

Agropur Dairy Cooperative

ANNUAL
REPORT

Proud
ambassador
for our
industry

2015



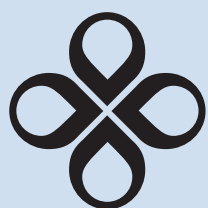


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Agropur can be proud of its rich contribution to the communities where it is present, the reduction of its environmental footprint, and its commitment to human values, which is at the core of its values.

INTRODUCTION

Agropur Proud to give something back

Donations, sponsorships and employee fundraising campaign

Sustainability has been a central theme in Agropur's history. The Cooperative's members and employees are dedicated to its development. In this spirit, the organization is strongly committed to solidarity with those in need and to giving something back to the communities that make up the social fabric of which Agropur is part. Agropur maintained that commitment in 2015 by allocating the equivalent of 1% of its earnings before patronage dividends and income tax to donations and sponsorships for benefit events and organizations that promote the health and well-being of children and families. All the organizations Agropur supports—which include food banks, *Fondation OLO*, the Breakfast Club, and a number of hospital foundations—were carefully selected on the basis of well-defined criteria. They do vital work in their communities and make a difference in people's lives.

The Cooperative's employees share these values rooted in solidarity. Again in 2015, they mobilized and organized local campaigns that raised more than \$78,000 for many organizations through the Employee Fundraising program.

Succession planning

Succession planning is a critical factor for our sustainability; hence the importance we attach to grooming the youths who will be the leaders of tomorrow. Agropur funds numerous scholarships for outstanding students enrolled in college and university programs related to agriculture or food processing in many parts of Canada. Agropur also makes annual donations to several U.S. universities, including the University of South Dakota and the University of Wisconsin.

The Young Cooperative Leaders Program also prepares young people to assume their responsibilities as member/owners of Agropur. Every year, Agropur organizes these training programs, which consist of enriching educational activities related to the cooperative movement, for young dairy producers in each of Agropur's administrative regions. Many participants have benefited from the program over its more than 30 years of existence.

Environment

In recent years, Agropur has developed an environmental management system covering all its sites. The Environment department maintains a regulatory watch and oversees the keeping of legal registers. Environment committees that include members of the Board and of management see to the continuity of the organization's actions and major policies. In 2015, sustained communication efforts raised employee awareness of environmental management at the plants, the need to reduce paper and water consumption, and environmentally responsible management of computer equipment.

Projects are constantly being launched to reduce our operations' environmental impact. For example, the Granby plant has completed a large-scale project that has reduced its potable water usage by one million litres per day. Loss reduction programs are underway at the Edmonton and Burnaby plants.

The new head office is Leadership in Energy and Environmental Design (LEED) certified. The environmentally sustainable building will produce less waste, save energy, use less water and stimulate innovation. It has been built with a view to preserving resources and integrating harmoniously into its environment.



Environmental responsibility

“The pleasure of consuming an Agropur product is accompanied by the satisfaction of supporting environmentally responsible practices.”

In the photo

MAXIME MORIN, MEMBER-PRODUCER,
FERME LÉONARD MORIN ET FILS INC.
(EST DU QUÉBEC REGION) AND HIS SON FRÉDÉRIC

Breakfast Club

“Buying an Agropur product is a way to support the development of thousands of children.”





MESSAGE
FROM THE PRESIDENT



Proud of our choices

Dear members and employees,
We are pleased with our growth and operating results for 2015, which reflect our strong performance. Thanks to the strategic decisions made to safeguard our cooperative's future, our recent acquisitions and investments have increased our revenues and our earnings before interest, taxes and amortization.

Nonetheless, factors that are not under our control, such as the sharp decline in global dairy prices and an extremely competitive market in Canada, have negatively affected our net results.

Hats off to our executive team and managers for our overall results in a difficult context, particularly the significant improvement for Natrel in the United States

and for Ultima Foods, the efficient integration of our acquisitions and mergers and the substantial reduction in our operating costs.

Our mobilization

The year 2015 was also one of mobilization. During the Trans-Pacific Partnership (TPP) talks, we energetically

defended the supply management system, both in the public arena and with various levels of government.

We are convinced that the concessions would have been even greater had we and our members, other partners in our industry and our governments not mobilized around the issue. I am proud of the work that has been done and I want to thank everyone who acted to help influence the federal government to minimize the TPP's impacts on our industry.

Analysis of impacts

In this context, we widely distributed the *Analysis of the potential impacts of the end of supply management on the Canadian dairy industry* prepared by the Boston Consulting Group (BCG). This extremely well-written, serious and credible paper had a significant impact on decision makers and the media alike.

The BCG study demonstrates that dairy production remains largely shored up financially by governments in the main milk-producing nations and that no country has managed to make a success of deregulation without massive intervention on the part of governments.

Contrary to what some may believe, Canadians do not pay more for their dairy products than those in other countries with a similar standard of living. It has been shown that there is no link between lower prices for producers and the prices paid by consumers. Canadian consumers do not pay for their milk twice, once at the grocery store, and once again with their taxes. Canadian consumers pay for their milk at the checkout counter but they don't pay a second time with their taxes as is the case in many other countries.

Canada's supply management system is not subsidized. It provides our dairy farmers with income to cover their costs, and helps preserve the social fabric and spur economic development in our communities. We have a unique system that has stood the test of time.

Trade agreements

When we factor in the TPP and the concessions made to the European Union, the Canadian government will have conceded approximately 5.5% of the Canadian market.

So far, Canada has negotiated free-trade agreements with countries representing 80% of global dairy exports. There are no other negotiations planned with major dairy-producing or exporting countries in the near future, so Canadian dairy industry players have a general idea of what to expect in the years ahead.

With these deals done, the allocation of import quotas under the Canada-Europe Agreement and the TPP must be administered in a way that minimizes the impact on our industry, by granting the quotas to Canadian manufacturers. We have developed Canada's fine cheese industry in harmony with imports. We thus have the necessary expertise to limit the impact that imports of products similar to ours will have on Canadian production and thereby ensure the integrity of our supply management system.

Ingredients strategy

There are still many issues and uncertainties. First, the federal government must quickly take control of its borders, as it has promised to do, and resolve the issue of dairy ingredients that circumvent border controls, such as liquid proteins. The issue is a priority in order to maintain the supply management system and is critical to Agropur and the producers we support in that respect.

At the same time, we are working to implement a national ingredients strategy in Canada that will be a win-win for producers and processors. We must make better use of structural surpluses of skim milk powder for the benefit of producers, while offering these ingredients to processors for their domestic manufacturing. We must agree to a national solution to this national issue.

Outlook

It is comforting to realize that, had we known two years ago what we know today, we would have made the same strategic choices, because they were crucial to guarantee the future and the sustainability of our cooperative.

We knew that expanding our activities in the United States would make us more exposed to market volatility. This requires greater prudence in the management of our business and the use of our cash in order to maintain sound financial health. For this reason, we have decided to limit our capital investments for 2016, to continue to cut costs, and to postpone the redemption of members' capital and certificates of indebtedness.

Market forces being what they are, worldwide prices will eventually rise. Thanks to our mergers and acquisitions, our plant investments, our cost reductions, our high-quality assets, our strong brands and our managers, who are among the most seasoned and well-respected in the market, we are better placed than ever to take advantage of a stronger market when the time comes.

On behalf of the Board, I thank our CEO, Robert Coallier, and his team for their excellent work. I also thank you, our 3,367 members, for your commitment to your cooperative.



Serge Riendeau

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER



Proud of our achievements

Dear members and employees,
Although fiscal year 2015 was highly challenging for us, our achievements of the past few years have positioned us more effectively than ever to ensure our long-term development.

Results

Despite an unfavourable business environment, our results reflect our growth. Sales for 2015 reached nearly \$5.9 billion, up by \$1.2 billion or 26.0% over 2014, while adjusted EBITDA grew by 10.2% to reach \$306 million. Our earnings before patronage dividends and income tax were down 37.6%, however, due primarily to increased amortization and financial expenses related to our recent acquisitions and capital expenditures. At the end of our fiscal year, members' equity stood at \$1.291 billion, an increase of 5.0%.

A significant earnings improvement was reported by Ultima Foods, which recorded positive EBITDA for the first time since the launch of iögo, and by Natrel's U.S. operations. We successfully completed and commissioned the vast majority of our capital projects.

Nevertheless, the decline in global dairy markets was unprecedented, driving down whey powder prices in the United States. Those factors impacted prices and our results, which, although positive, were overall below our expectations.

Faced with that situation, the management team worked tirelessly to offset the shortfalls, enabling us to exceed our cost control objectives.

The U.S. proportion of our revenues was up significantly to 43.8% in 2015, compared with 35.9% in 2014. Without our strategic decisions regarding mergers and acquisitions, we would have posted negative growth in results, and without the profitability of the United States, EBITDA would be down sharply, despite the mergers and acquisitions undertaken in Canada.

Although our financial position remains strong, managing our bank debt is a priority and we are taking concrete steps in that area, including the completion in December 2015 of a second issue of first preferred shares for an amount of \$300 million. Reducing our debt will allow us to pursue our development and maintain our position as a major player in the North American market.

Brands that build customer loyalty

Our brands are an important lever for our growth. We continue to rely on strong brands that attract and keep consumers. In 2015, we continued to invest in our OKA, Natrel and iögo brands. Our OKA sales volume is growing steadily, Natrel has been recognized as the most trusted brand among Canadian dairy products, according to a University of Victoria survey, and iögo has captured market shares of 13% in Canada and 19% in Quebec.

Innovation

Innovation remains the greatest challenge for our industry and for Agropur. We need to think differently, get off the beaten track and be bold. Beyond initiatives like the Natrel Milk Bar by java u or our partnership with the *Boîte à Fromages* food truck, we need to view innovation from another perspective. We are introducing new processes to allow us to carve out a place in the markets and set ourselves apart in the eyes of consumers.

Cost control

In 2012, we set an objective to reduce our costs by \$75 million by 2015, and we have exceeded that objective, with savings on an annualized basis of \$84 million. In 2016, we will seek further synergies by launching a new three-year cost-reduction program.

In addition, our recent investments have established a solid foundation for us going forward. For instance, in 2015, we improved our OKA cheese production capacity. In our U.S. plants, we increased feta cheese capacity by 30% and tripled our mozzarella capacity. We also completed the projects at our Lethbridge, Alberta and Saint-Hyacinthe, Quebec plants, as well as the aseptic product line in Bedford, Nova Scotia.

