



Better Dairy.
Better World.



Board of Directors



- | | | | |
|--|---|---|--|
| 1 Roger Massicotte
President,
Mauricie-Portneuf, 2003 | 2 Jeannie van Dyk
Vice-President,
Atlantic, 2013 | 3 Stéphanie Benoit
Vice-President nominated
and elected by universal
suffrage, 2015 | 4 Roger Beaulieu
Est-du-Québec,
2014 |
| 5 Alex Berthiaume
Chaudière-Appalaches,
2020 | 6 Michel Boisvert
Montérégie,
2017 | 7 Johanne Camiré
Érable-Seigneuries,
2022 | 8 Céline Delhaes
Nominated and elected
by universal suffrage,
2011 |
| 9 Alain Forget
Laurentides-Lanaudière,
2014 | 10 Jean-Pierre Lacombe
Salaberry-Richelieu,
2007 | 11 Martial Lemire
Nicolet - Bois-Francs,
2019 | 12 Valère Lieutenant
Estrie-Granby, 2012 |
| 13 Emmanuelle Vincent
Next-Generation
Director, 2022 | 14 Pierre Lessard
Guest member | 15 Martine Rivard
Guest member | 16 Paul Wagstaff
Guest member |

Better Dairy. Better World.

We are proud of the results obtained in 2022. The decisions made over the past three years allowed Agropur to overcome a number of challenges. The strength of our Cooperative model, combined with enlightened decision-making and a disciplined approach, have enabled us to view the future optimistically. We are working together to ensure the continuity of our Cooperative, which means ensuring our 3,000 members and 7,550 employees have a promising future.



Odrey Caron from Ferme Karona in Plessisville, member of Agropur

01 MESSAGE FROM THE PRESIDENT	4
02 MESSAGE FROM THE CHIEF EXECUTIVE OFFICER	8
03 COMMUNITY INVOLVEMENT	12
04 OUR BRANDS	13
05 AGROPUR BY THE NUMBERS	14
06 FINANCIAL REVIEW	16
07 CONSOLIDATED FINANCIAL STATEMENTS	22



Roger Massicotte, President

MESSAGE FROM THE PRESIDENT

Agropur is reaping the benefits of decisions made over the past three years

We can be proud of the Cooperative's performance in 2022. The soundness of the decisions made over the past few years stabilized the situation the Cooperative experienced.

« Despite the scale of the international economic challenges that hit the industry, our Cooperative was able to come out stronger after these last 12 months. »

Agropur had a great 2022 year. Our financial results improved, even while inflation and the labour shortage significantly impacted our operations. Despite the scale of the international economic challenges that hit the industry, our Cooperative was able to come out stronger after these last 12 months. We can congratulate ourselves even if we know that some of these issues will continue to influence the Cooperative's performance in the coming year.

The improvement of our financial situation has allowed us to be better equipped than we have been in the past. We owe our resilience to the

fact that we have been making the right choices at the right time over the last three years. We are in a better position to continue our growth, which I consider to be great news for our Cooperative's future.

MORE STABLE AND FORESEEABLE DISTRIBUTION

After our strategic reflections in 2021, we decided to review how we pay cash distributions to our members so that these payments can be more stable and predictable. Our positive results in 2022 have allowed us to pay \$40.3 million in cash and investment share redemptions to our members.



Ferme Karona, member of Agropur and winner of the Agropur animal welfare award in 2021.

"For 85 years now, we have been feeding communities while taking care of the planet, people and animals. Sustainable development is part of our DNA."

Over the fiscal year, we unfortunately experienced our first labour conflict in nearly 20 years. In the current economic climate, the renewal of a collective agreement may be more difficult despite the good intentions of both parties. We would like to take this time to reiterate that Agropur has several facilities and that we renew many collective agreements every year. Management continues to work hard to ensure the well-being of our employees, who ensure the success of our Cooperative.

We also made the decision to sell our plant in La Crosse, Wisconsin. Its sales represented 3.4% of the Cooperative's consolidated revenue.

This decision has allowed us to focus on what we know how to do best in the US, which is producing high quality cheese and dairy ingredients.

