cheese and whey products. The cheese block price alone accounted for a $51.9-million decrease in sales compared with the previous year. The appreciation of the Canadian dollar against the US dollar also affected the sales figure, to a lesser degree. Lastly, our aged cheese sales volume was exceptionally high last year. Canadian sales increased primarily as a result of the addition of Scotsburn in Q2 2017 and Ultima Foods at the beginning of the financial year.

Earnings before interest, income taxes, depreciation, amortization and non-recurring costs (earnings from operations) were $65.0 million, a year-over-year decrease of $64.1 million or 49.7%. U.S. earnings were strongly affected by the unfavourable impact of the cheese block price / cost of milk ratio and falling world prices for whey products. These factors related to United States and international market conditions generated a $60.2-million decrease in earnings from operations. In Canada, despite lower net prices, our earnings are improving because of our cost-reduction program and the contribution from the operations of Scotsburn and Ultima Foods.

The depreciation and amortization expense increased $1.0 million to $42.8 million, essentially because of depreciation of the acquired Scotsburn and Ultima Foods assets. Restructuring, integration and other non-recurring costs amounted to $7.9 million. Financial expenses were $6.8 million, a decrease from the first quarter of 2017. The income tax expense recorded by our subsidiaries decreased by $23.3 million as a direct result of the lower U.S. earnings.

A $47.7-million accounting gain was recognized in the first quarter in connection with the acquisition of all shares of Ultima Foods. As required by accounting standards, we reassessed the fair value of the interest held in the joint venture prior to the acquisition, giving rise to the gain.

Net earnings therefore totalled $58.3 million in the first quarter compared to $97.6 million in 2017.

Cash flows from operating activities were $56.5 million. During the quarter, $18.1 million was used for non-cash items. The change in working capital was due to, among other things, a $21.6-million decrease in milk supply payable and payment of patronage dividends in the amount of $16.2 million in December 2017.

Capital expenditures totalled $96.5 million in Q1 2018. Major expenditures included expansion of our Lake Norden plant in the U.S. and the enterprise resource planning (ERP) system. As well, $68.1 million was spent to acquire Utlima Foods and assume 100% of its debt, which amounted to $81.9 million at the time of the acquisition.

With respect to activities with members, redemption of shares and certificates of indebtedness totalled $0.2 million during the period. Equity rose by $19.0 million in the first quarter to $2.279 billion.

We are all aware of the significant volatility to which our U.S. activities are exposed to. There is no doubt that in the first quarter, unlike last year, markets have definitely been against us. In this context, we need to remain more focused than ever on improving our efficiency and cutting our costs. Be assured that we pursue our strategy, with a strong emphasis on general cost management aiming at improving our earnings.

Robert Coallier
Chief Executive Officer

Émile Cordeau
Senior Vice-President and Chief Financial Officer

CONSOLIDATED EARNINGS

(IN THOUSANDS OF CANADIAN DOLLARS) (unaudited)	13 WEEKS 2018	2017
Sales	**1,602,890**	1,652,174
Operating expenses excluding depreciation and amortization	**1,537,934**	1,523,143
Earnings before interest, income taxes, depreciation, amortization, restructuring costs, integration and other non-recurring costs	**64,956**	129,031
Depreciation and amortization	**42,753**	41,722
Restructuring costs, integration and other non-recurring costs[1]	**7,872**	3,538
Operating earnings	**14,331**	83,771
Net financial expenses	**6,780**	9,174
Loss (gain) on disposal of assets and impairment of assets	**(153)**	6,767
Purchase price adjustment	**-**	(50,220)
Accounting gain as a result of a business combination	**(47,660)**	-
Income taxes of subsidiaries	**(2,898)**	20,402
Net earnings[2]	**58,262**	97,648

CONSOLIDATED CASH FLOWS

(IN THOUSANDS OF CANADIAN DOLLARS) (unaudited)	13 WEEKS 2018	2017
Operating activities		
Net earnings[2]	**58,262**	97,648
Net financial expenses	**6,780**	9,174
Items not involving use of funds	**(8,585)**	18,385
	56,457	125,207
Patronage dividends paid	**(16,178)**	(14,946)
Change in non-cash items	**(18,054)**	(44,211)
	22,225	66,050
Financing and share capital activities		
Long-term debt and interest paid	**39,046**	(52,483)
Issuance and redemption of members' shares and certificates of indebtedness	**(152)**	(39,956)
	38,894	(92,439)
Investing activities		
Business combination	**(68,059)**	-
Property, plant and equipment, intangible assets and others	**(96,211)**	(19,969)
	(164,270)	(19,969)
Effect of exchange rate fluctuations on cash position	**731**	(232)
Net change in cash position	**(102,420)**	(46,590)

CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS OF CANADIAN DOLLARS)	January 27 2018 (unaudited)	October 28 2017 (audited)
Assets		
Current assets	**1,261,329**	1,373,100
Investments and loan	**176**	17,280
Property, plant and equipment and other long-term assets	**3,075,058**	2,825,778
	4,336,563	4,216,158
Liabilities		
Current liabilities	**836,659**	840,513
Long-term debt	**1,116,910**	1,022,906
Deferred income taxes	**77,105**	65,230
Employee future benefits obligation	**23,035**	23,427
Other long-term liabilities	**3,911**	4,127
	2,057,620	1,956,203
Equity		
Members' capital	**795,554**	795,706
First preferred shares	**770,000**	770,000
Reserve and others	**713,389**	694,249
	2,278,943	2,259,955
	4,336,563	4,216,158

[1] Restructuring costs, integration and other non-recurring costs include costs for the business combination and the major restructuring of certain activities.
[2] Net earnings presented before patronage dividends and the Cooperative's income taxes which are accounted for only at year end.