Last but not least, we completed Phase 1 of our ERP project to standardize our computer platforms and processes under a single solution.

Our human capital

With the implementation of new organizational structures in the U.S. and Canada, we will be able to better serve our customers, while generating significant savings and synergies.

As we move into our new head office, we are confident that this exceptional environment will help us attract and retain the best talent and optimize cooperation among our teams.

Further, we have entered into long-term agreements with our employees at a number of processing sites, establishing positive conditions that will allow us to continue our development in a stable working environment.

National and international development

In 2015, we completed the transaction with Northumberland in New Brunswick and the acquisition of Sobeys dairy assets in Western Canada. The five new plants are helping us to achieve our objective of establishing a nation-wide presence and put us in an excellent position to meet the needs of our domestic customers. The year 2015 was also in large part dedicated to consolidating and integrating the merger and acquisitions carried out in 2014 and 2015 and to making significant investments in our manufacturing infrastructure. We are thus preparing the organization for its next phase of development.

Conclusion

We remain confident that our strategic choices are sound and are proud of our achievements. Developing our U.S. presence is critical. Our assets are solid and state-of-the-art. We have competent, motivated employees. We are pressing ahead with work to increase loyalty to our brands and thus become a go-to name, making us less vulnerable to prices.

We are hoping for a market recovery, and when it does come we will be in a position to take advantage of it, realizing the full potential of our choices.

I sincerely thank the members of the Board of Directors and our President, Serge Riendeau, for their confidence and advice. I also thank the members of the management team for their collaboration and dedication. My thanks as well to all our employees in Canada and the U.S. for their sense of initiative and their commitment.



Robert Coallier

BOARD OF DIRECTORS



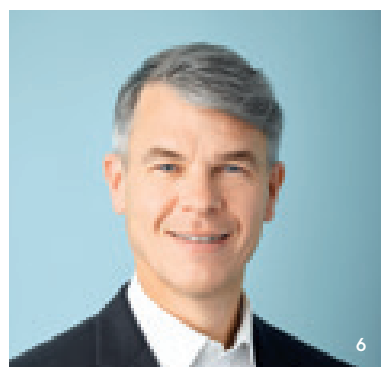
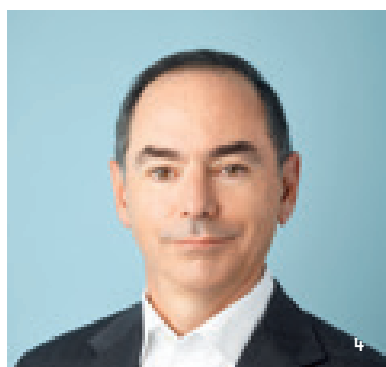
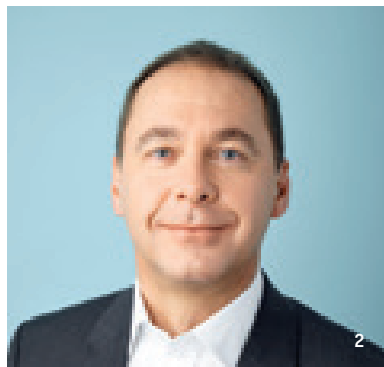
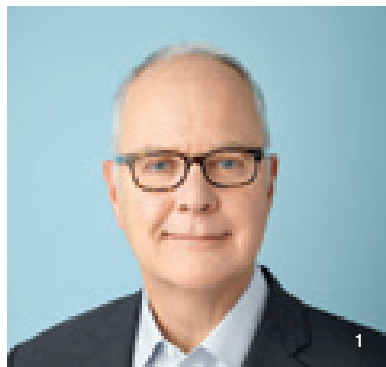
1 **SERGE RIENDEAU** President, presented and elected by universal suffrage 1991 | 2 **RENÉ MOREAU** Vice-President, Nicolet-Bois-Francis 1998 | 3 **JEANNIE VAN DYK** Vice-President, Atlantic 2013 | 4 **MICHEL COUTURE** First Member of the Executive, Chaudière-Appalaches 2001 | 5 **CÉLINE DELHAES** Second Member of the Executive, Laurentides-Lanaudière 2011 | 6 **ROGER MASSICOTTE** Third Member of the Executive, Mauricie-Portneuf 2003 | 7 **ROGER BEAULIEU** Est du Québec 2014 | 8 **STÉPHANIE BENOIT** Presented and elected by universal suffrage 2015 | 9 **CLAUDE CRESSIER** Érabie-Seigneuries 2015

Legend: Director's name, administrative region and year of election to Board

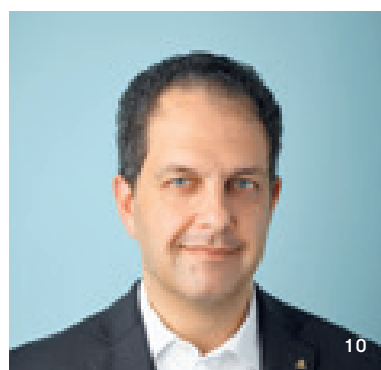
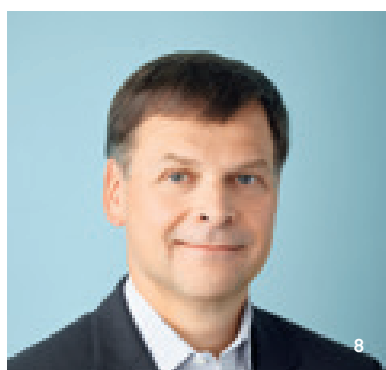


10 JEAN FILIATRAULT Montérégie 1993 | **11 ALAIN FORGET** Laurentides–Lanaudière 2014 | **12 DARIE GAGNÉ** Chaudière–Appalaches 1997 | **13 JEAN-PIERRE LACOMBE** Salaberry–Richelieu 2007 | **14 VALÈRE LIEUTENANT** Estrie–Granby 2012 | **15 VITAL VOULIGNY** Nicolet–Bois-Francs 2007 | **16 RALPH BALLAM** Guest member of the Board 2013 | **17 SUZANNE BLANCHET** Guest member of the Board, the Human Resources Committee and the Environment Committee 2015 | **18 JIM WALKER** Guest member of the Board 2014

SENIOR MANAGEMENT COMMITTEE



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 SERGE PAQUETTE President, Canada Operations, Agropur Cooperative
5 DOUG SIMON President, U.S. Operations, Agropur Inc.
6 DOMINIQUE BENOIT Senior Vice-President, Institutional Affairs and Communications | **7 PIERRE CORRIVEAU** Senior Vice-President, Human Capital
8 SERGE FORTIER Senior Vice-President, Information Technology
9 NICOLAS MARIE Senior Vice-President, Strategic Sourcing and Development
10 BENOÎT ZOLNAÏ Senior Vice-President, Operational Excellence and Quality



A Cooperative's success is seen in the well-being of the people who are part of it. Agropur achieves its objectives by creating a conducive climate for the success of the entire organization.

BRAND STRATEGY

Proud of our strong outstanding brands

In 2015, Agropur decided to act more boldly and take its brand strategy to the next level, while maintaining its focus on its strong, respected brands and better balancing them with copacking activities.

Capital expenditures and partnerships

Capital expenditures and marketing efforts to support our flagship OKA, Natrel and iögo brands continued during the year and delivered the expected results. In line with its new leave-the-beaten-path approach, Agropur tested new concepts, such as the partnership with java u coffee shops.

During the year, we continued making substantial capital expenditures to increase our OKA cheese production capacity. Our investments of the past two years have helped boost sales volumes significantly. Sales of OKA have been stimulated by a major advertising campaign, which has proved highly successful. We have also formed a partnership with the *Boîte à Fromages* food truck to sell our iconic OKA brand. Fans of the truck can follow its daily movements around Montreal on Facebook.

The positive effects of the Natrel brand repositioning continue to be felt. With its modern new image, Natrel has been able to differentiate itself from its competitors and its mindshare continues to grow, resulting in increased buying intentions among consumers and non-consumers alike. Natrel Lactose Free has continued making strides and is strongly positioned in the marketplace.

The Natrel brand's high profile in Canada was confirmed by a survey conducted by the University of

Victoria in British Columbia, which found it to be the most trusted Canadian dairy brand.

Building on its reputation for excellence, Natrel joined forces with java u, a coffee shop chain popular with fans of specialty coffee, to offer patrons a unique experience. The Natrel Milk Bar by java u offers the Natrel product line (lactose free, fine filtered, organic, etc.), presenting Natrel as a quality brand that adapts to patrons' tastes and preferences. Natrel Milk Bar by java u is part of the trend towards brands offering a unique experience that is at once flexible and simple.

iögo, another brand in which we have invested heavily since launch, had an excellent year. Its continuing progress in the marketplace was driven by dynamic and diverse promotional activities and the introduction of new products that meet the needs of young and old alike. The iögo brand increased its market share to 19% in Quebec and 13% in Canada as a whole, lifting our Ultima Foods joint venture into the black.

New products

Our leading brands launched a raft of new products in 2015. Many were extensions of our existing product lines. Launched in the spring under the Natrel brand, Snack comes in two flavours. Its high protein content makes it the ideal nutritional snack. During the same period, Natrel brought to market two new iced coffee flavours and in September it added a delicious Caramel Latte flavour with only 1% fat to its flavoured milk line. Brand-new Natrel butter made with sea salt appeared on the shelves and in the refrigerators of Quebec and

Ontario consumers in August. As always with Natrel products, the taste is exquisite.

The latest addition to the OKA cheese family, OKA L'Artisan Smoke, is a response to the growing popularity of smoked products. Long-ripening OKA Frère Alphonse and Maillon Fort, a soft cheese inspired by specialty French Bries, were also launched in 2015. They are available in specialty shops at certain times of the year, such as Easter, Quebec's national day and the holiday season.

Among other things, Ultima Foods introduced three new iögo products. Nano in a pouch, launched in May, lets kids enjoy their favourite yogurt with no spoon and no mess. It was followed by iögo Protein and iögo Smoothie, which hit the Canadian market in August. Ultima Foods also launched an organic kefir under its Olympic brand in spring 2015.