SUSTAINABILITY

For 85 years now, we have been feeding communities while taking care of the planet, people and animals. Sustainable development is part of our DNA. This has led to a number of initiatives at Agropur that you can review in our Environmental, Social and Governance (ESG) report. We also launched the first *Sustainable Farms* pilot project this summer. We are confident that this project

will help the Cooperative and its members identify performance measures related to animal welfare and the environment, which will be adapted to our reality.

INDUSTRY CHALLENGES

The North American dairy sector is growing, with the Canadian industry, in particular remaining attractive to competitors outside the country. Recent international trade agreement negotiations resulted in a loss of some of our protections, which gave foreign companies increased access. Agropur has been putting in a lot of effort to face up to the competition. There is no doubt that these concessions have had a real impact on the entire Canadian dairy industry, both for a processor like Agropur and our members. We salute the compensation measures and investment program announced by the Canadian government in November 2022 to mitigate the impacts of the Canada-United States-Mexico Agreement (CUSMA). We also recognize the government's position, while New Zealand and the US are contesting our import quota mechanisms.

We have all seen how the war in Ukraine has had dramatic consequences for the local population. Having contributed to a number of support missions in the region in recent years, Agropur understands how important Ukraine is to global agriculture. This is why we are providing our support again through SOCODEVI (Société pour la coopération et le développement international). We also contributed to the Red Cross' Ukraine Humanitarian Crisis Appeal. Thank you to everyone who has participated in this initiative. Again, through the Red Cross, we have provided support to those who experienced significant damage after Hurricane Fiona hit Eastern Canada in September.

The Cooperative's members and employees share the same pride and passion for offering delicious and nutritious food to our communities. Every day, millions of North Americans consume our dairy products. The raw material, milk, is the fruit of hard work carried out by dairy producers. We are motivated and determined to feed the population with the products we manufacture.

Finally, the coming year will mark Agropur's 85th anniversary. On August 24, 1938, agronomist Alpha Mondou and farmer Omer Deslauriers brought 87 farmers together to create the Cooperative we know today. It is easy to imagine that throughout its existence, the Cooperative has experienced challenges that were just as difficult as the ones we faced over the last year. Thanks to this experience, Agropur is still standing, as strong as ever, ready to confront the challenges of tomorrow.

In light of the work we did in 2022, I am confident that Agropur will find success yet again in 2023.



Émile Cordeau, Chief Executive Officer

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

Agropur had an excellent financial performance in 2022

The Cooperative is on sound financial footing and is better equipped than before to face any challenges in the years ahead. The future is promising, and we will seize the opportunities to ensure the sustainability of our organization.

"The decisions made over the past three years have given us the opportunity to confront this year's many headwinds."

Three years ago, we set three objectives: improve our profitability in Canada, reduce our debt and create a new strategic vision to ensure that our decisions secure the future of our Cooperative. We can now say that we have accomplished these goals. The decisions made over the past three years have given us the opportunity to confront this year's many headwinds.

Overall, 2022 went well. We are really happy with our results. Generally, EBITDA, or the operational earnings,

is growing compared to last year, despite the sale of non-strategic activities in 2021. This represents 12.8% growth over last year. We can be proud of these results, which are thanks to the hard work of the Cooperative employees.

Given the unprecedentedly high inflation, we had to be agile to mitigate its impact on our clients and ensure our commercial activities remained profitable.



Agropur employees at Lake Norden plant, South Dakota

"We are doing everything we can to minimize the impact of labour shortage."

The labour shortage was also a major operational challenge this year, as it was for companies worldwide. We are doing everything we can to minimize its impact, and we will keep working on this in 2023. That is why we launched the new *Invest in You* employer brand.

In a time when companies are trying to stand out in a competitive job market, this process has allowed us to highlight what makes our Cooperative different.

Supply chain disruptions were among the many challenges we have had to contend with this year. Despite gradual improvements in the situation, we are putting in sustained efforts to ensure stability.