Awards

Our products win recognition for their quality year after year, and 2015 was no exception. Once again, our cheeses distinguished themselves in prestigious competitions, winning numerous awards including first-place finishes by Brie Notre-Dame, Champfleury and Brie Chevalier (made in Saint-Hyacinthe, Quebec) at the British Empire Show; by cheeses made in Weyauwega and Luxemburg, Wisconsin and Lake Norden, South Dakota at the United States Championship Cheese Contest; by Champfleury at the American Cheese Society competition; and by Agropur Grand Cheddar (made in Notre-Dame-du-Bon-Conseil, Quebec) and OKA L'Artisan (made in Oka, Quebec) at the *Sélection Caseus* contest.

Natrel

Québon

Sealtest

**island
FARMS**

Farmers



**Central
Dairies**

OKA

AGROPUR
Grand Cheddar
CANADIAN RESERVE™



Allegro

FROMAGES FINS
.ANCO.
FINE CHEESE



Damafro

biPro
FROMAGE FINE FONDUE FONDUE FONDUE FONDUE FONDUE

PZ-44

ISO CHILL

Dairytown
"the heart of dairy country"



iögo





Boîte à Fromages Food truck

“I know that when I choose Agropur, I am supporting a dairy farmer.”

In the photo

ALEXANDRA BONNET, OWNER OF BOÎTE À FROMAGES
PATRICIA BOURQUE, AGROPUR EMPLOYEE,
AND JEAN-MARC POIRIER, MEMBER-PRODUCER,
FERME FRANORD INC. (SALABERRY-RICHIEU REGION)





A

OKA Cheese

- o Volume up by more than 50% in 2 years
- o Partnership with Boîte à Fromages food truck in the streets of Montreal
- o Increased exposure propelled by OKA-based recipes



B

NATREL Milk

- o Increased buying intentions
- o “Most trusted Canadian dairy brand,” according to a consumer survey by the University of Victoria in British Columbia
- o Partnership with java u to offer patrons a unique experience at 21 locations



C

IÖGO Yogourt

- o Increased market penetration driven by dynamic promotional activities
- o New products that meet consumer needs
- o Market share: 19% in Quebec and 13% in Canada



D

BIPRO Protein

- o Innovative product and marketing
- o Higher level of protein purity than any comparable product (over 95%)
- o BiPro will soon introduce new products to meet consumer needs and demand

Natrel Milk Bar by java u

“Java u lets me choose from
a selection of quality
Natrel products to create
a unique latte.”



INNOVATION

Proud to anticipate consumers' needs

Innovation was identified in 2012 as one of the key pillars for Agropur's future development. To date, innovation has received less attention than the other pillars but it will be a crucial component of our strategies in the years to come. Innovation means much more than extending our existing product line. The following initiatives are good examples of the path we must take.

We need to innovate in our processes, our capital expenditures, our marketing and our partnerships to launch products that will revolutionize the industry.

Our flagship OKA brand

To achieve its ambitious growth targets for OKA cheese, Agropur spent \$45 million on a marketing campaign and on modernization of the equipment at its Oka plant. A new line was installed during the year and commissioned in October. Moulding, demoulding and mould handling are now fully automated on the state-of-the-art line. We successfully met the greatest challenge: to modernize the equipment without altering the authentic flavour of OKA cheese.

Strong potential for alpha-lactalbumin

The investments made in our Jerome, Idaho plant are another compelling example of innovation. A cutting-edge project, based on advanced engineering and scientific expertise, increased by ten the plant's alpha-lactalbumin production capacity. It makes the purest alpha-lactalbumin in the world. Alpha-lactalbumin, a cow's milk protein isolate, was put together by the development team at our acquired Davisco business.

It is the protein that is closest to the protein in human milk, which is essential to nursing infants. This high-quality product positions us to form partnerships with customers

to develop, among other things, a new generation of preparations for infants. Our Protein Technology Centre in LeSueur, Minnesota used next-generation technology to achieve the spectacular results.

Innovative marketing

Today, in addition to meeting consumers' needs, products must be supported by a wide range of online promotional activities, including contests, recipes, interaction with consumers, etc. Increasingly, consumers are not satisfied with simply purchasing a product; they expect a different experience and they want to know about the provider of the product and its values. Businesses must therefore adapt to the concerns, needs and demands of a new generation of consumers.

The Natrel Milk Bar by java u is a case in point. It doesn't just offer consumers milk; it serves up a variety of high-quality milk products to provide a unique coffee experience. Both the customer experience and Natrel's exposure benefit.

The development and marketing of BiPro are another example of innovation. BiPro, made at the LeSueur, Minnesota and Jerome, Idaho plants, is a premium-quality whey protein isolate that is popular with customers such as professional athletes because of the peerless purity of the protein (over 95%). The marketing approach is unusual in that BiPro can be purchased only online on the BiProUSA site or Amazon. It currently comes in powder form (flavoured or plain) and will soon also be available in ready-to-drink beverages and protein bars to meet consumer demand.

COST LEADERSHIP

Proud of our winning business model

COST LEADERSHIP

Cost leadership was identified in the Agropur 2015 strategic review as one of the keys to our organization's growth. In light of that analysis, several projects have been carried out over the past three years. The annual savings target of \$75 million set in 2012 was reached and exceeded during the past year with annualized savings of \$84 million, enabling us to stay competitive in a tough market environment. Having completed our first cost-reduction program, we will launch a new three-year program in the near future.

Capital expenditures and activities

Major capital expenditures were made at the Weyauwega, Wisconsin plant to double its feta production capacity. Work is well advanced and the line could be commissioned in the spring of 2016. Other capital projects are underway at the Luxemburg and Little Chute plants to further increase their capacity. Capital expenditures were also made in 2015 to modernize the Oka, Lethbridge, Quebec City and Saint-Hyacinthe plants and increase their capacity.

A new laboratory has been built in Saint-Hubert, Quebec on the site of the new head office, which is nearing completion and will begin welcoming employees in early 2016.

In connection with the reorganization and optimization of some of its operations, Agropur announced in the second half of the year that two of its plants will close—Saint-Bruno, Quebec in the spring of 2016 and Chilliwack, B.C. in the fall of 2016—and their production will be transferred to other facilities in the same regions. The move will help optimize Agropur's operations.

In February 2015, we implemented phase 1 of our Enterprise Resource Planning (ERP) project, which harmonizes our IT platforms and brings all our processes together in a single tool. The scale of this colossal project exceeds that of any previous integration effort at Agropur.

Purchasing was also consolidated across the organization to enable knowledge-sharing, closer contact with suppliers, and leveraging of our buying power.

Finally, towards the end of the financial year, we announced a major transformation of our structure with the creation of a consolidated Canadian operating unit, which eliminates all the former divisions and business units that had made up Agropur's Canadian operations. This transformation will give the organization greater operational agility at every level. Significant synergies will result, allowing for the standardization of our processes and the adoption of best practices. We will continue to emphasize quality while strictly controlling our costs.

Saint-Hyacinthe plant

“Agropur’s experienced
staff and modern
facilities guarantee products
of the highest quality.”

In the photo

DAVID POIRIER AND NATHALIE BEIL,
AGROPUR EMPLOYEES



Morin family

“To be a member of Agropur means being part of a family of 13,000 producers and employees, all of whom are as passionate as me.”

In the photo

MAXIME MORIN AND CAROLINE LEPAGE, MEMBER-PRODUCERS, FERME LÉONARD MORIN ET FILS INC. (EST DU QUÉBEC REGION), AND THEIR CHILDREN ANNABELLE, FRÉDÉRIC, ALEXANDRE AND ROXANNE, ACCOMPANIED BY HÉLÈNE ROY AND ALAIN GAGNÉ, AGROPUR EMPLOYEES





HUMAN CAPITAL

Proud to provide a stimulating work environment

Transformation of the organizational structure

Many internal changes have been made in recent years to build Agropur into an industry leader. Among other things, its structure has been transformed to boost efficiency and agility, increase the organization's success and become more responsive to the specific needs of the Canadian and U.S. markets.

First, Doug Simon was appointed President of U.S. Operations, Agropur Inc. in June 2015. Mr. Simon now heads the Cheese and Ingredients segment as well as the acquired Davisco operations. His mission is to continue growing Agropur in the U.S. market and optimize operations. The new structure will be finalized in the coming months.

In Canada, we all know that we are working in a fast-changing market environment. Given increased competition in the industry and the ongoing proliferation of new options for consumers, we must constantly strive to improve our positioning in order to remain a Canadian dairy industry leader.

The analysis conducted in recent months has led us to redefine our Canadian market approach and bring together our operations in Canada. Serge Paquette has been appointed to head the new structure. All Canadian divisions and business units have been brought together in the new unit, which now includes all the operations of our milk, fresh products, frozen products, cheese and ingredients businesses. This transformation enables us to offer our customers a single, fully integrated product portfolio and to implement a customer-centric approach supported by closer proximity.

These new structures and approaches will have positive impacts on all our segments

and operations, including better leveraging of our brands, optimization of synergies in our plants and in sales and marketing, application of best practices and greater emphasis on innovation.

Agropur will also provide a stimulating, motivational working environment for employees, promote talent development and offer attractive opportunities for advancement.

Succession planning

Human Capital implemented a new best-practices-based program to identify and groom future leaders in order to ensure Agropur's sustainability. After pilot projects conducted in five different sectors, the necessary adjustments were made to the approach and the tool. The program is now ready to be deployed across the organization.

Evolution project

Major growth-driving projects launched in 2015 included Evolution, which was implemented at the Victoria, B.C. and Notre-Dame-du-Bon-Conseil, Quebec plants.

The process revolves around employee ownership of performance, development of management skills and efficiency improvements in the work groups.

Performance indicators and work standards are being applied in order to improve efficiency in the plants and distribution centres and promote a culture of performance.

This vital project will improve Agropur's results across the board and help it position itself advantageously in the marketplace. The Evolution project will be deployed throughout the organization in 2016.

Health and safety (H&S)

After an increase in the composite frequency of industrial accidents in 2013-2014, our health and safety record improved in 2015.

A major harmonization effort was carried out across all Agropur sites, particularly with respect to the prevention program, which promotes a "zero tolerance" approach to risk, and the program to recognize safe behaviours.

There was also a strong focus on implementing a more participatory occupational health and safety structure that gets employees and committees involved in searching for solutions so as to constantly improve safety programs.

New head office

In February 2016, the new Agropur Campus, currently under construction in Saint-Hubert, will welcome employees from Agropur administrative services now located in Saint-Laurent, Granby and Longueuil, as well as Ultima Foods employees. They will enjoy a modern working environment with state-of-the-art technology and carefully arranged work spaces that promote collaboration, communication and synergies.