BE THE KEY DAIRY PARTNER FOR THE FOOD INDUSTRY

Our strategic vision – to be the key dairy partner for the food industry – has given us the chance to provide a positive review of the past year. For example, we have strengthened many relationships with big names in the food industry to develop their private brands. Considering steep inflation, many consumers have turned to private labels, a sector where Agropur has experience and an increasing foothold. This approach places us in a better position for upcoming challenges.

In 2022, we also targeted investing in value-added sectors in Canada and the US. In Canada, we announced a \$34 million investment in our facilities in Truro, Nova Scotia. This investment will allow us to increase our capacity to meet the growing needs of the frozen dessert market. We also invested in a project at our Quebec City plant to produce Natre Plus milk for all of Canada and at our plant in Woodstock, Ontario to increase our shredded cheese production capacity.

In the United States, we were looking to take advantage of growth opportunities, which motivated the construction of our new plant in Little Chute, Wisconsin. This new individually quick frozen (IQF) cheese stick plant should be operational during the 2023 fiscal year. Thanks to this investment, we can produce more of our products, which are experiencing increased demand by our clients in the United States.

Agropur cares about playing an active role in sustainable development processes in the dairy industry. We know that companies need to be part of the solution, and we are working

on supporting this goal with concrete measures. With this in mind, this year we will be presenting our greenhouse gas emission reduction targets.

AGROPUR IS IN GOOD FINANCIAL HEALTH

Agropur's current good financial health has allowed us to focus on the best strategy for getting ahead in the coming years. By transforming this vision into concrete action, Agropur can reinvest in the Cooperative, support growth or acquisition projects and address any future issues. That is what we will continue to do in 2023.

We are planning on being a leader in manufacturing high-quality dairy products for the years to come. This is how our Cooperative can sustainably grow and ensure its bright future, which has been the pride of its 3,000 members and 7,550 employees for 85 years now. All this is possible thanks to the support and commitment of our members and the exceptional dedication of our employees. I want to thank everyone for their trust.

"By transforming this vision into concrete action, Agropur can reinvest in the Cooperative, support growth or acquisition projects and address any future issues."



Many Agropur employees took on the Make-A-Wish / Rêves d'Enfants 48-HOUR RIDE

Our brands, a standard of excellence

Our Cooperative's different brands are strong and appreciated by consumers. We always listen to our consumers' comments and are proud that people enjoy our products daily.

Natrel[®]

OKA

MONSIEUR GUSTAV[™]

AGROPUR Grand Cheddar

L'EXTRA

Central Dairies[®]

Farmers[™]

island FARMS

lucerne.
DEPUIS 1904

Québon



SCOTSBURN[™]

Sealtest

Involved in our communities

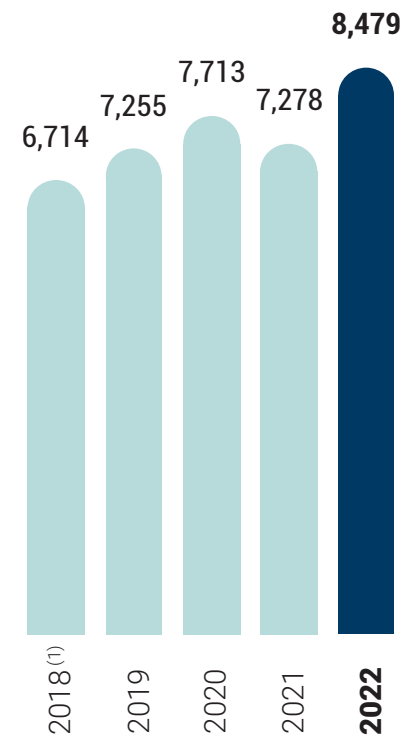
Agropur plays a positive role in its local communities, as well as across North America. We support numerous causes, upholding the values of assisting others and solidarity shared by those who founded the Cooperative 85 years ago.



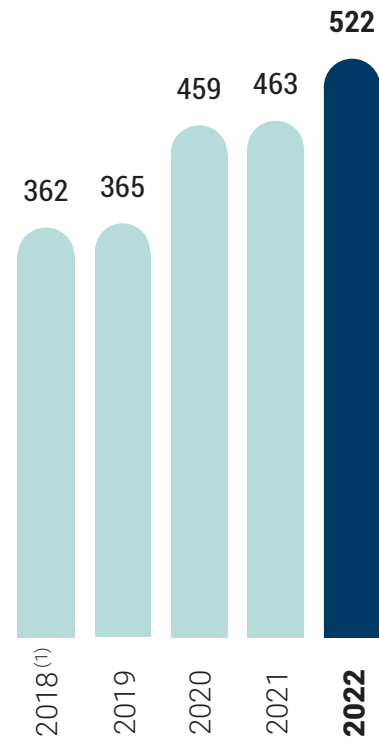
Phomsena family appreciates cooking together

Agropur by the numbers

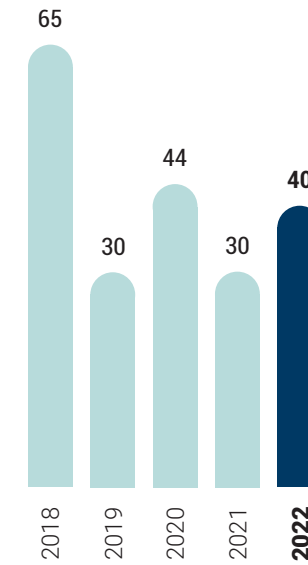
SALES
In millions of dollars



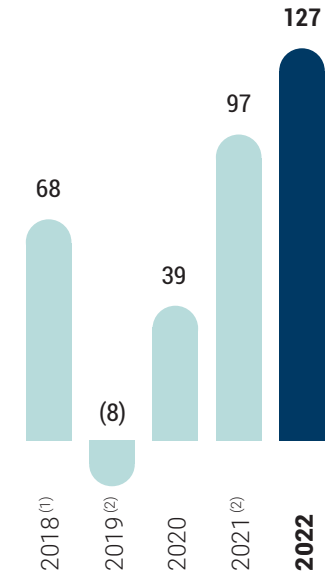
EARNINGS FROM OPERATIONS⁽²⁾
In millions of dollars



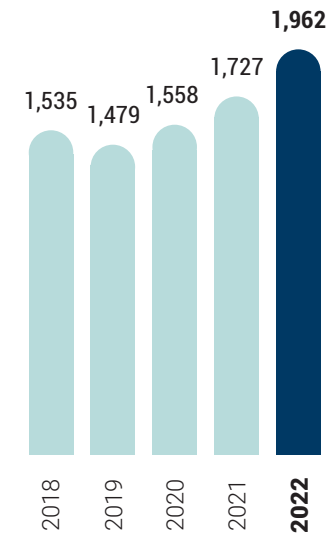
DECLARED PATRONAGE RETURNS
In millions of dollars



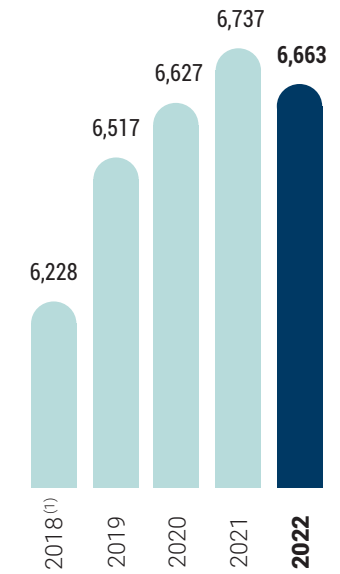
ADJUSTED NET EARNINGS (DEFICIT)⁽²⁾
In millions of dollars



MEMBERS' EQUITY
In millions of dollars



MILK PROCESSED
In millions of litres





Stéphane Tremblay, Senior Vice-President and Chief Financial Officer

MESSAGE FROM THE SENIOR VICE-PRESIDENT AND CHIEF FINANCIAL OFFICER

Financial Review

The Cooperative maintained its growth in 2022. Financial performance continued to improve despite the sale of non-core businesses in 2021. For the third year in a row, earnings before interest, taxes, depreciation and amortization (EBITDA) reached a new high. The strong performance is particularly significant because it was achieved