Investment

“Our successes come back
to the local community.”

In the photo

MAXIME MORIN AND CAROLINE LEPAGE,
MEMBER-PRODUCERS, FERME LÉONARD MORIN ET FILS INC.
(EST DU QUÉBEC REGION)

NATIONAL AND INTERNATIONAL DEVELOPMENT

Proud to position
the organization for
the future

2015 was a year of consolidation and integration of our latest acquisitions. In the wake of the major transactions of the previous year, it was necessary to take the time to properly integrate them.

Those transactions enabled us to achieve our targets and stay on course despite difficult market conditions.

Without the contribution of the merger and acquisitions, we would have suffered a serious setback in 2015.

The merger with Dairytown kept the organization in the hands of producer/members and helped ensure our Cooperative's sustainability. It also increased our processing and distribution capacity, enabling us to better serve our customers nationwide.

The Davisco acquisition endowed us with an international network and extensive expertise in ingredients. As a result of that acquisition, Agropur is now one of the five largest manufacturers of cheese and ingredients in the U.S.

The acquisition's contribution to diversifying our product portfolio and increasing our presence in the U.S. will be an invaluable asset for Agropur's future development.

In 2015, the acquired ingredients operations were fully integrated into our ingredients business in order to share best practices and capture valuable synergies. The combination also enables us to bring a unified offering to market.

The acquisition of Sobeys' dairy assets, which closed in late March 2015, hoisted us to an industry-leading position in Canada. The transaction also enabled us to expand Natrel's presence in western Canada and introduce the brand to the Alberta, Saskatchewan and Manitoba markets. We quickly and successfully implemented our financial systems and trained the users.

The acquisition of Northumberland's dairy assets, closed at the beginning of our fiscal year, strengthened our new position in the Atlantic region, increased our ability to serve our customers nationally, and kept dairy processing assets in the hands of Canadian dairy producers.

Sharing our success

“Agropur’s development
benefits many communities
across North America.”

In the photo
SAINT-HYACINTHE PLANT

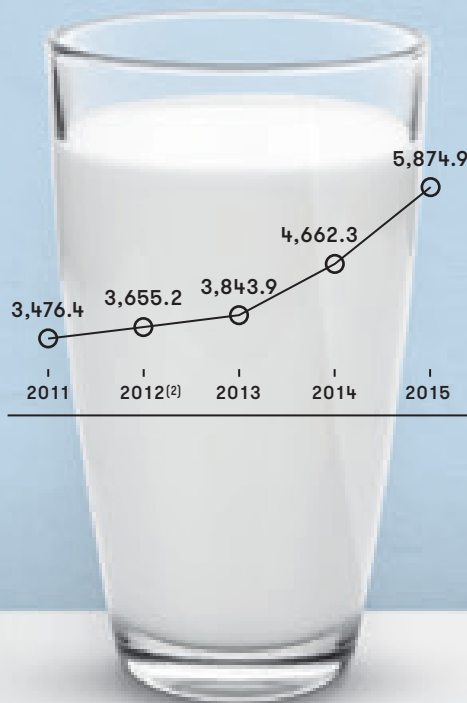


FINANCIAL REVIEW

HIGHLIGHTS

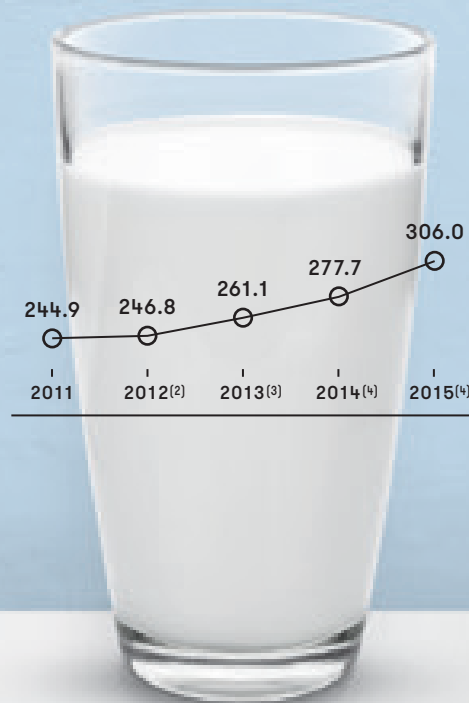
Sales

[IN MILLIONS OF DOLLARS]



EBITDA⁽¹⁾

[IN MILLIONS OF DOLLARS]



(1) Earnings before interest, income taxes, depreciation, amortization, restructuring costs, integration and other non-recurring costs and joint ventures.

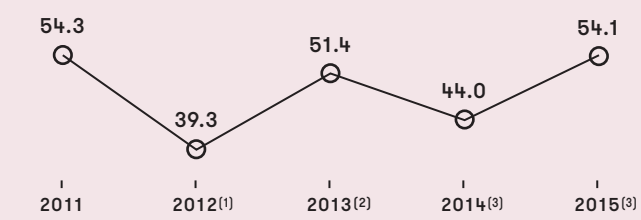
(2) Fiscal year including 53 weeks.

(3) Restated to reflect the adoption of the revised employee future benefits accounting standard.

(4) Excluding the impact of Davisco's inventories accounting treatment.

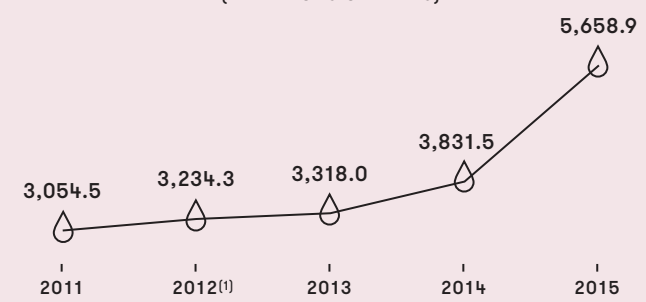
Net Earnings

[IN MILLIONS OF DOLLARS]



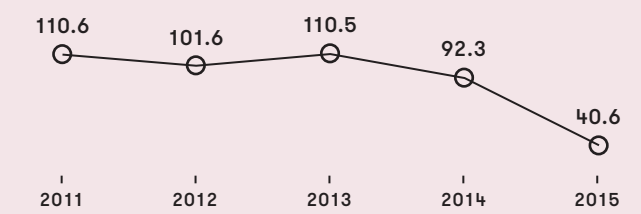
Milk Processed⁽⁴⁾

[IN MILLIONS OF LITRES]



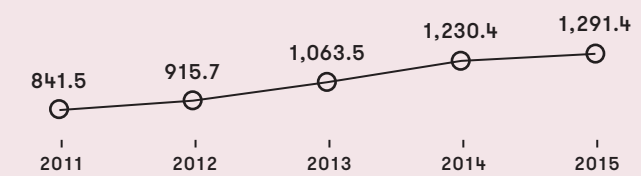
Patronage Dividends

[IN MILLIONS OF DOLLARS]



Members' Equity

[IN MILLIONS OF DOLLARS]



⁽¹⁾ Fiscal year including 53 weeks.

⁽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 of income taxes.

⁽⁴⁾ Milk processed includes joint ventures.

MESSAGE FROM THE SENIOR VICE-PRESIDENT AND CHIEF FINANCIAL OFFICER



Proud of our growth

The year 2015 was marked by significant growth in our operations, and we exceeded our cost reduction target. The year was also characterized by particularly challenging international dairy markets, a highly competitive Canadian market, and the lower Canadian dollar.

Consolidated sales increased 26.0% during the fiscal year to settle near \$5.9 billion. This substantial growth came mainly from the merger and acquisitions carried out in 2014, which contributed for a full year in 2015, as well as from those completed in 2015, namely Sobeys' dairy processing plants and the dairy assets of Northumberland Dairy. Major investments made in our plants during 2015 and in previous years also

contributed to our growth. The most significant project was the increase in production capacity at our Luxemburg, Wisconsin plant. Therefore, the consolidated volume of processed milk rose to 5.7 billion litres in 2015, compared to 3.8 billion litres in 2014, a 47.7% increase.

With respect to the dairy markets, global whey prices fell sharply during the year and cheese block prices in

the United States were also down substantially from their record high in September 2014. These reductions had a significant impact on profitability. As a result, part of the growth-related gains was offset by the challenging markets.

The cost reduction target, which was set at \$75 million three years ago, was exceeded. As a result of all the initiatives carried out in this project, we recorded savings of \$84 million on an annualized basis.

Important events during the year included the issuance of first preferred shares for a total of \$470 million, the announcement of two plant closures, one in Saint-Bruno, Quebec and the other in Chilliwack, British Columbia, the successful implementation of Phase 1 of the Enterprise Resource Planning (ERP) system, and major structural changes in Canada and the United States.

Business combinations

This year, Agropur continued its development plan by finalizing two acquisitions which were announced in 2014. On November 10, 2014, our Cooperative completed the acquisition of the dairy and food distribution assets of Northumberland Dairy Cooperative, located in New Brunswick. This transaction was in line with Agropur's intention to perpetuate the cooperative movement and to continue to play a prominent role in dairy processing in Canada.

Agropur then acquired four dairy processing plants from Sobeys in Western Canada. The purchase price allocation for this acquisition will be finalized in 2016. This transaction enables us to serve our customers from coast to coast in Canada and positions Agropur as a leader in the Canadian dairy industry.

Governance

The financial statements were prepared in accordance with International Financial Reporting Standards and were reviewed by the Audit Committee. As recommended by the Committee, the Board of Directors approved the 2015 financial statements.

Review of the 2015 financial statements

Earnings

Sales for 2015 totalled almost \$5.9 billion, a 26.0% increase compared to 2014.

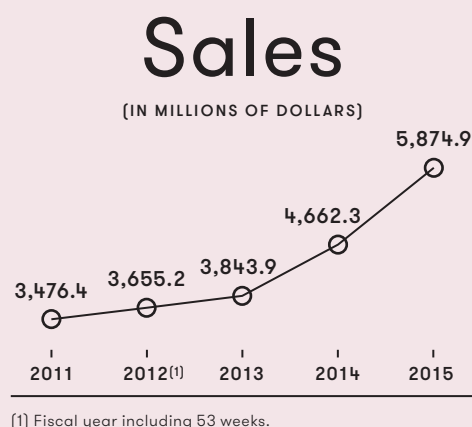
The recent merger and acquisitions, namely those involving Dairytown, Davisco, Northumberland and Sobeys' dairy assets, contributed 97.7% of this increase. Regarding external factors, the foreign currency translation of sales from our U.S. operations into Canadian dollars had a 14.1% impact on the sales increase. However, the decline in dairy product prices on the

international market and cheese prices in the United States, combined with a highly competitive Canadian market exerting pressure on prices, resulted in a 5.4% decrease in our sales compared to the previous year.