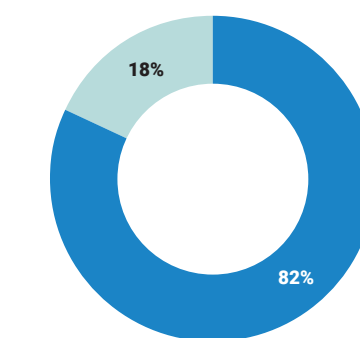
in a turbulent economic environment. A more and more important increase in inflation, higher interest rates, and global labour and logistics issues exerted significant pressure on our earnings. However, the Cooperative was well positioned to face these challenges given the improvement in its financial position over the past three years.

The Cooperative's debt ratio continued to improve and is on track to meet our target. A stronger profitability and a lower debt burden have also allowed to free up cash flow and increase strategic investments in fiscal year 2022.

Markets were generally favourable in 2022. The price of butter increased significantly during the year in the United States. Although the average selling price of cheese rose, the relationship between the cheese prices and the cost of milk was unfavourable. In the international market, the prices of ingredients were also favourable compared with 2021, which led to favourable results in our Canadian and US operations.

Finally, our facilities processed 6.7 billion litres of milk, which is 73.2 million litres less than in 2021. 82% of the milk processed by Agropur in 2022 was used to make cheese, ingredients and butter, and 18% to make fresh dairy products.

MILK PROCESSED BY AGROPUR IN 2022



Cheese, ingredients and butter

Fresh dairy products

The volume of milk processed at our Canadian plants decreased by 4.7% to 2.4 billion litres, due in part to the sale of the yogurt business in February 2021 and a six-week production halt during the strike at the Granby, Quebec plant in the summer of 2022. In the US, processing volume was up 1.2% to 4.2 billion litres of milk, mainly because of an increased volume at the Lake Norden, South Dakota plant.

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 2022 financial statements.

REVIEW OF 2022 FINANCIAL STATEMENTS

Financial results

The Cooperative's consolidated sales reached \$8.5 billion in 2022, a \$1.2 billion or 16.5% increase compared with fiscal 2021. This increase is mainly due to higher prices on both sides of the border, higher sales volumes and the conversion of US revenues into Canadian dollars at a higher rate.

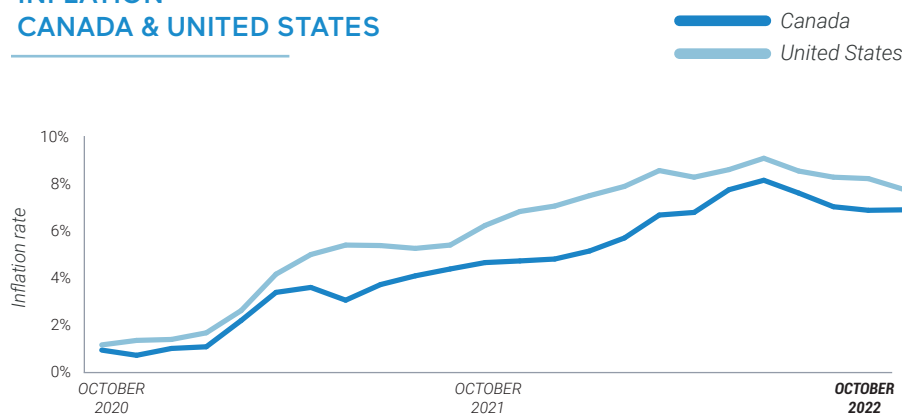
Sales from Canadian operations increased by \$297.5 million or 7.7% in 2022 to reach \$4.2 billion. Canadian sales were boosted by price increases and by higher volume in the butter and ingredients categories. However, the exit from the yogurt business in 2021 has reduced Canadian sales in 2022.

US sales totalled \$4.3 billion, a year-over-year increase of \$908.7 million or 26.7%, due in part to favourable markets and increased ingredients and cheese sales volumes. The Lake Norden plant, where volumes have been growing since the 2019 expansion, was a major contributor to the increase in sales. This growth in volume was in line with our initial forecasts. Consolidated operating earnings or EBITDA reached \$521.7 million in 2022, an increase of \$59.2 million or 12.8% compared with 2021. We are very pleased with this result in view of the external issues experienced during the year. Of these, inflation was the factor having the most impact on our earnings.

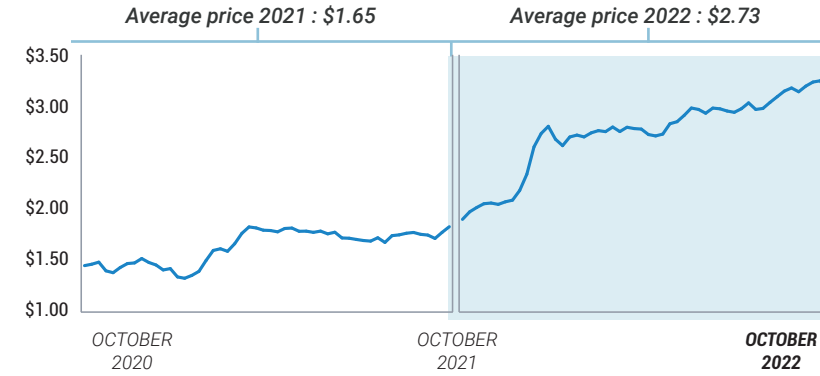
The chart below shows the rise in inflation in Canada and in the United States for the last two fiscal years. The last time inflation reached such a high level was in 1981-1982. To counteract these negative factors, we are stepping up our cost-reduction efforts and focusing on strategic, high-value-added projects. The improvement in the Cooperative's financial position over the past three years has also put it in a better position to face these economic challenges. EBITDA from Canadian operations continued to grow in fiscal 2022, registering an 8.1% increase compared with 2021. Higher volumes and a more profitable product mix in several categories (fresh dairy products, cheese and butter) had a favourable impact on 2022 earnings. The impact of the price increases also contributed to higher earnings.

However, the significant inflation, particularly in the Cooperative's operating costs and inputs, was greater than anticipated. Over the past three years, earnings from Canadian operations have improved steadily and were twice as high in 2022 compared to 2019. Earnings from US operations increased by 18.0% compared with 2021. High prices for dairy ingredients and the contribution of the Lake Norden plant had a positive impact on US earnings. The rising price of butter (up 65% from 2021) also contributed to the US performance. The following graph illustrates this significant increase. Marked inflation and an unfavourable relationship between the price of cheese and the cost of milk had a negative impact on earnings compared with 2021. Global supply chain problems hampered exports and exerted negative pressure on our US earnings. Finally, the appreciation of the US dollar against the Canadian dollar contributed to the increase in US EBITDA when translated into Canadian currency.

INFLATION CANADA & UNITED STATES

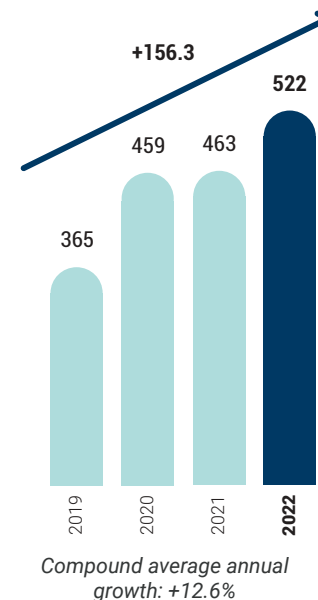


US BUTTER PRICE US\$ / lb



In retrospect, the Cooperative has substantially improved the profitability of its operations since 2019, despite the sale of a number of non-strategic assets during this period. The chart below shows the growth in consolidated EBITDA over the past three years: it rose from \$365.4 million in 2019 to \$521.7 million in 2022, an increase of \$156.3 million or a compound average annual growth of 12.6%.