The Cooperative's Canadian operations generated sales of \$3.3 billion, compared to \$3.0 billion in 2014. More specifically, the cheese division's sales increased by 2.2% compared to the previous year, to reach almost \$1.4 billion. This growth was due, among other things, to the contribution of Dairytown, merged in 2014, as well as to an increase in the volume of milk processed, which rose particularly in Quebec. As for the milk division, which became stronger due to the recent acquisitions of Northumberland and Sobeys' dairy assets, its sales amounted to \$1.9 billion compared to \$1.6 billion in 2014, a 15.9% increase. On the other hand, the fierce competition in the Canadian dairy market continued to exert downward pressure on pricing. This was reflected in the efforts we had to deploy in order to maintain our position in this market.

As for the U.S. operations, sales totalled \$2.6 billion, an increase of 55.8% compared to the previous year. More specifically, sales from the cheese division were up \$0.9 billion, or 63.4%, to total \$2.3 billion in 2015. This growth can be explained mainly by Davisco's full year contribution in 2015, compared to a single quarter in 2014. Another factor is the full year contribution from the cheese plant investment project in Luxemburg, Wisconsin, which was completed in June 2014. Therefore, the volume of milk processed in the United States rose from 1.8 billion litres in 2014 to 3.3 billion litres in 2015. The significant growth in U.S. sales, however, was negatively impacted by the weakness of the market. In fact, the American cheese block price fell by roughly 24% on average in 2015 compared to 2014. The drop in international whey powder prices also reduced our U.S. sales. These two market factors alone contributed to a negative impact of \$228.2 million on the cheese division's sales. The U.S. milk division's sales totalled \$258.0 million, a 9.5% increase. Overall, the translation of sales from our U.S. operations into Canadian dollars contributed about \$171.0 million to the increase in sales. For 2015, 43.8% of consolidated sales were generated by the United States, compared to 35.9% in 2014.

The following chart presents the change in consolidated sales over the past five years. Sales reached \$5.9 billion in 2015, compared to \$3.5 billion in 2011, an increase of almost 69.0% or 14.0% on average per year. This growth is mainly due to the merger and acquisitions carried out during the period, as well as the increased production capacity resulting from our numerous investment projects.



Earnings from operations, or EBITDA, reached \$295.1 million, up \$26.8 million or 10.0% compared to the previous year. Several significant non-recurring costs were recorded during the year, including the cost of the plant closures announced, the major restructuring of some operations, plant integration costs, and other costs for the recent business combinations. These extraordinary and non-recurring costs are therefore excluded from the EBITDA presented. For comparability purposes, non-recurring costs for the previous year were isolated and 2014 EBITDA was adjusted accordingly. As in the last year, operating earnings include the impact of the recognition of Davisco's inventories at the time of acquisition. Accounting standards specify that, in a business acquisition, inventories acquired at the time of the transaction must be recorded at their fair market value instead of manufacturing cost. Consequently, a lower margin was recorded on Davisco products when they were sold in the months following the acquisition. It should also be mentioned that this accounting treatment has no impact on cash flows. Without the impact of the recognition of Davisco's inventories at fair market value, EBITDA would have been \$277.7 million in 2014 and \$306.0 million in 2015, a 10.2% increase. This growth was mainly attributable to the recent business merger and acquisitions, which contributed a total of \$71.5 million. Various business projects undertaken in recent years also participated in the growth of EBITDA.

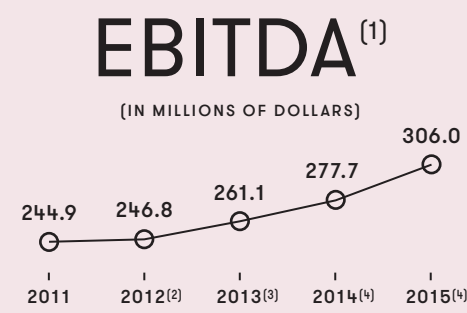
EBITDA from Canadian operations was down 18.5% compared to 2014. Both the cheese and milk divisions were affected by market-related factors. The decline in global whey prices and the fierce competition which exerted a downward pressure on prices had a major impact on our Canadian earnings. These two factors contributed to a decrease in EBITDA of 18.2% from the previous year. However, this reduction was partially offset by the contribution of the economic projects undertaken. Various initiatives, including operational excellence and

optimization of our supply and distribution network, increased EBITDA by \$18.7 million. Finally, the recent merger and acquisitions of Dairytown, Northumberland, and Sobey's dairy assets provided positive contributions.

On the U.S. side, EBITDA was up 77.9% compared to 2014. This growth is due in part to the full year contributions from Davisco and the Luxemburg, Wisconsin cheese plant. However, the cheese division was strongly affected by market imponderables. The relation between cheese block prices and the cost of milk, along with the declining international price of whey products, had a negative impact on EBITDA for U.S. operations. When these factors are combined with the favourable effect of the lower Canadian dollar, our earnings were negatively impacted by \$17.6 million. It should also be noted that our U.S. milk division delivered an excellent performance. Operational improvements, favourable prices, and a customer and product mix that generated better profitability accounted for the improved performance.

On a consolidated basis, without the impacts of dairy market factors and the decline of the Canadian dollar, our 2015 EBITDA would have been about \$50.4 million higher, to reach \$345.5 million, a 28.8% increase compared to 2014. In spite of more volatile and challenging markets this year, Agropur was able to grow its earnings from operations, which confirms the relevance of our growth strategy.

The following chart illustrates the changes in consolidated EBITDA over the past five years. The EBITDA presented for 2015 and 2014 have been adjusted to reflect the impact of accounting for Davisco's inventories and do not include non-recurring costs. Therefore consolidated EBITDA rose from \$244.9 million in 2011 to \$306.0 million in 2015, up \$61.1 million or 5.7% on average per year.



(1) Earnings before interest, income taxes, depreciation, amortization, restructuring costs, integration and other non-recurring costs and joint ventures.

(2) Fiscal year including 53 weeks.

(3) Restated to reflect the adoption of the revised employee future benefits accounting standard.

(4) Excluding the impact of Davisco's inventories accounting treatment.

From EBITDA before non-recurring costs, we deducted a depreciation and amortization expense of \$145.3 million, up \$55.3 million compared to 2014. This is essentially due to the larger asset base from mergers and acquisitions, investment projects to maintain our growth, and the impact of the exchange rate. We then deducted costs related to restructuring, integration and other non-recurring costs, which amounted to \$23.3 million. Financial expenses were up \$32.5 million, mainly as a result of interest paid on the term loan contracted to finance our recent acquisitions. Included in 2015 were twelve months of expenses for the term loan, compared to only three months in 2014. Furthermore, since the term loan is denominated in U.S. dollars, the interest expense is subject to U.S.-Canada exchange rate fluctuations which increased financial expenses when translated into Canadian dollars. The income tax expense of the subsidiaries was down \$8.2 million. In fact, the U.S. subsidiaries recorded a tax recovery due particularly to the decrease in their earnings after depreciation and amortization, and financial expenses. The Ultima Foods joint venture reported a significant improvement in its earnings as a result of sustained growth in its iögo and Olympic brands and a reduction in its operating costs, in spite of substantial restructuring costs and a decrease in its co-packaging activities. Our recognized share of earnings was up \$10.1 million compared to 2014. In terms of earnings, the loss was limited to the value of the investment at the beginning of the year, which is now nil. Future profits can only be recorded once they exceed cumulative unrecognized losses. This has no impact on Ultima Foods' recoverable value. Therefore earnings before patronage dividends and income taxes of the Cooperative totalled \$87.8 million.

After reviewing the earnings and in spite of an unfavourable market, the Board of Directors approved patronage dividends of \$40.6 million, compared to \$92.3 million in 2014. The approved patronage dividends were payable 25% in cash and 75% as investment shares.

Therefore, after deduction of patronage dividends, the Cooperative's income tax recovery of \$0.3 million was recorded. As a result, Agropur generated net earnings of \$47.5 million, which were added to the reserve.

Comprehensive income amounting to \$115.6 million for fiscal 2015 is detailed as follows: added to net earnings of \$47.5 million were the items recorded under accumulated other comprehensive income, including a net gain of \$67.5 million to account for the effect of the decline of the Canadian dollar on the consolidation of the assets and liabilities of our U.S. subsidiaries and on the translation of long-term debts into Canadian dollars. As at October 31, 2015, the exchange rate was US\$0.76 for C\$1, compared to US\$0.89 for C\$1 as at November 1, 2014. The weakening of the Canadian dollar resulted in a net cumulative unrealized translation gain of \$93.1 million for foreign operations and long-term debts. However, these accounting translation gains will continue to fluctuate depending on changes in the Canadian dollar over time in relation to the U.S. dollar. Other comprehensive income items were the components transferred to the reserve, which consist of actuarial gains on defined benefit pension plans.

Cash flows

Cash flows from operating activities, before the change in non-cash items, totalled \$272.7 million. During the year, \$15.0 million was used for non-cash items, presented in detail in note 8 to the financial statements. This change in working capital was mainly the result of the increase in ingredients inventories, which was partially offset by the increase in payables and the decrease in receivables.

Capital redemptions amounting to \$57.8 million plus the portion of patronage dividends paid in cash of \$10.0 million, net of issues, totalled outflows of \$67.8 million associated with members.

Regarding financing activities, the interest paid on long-term debt totalled \$39.1 million. An amount of \$44.6 million was used on the revolving term loan, net of repayments on the term loan. In order to finance acquisitions as well as our investment plans, first preferred shares were issued in December 2014, generating a cash inflow of \$470 million, less issuance expenses of \$2.9 million. The dividends paid on these shares appear as cash outflows of \$26.6 million.

Numerous investment projects totalled \$673.8 million in 2015.

Of this amount, \$392.7 million was used to acquire Northumberland's dairy and food distribution assets as well as Sobeys' dairy assets. Furthermore, \$278.6 million was invested in projects within our facilities. The main expansion and production capacity increase projects in 2015 were realized at plants in Weyauwega, Little Chute and La Crosse in the United States, as well as in Oka, Saint-Hyacinthe and Quebec City in Canada. The construction of the new head office on the South Shore of Montreal as well as the implementation of Phase 1 of the ERP system were the other main capital projects during the year. Finally, a subordinated loan of \$3.5 million was granted to our joint venture Ultima Foods.