EBITDA In millions of dollars



The Cooperative's earnings before patronage returns and income taxes totalled \$180.0 million in 2022, an increase of \$40.8 million or 29.3%, excluding extraordinary gains on disposal, net of subsidiaries' taxes, in 2021 for better comparability. The increase was due to the following factors: The depreciation and amortization expense decreased by \$11.2 million or 4.8% to \$220.9 million, mainly explained by the reduction in the asset base following the sale of non-strategic businesses in 2021. However, the appreciation of the US dollar against the Canadian dollar increased the US depreciation and amortization expense when translated into Canadian currency. Restructuring, integration and other non-recurring costs amounted to \$14.7 million. These costs included expenses related to the strike at the Granby plant during the year.

Expenses in the amount of \$13.9 million were recorded in connection with the implementation of cloud-based management systems. Financial expenses decreased by \$8.3 million year-over-year to \$53.8 million. Realized foreign exchange gains and losses generated an \$18.2 million favourable impact in 2022 compared with 2021. Excluding this favourable factor, financial expenses increased by \$9.9 million. As reported last year, we have converted the first preferred shares into bank debt. As a result, financing costs previously paid in dividends are now included in financial expenses. It should also be noted that the key interest rates increased by 3.25% and 3.50% in Canada and in the United States respectively in 2022. We are affected by these rate increases to some degree. However, nearly half of the Cooperative's long-term debt is at fixed rates, thus reducing our exposure to interest rate fluctuations. Our current and much more robust financial position enables us to handle these higher rates. Remember that the \$215.3 million gain on disposal of assets recorded in 2021 mainly reflected the sale of

the Grand Rapids, Michigan plant in the United States and the yogurt and milk hauling businesses in Canada.

Lastly, the income tax expense recorded by our US subsidiaries was \$37.1 million for the financial year.

After reviewing earnings, the Board of Directors declared patronage returns of \$40.3 million, of which \$30.2 million or 75% is to be paid in Class A investment shares and \$10.1 million or 25% in cash.

Consequently, after deducting patronage returns, the Cooperative recorded \$12.5 million in income tax expense. Agropur therefore generated net earnings of \$127.2 million.

Comprehensive income totalled \$253.4 million in fiscal 2022, broken down as follows: net earnings of \$127.2 million plus the items recorded under accumulated other comprehensive income, including a \$20.4 million of unrealized net gain on financial instruments. In addition, a net gain of \$92.2 million was recorded to reflect the impact of the strong US dollar, which had the effect of increasing the value of US net assets when translated into Canadian dollars. These accounting gains and losses will continue to fluctuate with the changes in interest rates and the value of the Canadian dollar relative to the US dollar.

Lastly, the other components of comprehensive income, consisting of net actuarial gains on the defined benefit pension plans in the amount of \$13.6 million, were transferred to the reserve.

Cash flows

Cash flows provided by operating activities totalled \$385.7 million in 2022. Of this amount, operations generated \$492.0 million and \$106.3 million was allocated to non-cash items and repayment of lease obligations. Cash outflows related to non-cash items are mainly explained by an increase in the value of inventories, accounts receivable and accounts payable as a result of inflation and price increase during the year.

With respect to financing activities, \$44.2 million was used to pay interest on long-term debt. Distributions totalling \$55.9 million were made to members, including \$7.5 million of 2021 patronage returns paid in cash and \$48.4 million in redemption of

members' shares and certificates of indebtedness.

Capital expenditures totalled \$347.7 million in 2022, a \$190.0 million increase compared with 2021. Investments made targeted mainly value-added projects. Canadian projects included the addition of a second extrusion line for ice cream bars in Truro, Nova Scotia, the expansion of production capacity at the Ville Saint-Laurent plant in Quebec and an automation and palletization project at the plant in Quebec City. Among all investment projects put into service during fiscal 2022, we invested in a new line of shredded cheese in Woodstock, Ontario, and in the expansion of production capacity for Natrel Plus at the plant located in Quebec City. Construction of our new plant in Little Chute, Wisconsin is the largest current project in the United States. Amounts were also disbursed for global technology projects during the year.

Inflows 2022

In millions of dollars

Operating activities <i>(net of repayment of lease obligations)</i>	386
Total	386

Outflows 2022

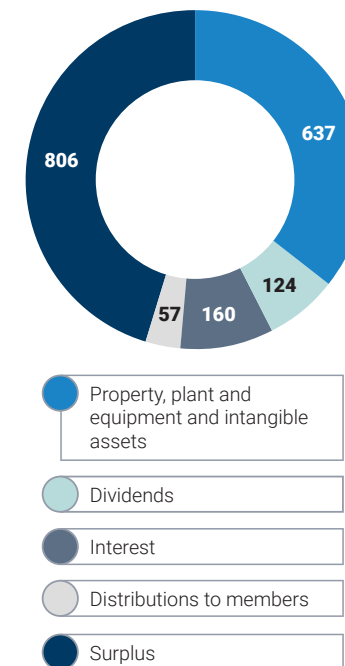
In millions of dollars

Interest	44
Distributions to members	56
Property, plant and equipment and intangible assets	348
Other	2
Total	450

Net change in cash and borrowings: (64)

USE OF FUNDS 2020-2022

In millions of dollars



Over the past three years, cash inflows have totalled nearly \$1.8 billion, including \$544 million in proceeds from disposal. The above chart shows the use of these funds during the period: \$637 million was invested in property, plant and equipment and intangible assets, \$124 million was used to pay dividends on preferred shares (including applicable taxes) and \$160 million for interest payments. A total of \$57 million was distributed to members during the period. The \$806 million excess of inflows over outflows was applied to repurchase first preferred shares and paying down debt. In addition, following the 2022 results, a cash distribution of \$40.3 million will be paid out

in patronage returns and capital redemption during the first months of the fiscal year 2023.

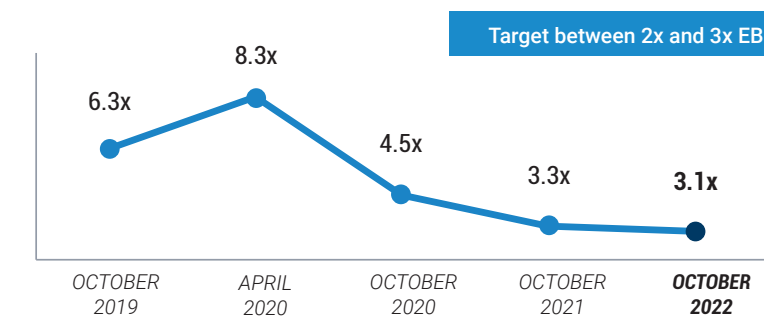
Balance sheet

Assets totalled \$4.7 billion as of October 29, 2022, a \$505.8 million increase from 2021. Liabilities increased by \$270.6 million to \$2.8 billion during the year. The factors that explain these variances were essentially price increases, inflation and the appreciation of the US dollar against the Canadian dollar.

Following an agreement to sell our plant in La Crosse, Wisconsin, the assets and liabilities were classified as held for sale on the balance sheet. This transaction closed on December 8, 2022. An accounting gain realized on this disposal will be recorded in the first quarter of 2023. This transaction will further strengthen our financial position and allow us to focus on our strategic segments. Over the past three years, the Cooperative has significantly reduced its debt level. In 2019, debt was 6.3x EBITDA.

TOTAL DEBT RATIO

Total debt / EBITDA



In 2022, the ratio has decreased to 3.1x. We are very close to reaching our debt target of 2x to 3x EBITDA.

Total members' equity increased by \$235.2 million, totaling nearly \$2.0 billion as at October 29, 2022.

Conclusion

We closed fiscal year 2022 with a significant improvement in earnings. The Cooperative's strong performance and healthier balance sheet put it on a more solid footing to face external challenges. Our people continue to work on initiatives to reduce costs and achieve efficiencies in our processes in order to offset the impacts of factors beyond our control, such as inflation and rising interest rates. We are focusing more than ever on factors on which we have control and on strategic sectors for the Cooperative. We are now well positioned to invest in value-added projects in order to further grow Agropur and ensure its sustainability.