Inflows and Outflows

(IN MILLIONS OF DOLLARS)

Inflows

TOTAL	- 824
OPERATIONS	- 273
LIQUIDITIES	- 40
PREFERRED SHARES, NET OF ISSUANCE EXPENSES	- 467
LONG-TERM DEBT, NET OF ISSUANCE EXPENSES	- 44

Outflows

TOTAL	- 824
MERGER AND ACQUISITIONS	- 393
PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS	- 278
LOAN TO A JOINT VENTURE	- 4
MEMBERS AND CAPITAL	- 68
DIVIDENDS AND INTEREST	- 66
WORKING CAPITAL	- 15

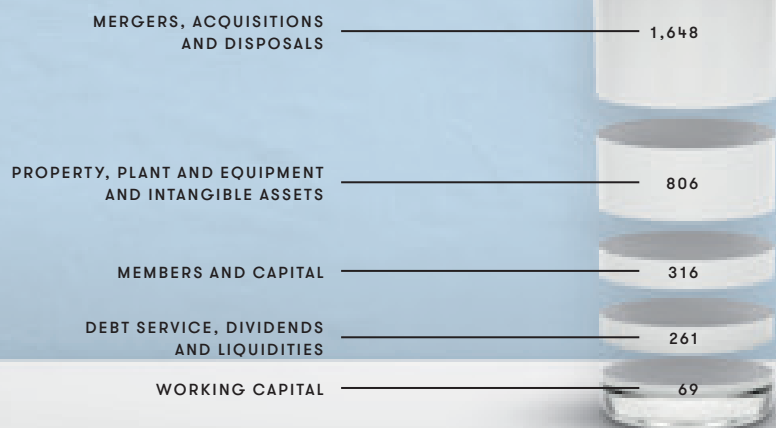
Inflows over the past five years have totalled \$3.1 billion, of which \$316.2 million or 10.2% was paid out to members as patronage dividends in cash and capital redemptions. Outflows related to mergers, acquisitions and disposals

totalled \$1.6 billion. Another \$806.1 million was added for investments in property, plant and equipment and intangible assets.

Use of Funds 2011 to 2015

(IN MILLIONS OF DOLLARS)

3.1 Billion dollars



Balance sheet

As of October 31, 2015, the Cooperative's net assets totalled \$1.8 billion. Assets stood at \$4.1 billion, up \$0.9 billion, primarily due to acquisitions during the year, capital investments and the translation of U.S. subsidiaries' assets into Canadian dollars. Liabilities amounted to \$2.3 billion. The main reasons for the increased liabilities were the use of the revolving term loan and the translation of U.S.-denominated long-term debts into Canadian dollars.

Note 17 to the financial statements details capital. Patronage dividends distributed as Class A investment shares in the amount of \$30.6 million, net of redemptions amounting to \$57.8 million, were added to the 2014 capital. In 2015, member shares, Class M investment shares, Series 2, and certificates of indebtedness were issued to former Dairytown beneficiaries for \$2.5 million. In addition, on December 17, 2014, the Cooperative issued first preferred shares for \$470 million to external investors. Share issuance expenses in the amount of \$2.9 million were deducted from the reserve. Consequently, equity totalled \$1.8 billion as of October 31, 2015. If the first preferred shares were excluded, members' equity would stand at \$1.291 billion, up \$61 million from 2014.

Looking ahead

As previously noted, the major investments made in recent years are already generating benefits. However, as we mentioned before, a greater presence in the United States also means greater volatility in our results. We

have experienced these negative effects in 2015, but are convinced that we are well positioned to take advantage of an eventual market recovery. Given the volatility of results, the Cooperative's funds must be used with the utmost caution. Our objective is to maintain sound financial health by reducing the debt load. In order to provide ourselves the necessary flexibility to seize new business opportunities and ensure the Cooperative's sustainability, we are deferring capital redemptions. In addition, following the end of the fiscal year, we issued a new series of first preferred shares for a cash consideration of \$300 million, which was entirely used to reduce the long-term debt.

We are still convinced that our strategy is the right one and that the multiple mergers and acquisitions in recent years have helped strengthen Agropur's position as a leading player in the Canadian, U.S. and international dairy industry.

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

Jocelyn Lauzière

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, 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 context, the impact of a price increase in inputs will depend on the Cooperative's ability to convert this increase into a comparable increase in the selling price of our products.

Customer-related risks

In recent years, we are witnessing concentration in the food distribution industry, resulting 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.

Competition risks

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

Market risks

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

Business condition risks

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

Supplier concentration risks

The concentration of suppliers means that for some goods and services, our supplies are restricted to a limited number of suppliers. Shortages in terms of quantities, quality or delays could have negative repercussions on our results.

Risks related to an unplanned disruption of operations

Major events such as a fire, equipment failure, epidemic, natural disaster, etc. could occur and cause harm to employees or damage to property, and would likely 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 coverages to share some of the risks arising from a business interruption.

Acquisition risks

In a global dairy industry undergoing full-scale consolidation, the Cooperative has grown through acquisitions in the past and intends to pursue its growth in the future through new business acquisitions. The impact will depend on our ability to identify strategic acquisitions, determine their fair value, implement the necessary resources 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

Long-term debt was assumed as a result of the multiple acquisitions. The Cooperative is therefore exposed to the risk arising from interest rate fluctuations on this financial instrument. The cash flow impact would be negative in the event of an increase in the interest rates, while the impact would be the opposite in the event of a decrease in the interest rates.

Information system risks

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

Regulatory risks

The Cooperative is subject to multiple government laws, regulations and policies, more specifically concerning the production and distribution of food products. Amendments to, or tightening of, these laws and regulations could modify our operations or lead to additional costs

in order to comply with these new obligations. Sanctions, penalties or fines could be imposed if we failed to comply with such laws and regulations. Regulatory risks are growing due to the current context of growth 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, waste water 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 in order for the Cooperative to comply.

Labour relation risks

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

Risks associated with tariff rules

The Cooperative operates in an industry where tariff rules apply to milk product imports. International trade rules may be modified by international treaties and could 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 the new rules by offering its customers competitive products in terms of quality and price.

Risks related to employee future benefits

The Cooperative offers defined benefit plans to some groups of its employees. 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. A review of the Cooperative's obligations under these plans was initiated and most of these plans are closed to new participants.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT

December 16, 2015

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 31, 2015 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 31, 2015 and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP¹

Montréal, Quebec

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

CONSOLIDATED EARNINGS

Years ended (IN THOUSANDS OF CANADIAN DOLLARS)	October 31 2015	November 1 2014
Sales	5,874,931	4,662,270
Operating expenses excluding depreciation and amortization	5,579,828	4,393,985
Earnings before interest, income taxes, depreciation, amortization, restructuring costs, integration and other non-recurring costs and joint ventures	295,103	268,285
Depreciation and amortization (notes 10 and 11)	145,326	90,010
Restructuring costs, integration and other non-recurrings costs (note 4)	23,343	13,545
Operating earnings	126,434	164,730
Net financial expenses	41,727	9,215
Loss (gain) on disposal of assets	108	(405)
Income taxes of subsidiaries (note 5)	(7,059)	1,177
Share of net earnings of joint ventures	3,838	13,916
Earnings before patronage dividends and the Cooperative's income taxes	87,820	140,827
Patronage dividends (note 6)	40,588	92,326
Cooperative's income taxes (note 5)	(268)	10,194
Net earnings	47,500	38,307

CONSOLIDATED COMPREHENSIVE INCOME

Years ended (IN THOUSANDS OF CANADIAN DOLLARS)	October 31 2015	November 1 2014
Net earnings	47,500	38,307
Items recorded under accumulated other comprehensive income		
Net change in fair value of derivative instruments designated as cash flow hedges, net of income tax recovery of \$490 (2014 – \$339)	206	(838)
Change in foreign currency translation adjustment of foreign operations	278,107	71,465
Change in foreign currency translation adjustment of term loan designated as hedge of a net investment in foreign operations	(210,637)	(34,500)
Share of other comprehensive income of joint ventures	(205)	4
	67,471	36,131
Items transferred to the reserve		
Actuarial gain on the accrued benefit obligation, net of income taxes of \$12 (2014 – \$2,145) (note 21)	27	5,759
Share of actuarial gain (loss) on the accrued benefit obligation of joint ventures	579	(152)
	606	5,607
Total other comprehensive income	68,077	41,738
Total comprehensive income	115,577	80,045

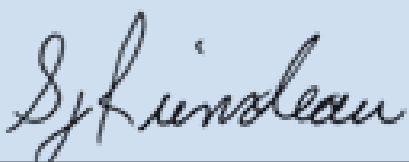
CONSOLIDATED CASH FLOWS

Years ended (IN THOUSANDS OF CANADIAN DOLLARS)	October 31 2015	November 1 2014
CASH FLOWS FROM		
Operating activities		
Earnings before patronage dividends and the Cooperative's income taxes	87,820	140,827
Net financial expenses	41,727	9,215
Cooperative's current income taxes	4,569	(949)
Items not involving use of funds		
Depreciation and amortization	145,326	90,010
Share of net earnings of joint ventures	3,838	13,916
Deferred income taxes of subsidiaries	(7,617)	1,821
Others	(2,933)	(2,599)
	272,730	252,241
Patronage dividends payable in cash (note 6)	(10,025)	(23,007)
Change in non-cash items (note 8)	(15,031)	19,649
	247,674	248,883
Financing and share capital activities		
Interest paid	(39,113)	(5,801)
Long-term debt, net of issuance expenses	44,559	1,245,220
Issuance of first preferred shares, net of issuance expenses (note 17)	467,111	-
Dividends on first preferred shares	(26,564)	-
Issuance and redemption of members' shares and certificates of indebtedness	(57,743)	(46,880)
	388,250	1,192,539
Investing activities		
Business combinations (note 3)	(392,660)	(1,138,708)
Property, plant and equipment and intangible assets (notes 10 and 11)	(278,596)	(231,973)
Subordinated loan to a joint venture (note 7)	(3,532)	(7,500)
Proceeds from disposal of assets	1,007	748
	(673,781)	(1,377,433)
Effect of exchange rate fluctuations on cash position	(2,467)	749
Net change in cash position over the year	(40,324)	64,738
Cash position – Beginning of year (note 8)	136,713	71,975
Cash position – End of year (note 8)	96,389	136,713
Additional information:		
Member and share capital activities		
Patronage dividends payable in cash	(10,025)	(23,007)
Issuance of shares and certificates of indebtedness	102	191
Redemption of shares and certificates of indebtedness	(57,845)	(47,071)
	(67,768)	(69,887)

CONSOLIDATED BALANCE SHEETS

	October 31 2015	November 1 2014
(IN THOUSANDS OF CANADIAN DOLLARS)		
ASSETS		
Current assets		
Cash and temporary investment	105,124	155,887
Accounts receivable	411,250	389,967
Inventories (note 9)	671,105	558,541
Income taxes	2,775	6,258
Prepaid expenses	21,210	15,860
	1,211,464	1,126,513
Investments (note 7)	12,596	11,487
Property, plant and equipment (note 10)	1,421,962	1,103,884
Intangible assets (note 11)	322,232	167,415
Goodwill (note 11)	1,017,601	739,659
Other assets (note 12)	31,315	31,116
Deferred income taxes (note 5)	68,030	43,492
	4,085,200	3,223,566
LIABILITIES		
Current liabilities		
Bank overdrafts and bank loans (note 13)	8,735	19,174
Accounts payable and accrued liabilities (note 14)	670,129	615,828
Income taxes	582	112
Current portion of long-term debt (note 15)	147,219	95,149
	826,665	730,263
Long-term debt (note 15)	1,396,870	1,190,046
Deferred income taxes (note 5)	73,616	52,809
Employee future benefits obligation (note 21)	21,822	15,589
Other long-term liabilities (note 16)	4,818	4,433
	2,323,791	1,993,140
EQUITY		
Members' capital (note 17)	726,666	751,310
First preferred shares (note 17)	470,000	-
Reserve	471,623	453,467
Accumulated other comprehensive income (note 18)	93,120	25,649
	1,761,409	1,230,426
	4,085,200	3,223,566

Approved by the Board of Directors, on December 16, 2015.



Serge Riendeau
Director



René Moreau
Director

CONSOLIDATED CHANGES IN EQUITY

(IN THOUSANDS OF CANADIAN DOLLARS)	Class M and member shares	Classes A and B shares	Contributed (deficit) surplus	Total shares (note 17)	Certificates of indebtedness	Total members' capital	First preferred shares (note 17)	Total share capital (note 17)	Reserve	Comprehensive income (loss) ("AOCL") ²	Total
As at November 3, 2013	2,159	650,832	(516)	652,475	11,911	664,386	-	664,386	409,553	(10,482)	1,063,457
Net earnings	-	-	-	-	-	-	-	-	38,307	-	38,307
Other comprehensive income	-	-	-	-	-	-	-	-	5,607	36,131	41,738
Issuance of shares as payment for patronage dividends	-	69,319	-	69,319	-	69,319	-	69,319	-	-	69,319
Issuance of shares for cash	45	146	-	191	-	191	-	191	-	-	191
Redemption of shares and certificates of indebtedness	(32)	(45,319)	-	(45,351)	(1,720)	(47,071)	-	(47,071)	-	-	(47,071)
Issuance of shares and certificates of indebtedness in a business combination ¹	1,727	-	51,696	53,423	11,062	64,485	-	64,485	-	-	64,485
As at November 1, 2014	3,899	674,978	51,180	730,057	21,253	751,310	-	751,310	453,467	25,649	1,230,426
As at November 2, 2014	3,899	674,978	51,180	730,057	21,253	751,310	-	751,310	453,467	25,649	1,230,426
Net earnings	-	-	-	-	-	-	-	-	47,500	-	47,500
Other comprehensive income	-	-	-	-	-	-	-	-	606	67,471	68,077
Issuance of shares as payment for patronage dividends	-	30,563	-	30,563	-	30,563	-	30,563	-	-	30,563
Issuance of shares for cash and issuance expenses	57	45	-	102	-	102	470,000	470,102	(2,889)	-	467,213
Dividends on first preferred shares including income taxes of \$498	-	-	-	-	-	-	-	-	(27,061)	-	(27,061)
Redemption of shares and certificates of indebtedness	(45)	(54,273)	-	(54,318)	(3,527)	(57,845)	-	(57,845)	-	-	(57,845)
Issuance of shares and certificates of indebtedness in a business combination ¹	283	-	-	283	2,253	2,536	-	2,536	-	-	2,536
As at October 31, 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

¹ Par value of the shares and certificates of indebtedness issued to former shareholders of Dairytown Products Ltd. (see note 3).

² Accumulated other comprehensive income (loss).

NOTES TO THE FINANCIAL STATEMENTS AS AT OCTOBER 31, 2015

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

1. GENERAL INFORMATION

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

These consolidated financial statements of the Cooperative have been prepared in accordance with International Financial Reporting Standards ("IFRS") in effect as at October 31, 2015, as issued by the International Accounting Standards Board ("IASB").

CONSOLIDATION PRINCIPLES

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

ESTIMATES

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

CASH POSITION

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

INVENTORIES

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

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

INVESTMENTS

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

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

NOTES TO THE FINANCIAL STATEMENTS AS AT OCTOBER 31, 2015

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

Property, plant and equipment under construction are not amortized.

INTANGIBLE ASSETS

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

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

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

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

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 mostly completed. Other borrowing costs are recognized as 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. Reporting business units are determined according to the smallest identifiable group of assets that generates cash inflows. To evaluate if there is a goodwill impairment loss, the Cooperative compares the recoverable amount of the business unit to the carrying amount. The recoverable amount is the higher of the fair value less costs to sell and the value in use. If the carrying amount exceeds the recoverable amount, an impairment loss is recorded.

NOTES TO THE FINANCIAL STATEMENTS AS AT OCTOBER 31, 2015

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

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

OTHER ASSETS

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

BUSINESS COMBINATIONS

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

REVENUE RECOGNITION

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

EMPLOYEE FUTURE BENEFITS

The Cooperative accounts for its obligations arising from employee benefit plans and related costs, net of the plan assets. The discount rate used to measure the accrued benefit obligation is determined according to the return of high quality corporate bonds on the market as at the valuation date. The cost of pension and other retirement benefits earned by employees is calculated according to the projected benefit method, prorated on years of service, based on management's best estimate assumptions about the salary projections and the retirement ages of employees. The fair value of assets is determined using market value. Actuarial gains (losses) are recorded in other comprehensive income. The cost of past services resulting from changes to the plans is recognized in earnings when the plan amendment occurs or 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 according to differences between tax bases and carrying amounts of assets and liabilities. However, deferred tax is not recognized on the initial recognition of goodwill and the initial recognition of assets and liabilities when the related transaction is not a business combination and does not affect accounting and tax earnings. Deferred income tax assets and liabilities are measured using the tax rates that are expected to be in effect in the years when these temporary differences are expected to reverse. Income tax assets are recognized when it is more likely than not that the assets will be realized.

NOTES TO THE FINANCIAL STATEMENTS AS AT OCTOBER 31, 2015

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

TRANSLATION OF FOREIGN CURRENCIES

Foreign currency transactions

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

Foreign operations

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

FINANCIAL INSTRUMENTS

Recognition or derecognition of financial assets and liabilities

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

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

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

	Assets and liabilities held for trading	Loans and receivables	Other liabilities
Financial instruments	<ul style="list-style-type: none"> • Exchange contracts • Commodity futures contracts 	<ul style="list-style-type: none"> • Cash and temporary investment • Accounts receivable • Subordinated loan 	<ul style="list-style-type: none"> • 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.

NOTES TO THE FINANCIAL STATEMENTS AS AT OCTOBER 31, 2015

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

HEDGING OPERATIONS

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

Hedge of net investment

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

FUTURE ACCOUNTING POLICIES

The IASB issued new standards that are not yet effective for the year ending October 31, 2015.

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 and the business combinations, the presentation of subtotals, the financial statements structure and the disclosure requirements in accounting policies.

This new standard is effective for the years beginning on or after January 1, 2016.

The Cooperative will adopt this new standard as at the first quarter of its 2017 fiscal year and has not completed its assessment of the impact of these changes on 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, 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".

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.

NOTES TO THE FINANCIAL STATEMENTS AS AT OCTOBER 31, 2015

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

3. BUSINESS COMBINATIONS

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

During the year, the Cooperative acquired Sobeys' dairy processing plants in Canada on the following dates:

On January 18, 2015, at Burnaby in British Columbia, on February 8, 2015, at Edmonton (milk) in Alberta, on March 1, 2015 at Winnipeg in Manitoba and on March 22, 2015 at Edmonton (ice cream) in Alberta.

The cash consideration for these acquisitions totalled \$391,666.

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

	2015
Current assets	21,587
Investments	160
Property, plant and equipment	81,926
Intangible assets	138,966
Goodwill	177,470
Bank overdraft	(209)
Accounts payable and accrued liabilities	(4,819)
Deferred income taxes	(22,470)
Employee future benefits obligation	(945)
Fair value of net assets combined	391,666

The current assets include accounts receivable with a fair value of \$7,287, including accounts receivable under contracts, in which the gross amount represents \$7,524. At the acquisition dates, the best estimate of the contractual cash flows for which collection is not expected is \$290.

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

	Acquisitions for the year
Cash	391,666
Fair value of the consideration transferred	391,666

The determination of the fair value of the net assets acquired and the consideration related to the acquisition of the Sobeys' plants is not completed.

As part of the acquisition of Sobeys' dairy processing plants, there are purchase price adjustment mechanisms. These adjustments are based on volumes and profitability parameters.

The goodwill accounted for is deductible for income tax purpose for an amount of \$195,897. The business acquisitions costs recognized in earnings during the year amounted to \$526.

NOTES TO THE FINANCIAL STATEMENTS AS AT OCTOBER 31, 2015

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

During the year, the Cooperative has made some adjustments of the fair value of the assets combined, the liabilities assumed and the consideration related to the acquisitions made in 2014. The adjustments reflected in 2015, are detailed as follows:

	Business combinations presented as at November 1		
	2014	Adjustments	Total
Cash	52	-	52
Current assets	295,009	(3,211)	291,798
Property, plant and equipment	286,766	-	286,766
Intangible assets	65,869	-	65,869
Goodwill	551,192	(2,128)	549,064
Investments	773	-	773
Deferred income taxes	42,554	6,721	49,275
Accounts payable and accrued liabilities	(89,534)	-	(89,534)
Employee future benefits obligation	(3,467)	-	(3,467)
Fair value of net assets combined	1,149,214	1,382	1,150,596

Cash flows from acquisitions:

	Acquisitions for the year	Adjustments	Total
Bank overdraft assumed	209	-	209
Cash consideration	391,666	785	392,451
Cash flows from business acquisitions	391,875	785	392,660

BUSINESS COMBINATIONS IN 2014

Merger

On June 30, 2014, the Cooperative and Dairytown Products Ltd., a supplier of dairy products and ingredients to the retail, food services and further processing trades, merged. The consideration accounted for in that business combination amounted to \$71,518. In addition to a cash consideration of \$4,453, the Cooperative issued 171 member shares, Class M investment shares, Series 2, and certificates of indebtedness with a par value of \$12,789 for new members. A sum of \$2,580 was also recorded as a payable to 29 additional members, which \$2,536 was issued into capital during 2015. A contributed surplus of \$51,696 was finally recorded as part of this combination. Certificates of indebtedness presented as part of capital are redeemable under certain conditions, by decision of the Board of Directors. The estimated fair values that were assigned to the assets combined and liabilities assumed are based on a combination of independent evaluations and internal estimates.

NOTES TO THE FINANCIAL STATEMENTS AS AT OCTOBER 31, 2015

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

Acquisitions

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

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

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

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS AS AT OCTOBER 31, 2015

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

Cash flows from combinations:

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

4. EARNINGS

The following items are included in the consolidated earnings:

	2015	2014
Raw materials and other inputs	3,858,204	3,126,479
Salaries and employee benefits	595,233	444,646
Interest on long-term debt	42,579	8,070

The restructuring costs, integration and other non-recurring costs include costs for Saint-Bruno's plant closure, the major restructuring of certain activities, costs to integrate the newly acquired plants and other costs relating to the latest business combinations. Similar costs to the comparative year were adjusted.

5. INCOME TAXES

The income tax expense is as follows:

	2015	2014
Current income taxes	(4,011)	306
Deferred income taxes	(3,316)	11,065
	(7,327)	11,371

Comprised of:

The Cooperative's income taxes	(268)	10,194
Income taxes of subsidiaries	(7,059)	1,177

Reconciliation of income taxes:

	2015	2014
Income taxes, calculated at Canadian statutory rates of 26.39% (2014 – 26.49%)	11,614	16,824
Differences attributable to the following:		
Difference in tax rates of foreign subsidiaries	(19,736)	(5,983)
Changes in tax laws and rates	(209)	59
Others	1,004	471
Income tax expense	(7,327)	11,371

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

NOTES TO THE FINANCIAL STATEMENTS AS AT OCTOBER 31, 2015

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

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

	November 2 2013	Earnings	Comprehensive income and others	Business combination	November 1 2014
Deferred tax assets					
Goodwill	17,098	(6,821)	-	-	10,277
Accounts payable and accrued liabilities	5,902	(1,360)	231	8,379	13,152
Tax losses carry forward	9,443	9,184	-	159	18,786
Employee future benefits obligation	6,201	(870)	(2,145)	-	3,186
Alternative minimum tax	1,397	(642)	-	-	755
Intangible assets	5,741	2,676	-	-	8,417
Others	1,326	852	83	(170)	2,091
	47,108	3,019	(1,831)	8,368	56,664
Deferred tax liabilities					
Property, plant and equipment	67,372	12,661	(927)	(31,483)	47,623
Intangible assets and other assets	13,051	1,306	-	874	15,231
Outside basis difference on investment in subsidiaries	3,010	117	-	-	3,127
	83,433	14,084	(927)	(30,609)	65,981
Total deferred tax assets (liabilities)	(36,325)	(11,065)	(904)	38,977	(9,317)
	November 1 2014	Earnings	Comprehensive income and others	Business combination	October 31 2015
Deferred tax assets					
Goodwill	10,277	(9,501)	(544)	-	232
Accounts payable and accrued liabilities	13,152	(3,563)	666	906	11,161
Tax losses carry forward	18,786	72,236	21,744	-	112,766
Employee future benefits obligation	3,186	1,381	(12)	-	4,555
Alternative minimum tax	755	-	318	-	1,073
Intangible assets and other assets	8,417	1,196	1,618	-	11,231
Others	2,091	(285)	362	197	2,365
	56,664	61,464	24,152	1,103	143,383
Deferred tax liabilities					
Property, plant and equipment	47,623	30,495	6,240	877	85,235
Intangible assets and other assets	15,231	27,040	1,747	15,976	59,994
Outside basis difference on investment in subsidiaries	3,127	613	-	-	3,740
	65,981	58,148	7,987	16,853	148,969
Total deferred tax assets (liabilities)	(9,317)	3,316	16,165	(15,750)	(5,586)

NOTES TO THE FINANCIAL STATEMENTS AS AT OCTOBER 31, 2015

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

	2015	2014
Deferred tax assets – balance sheet	68,030	43,492
Deferred tax liabilities – balance sheet	(73,616)	(52,809)
	(5,586)	(9,317)

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

	2015	2014
Deferred tax assets		
Deferred tax assets to be recovered after more than 12 months	132,222	43,697
Deferred tax assets to be recovered within the next 12 months	11,161	12,967
	143,383	56,664
Deferred tax liabilities		
Deferred tax liabilities to be settled after more than 12 months	(148,969)	(65,981)
Total of deferred tax liabilities	(5,586)	(9,317)

The Cooperative has also accumulated \$37,682 of capital losses for which no deferred tax asset has been accounted for. These losses may be carried forward indefinitely.

6. PATRONAGE DIVIDENDS

Patronage dividends are paid out to members as follows: \$10,025 (2014 – \$23,007) in cash and \$30,563 (2014 – \$69,319) through the issuance of investment shares.

7. INVESTMENTS AND LOAN

	2015	2014
Joint ventures	136	3,517
Subordinated loan to a joint venture, bearing interest at a rate of 7.00% and cashable in January 2017	12,129	7,806
Others	331	164
	12,596	11,487

NOTES TO THE FINANCIAL STATEMENTS AS AT OCTOBER 31, 2015

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

INVESTMENTS IN JOINT VENTURES

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

	2015	2014
Current assets	45,942	51,923
Long-term assets	96,865	99,849
Current liabilities	51,118	51,181
Current financial liabilities	1,686	4,384
Long-term liabilities	2,669	3,746
Long-term financial liabilities	75,932	76,024
Sales	280,894	291,972
Depreciation and amortization	10,257	11,236

The Cooperative's share of commitments of joint ventures is \$1,535 for the next year, \$1,588 from 2017 to 2020 and \$22 thereafter.

8. CASH FLOWS

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

	2015	2014
Accounts receivable	13,386	(23,179)
Inventories	(48,734)	(20,612)
Income taxes	(2,497)	(8,214)
Prepaid expenses	(4,485)	(763)
Accounts payable and accrued liabilities	22,235	77,248
Other assets and others	5,064	(4,831)
	(15,031)	19,649

Income taxes paid (received) are as follows:

	2015	2014
Income taxes paid (received)	(3,377)	5,301

The cash position is as follows:

	2015	2014
Cash and temporary investment	105,124	155,887
Bank overdrafts and bank loans	(8,735)	(19,174)
	96,389	136,713

NOTES TO THE FINANCIAL STATEMENTS AS AT OCTOBER 31, 2015

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

9. INVENTORIES

	2015	2014
Finished goods	530,949	441,895
Raw materials, goods in process and supplies	140,156	116,646
	671,105	558,541

The cost of goods sold amounting to \$5,164,339 (2014 – \$4,062,822) mainly comprises the amount of inventories accounted for in expenses, including an impairment loss of \$1,528.

10. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Equipment	Rolling stock	Total
As at November 2, 2013				
Cost	364,106	861,934	55,703	1,281,743
Accumulated depreciation and amortization	(97,241)	(504,654)	(38,569)	(640,464)
Net carrying amount	266,865	357,280	17,134	641,279
Year 2014				
Additions ¹	75,964	122,121	8,884	206,969
Business combinations	107,285	190,592	6,073	303,950
Disposals	(76)	(111)	(156)	(343)
Depreciation and amortization	(9,826)	(61,892)	(6,651)	(78,369)
Translation adjustment	11,577	18,735	86	30,398
Balance as at November 1, 2014	451,789	626,725	25,370	1,103,884
Cost	559,466	1,197,660	69,058	1,826,184
Accumulated depreciation and amortization	(107,677)	(570,935)	(43,688)	(722,300)
Net carrying amount	451,789	626,725	25,370	1,103,884
Year 2015				
Additions ¹	128,801	124,229	8,603	261,633
Transfers	(348)	1,760	(89)	1,323
Business combinations	40,848	37,849	3,229	81,926
Disposals	(244)	(702)	(169)	(1,115)
Depreciation and amortization	(14,271)	(101,559)	(9,505)	(125,335)
Translation adjustment	37,869	61,476	301	99,646
Balance as at October 31, 2015	644,444	749,778	27,740	1,421,962
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

¹ Acquisitions of property, plant and equipment include an amount of \$3,185 (2014 – \$461) in capitalized interest.

Buildings and equipment include major works in progress of which an amount of \$151,111 (2014 – \$104,518) is unamortized.

CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS AS AT OCTOBER 31, 2015

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

11. INTANGIBLE ASSETS AND GOODWILL

	Customer relationships	Trademarks, software and other rights	Total intangible assets	Goodwill
As at November 2, 2013				
Cost	49,349	93,260	142,609	156,801
Accumulated depreciation and amortization	(22,385)	(40,942)	(63,327)	(24,371)
Net carrying amount	26,964	52,318	79,282	132,430
Year 2014				
Additions ¹	-	25,796	25,796	-
Business combinations	58,914	11,008	69,922	585,605
Depreciation and amortization	(6,755)	(5,205)	(11,960)	-
Translation adjustment	3,585	790	4,375	21,624
Balance as at November 1, 2014	82,708	84,707	167,415	739,659
Cost	113,869	132,170	246,039	766,008
Accumulated depreciation and amortization	(31,161)	(47,463)	(78,624)	(26,349)
Net carrying amount	82,708	84,707	167,415	739,659
Year 2015				
Additions ¹	-	22,350	22,350	-
Transfers	2,411	(2,941)	(530)	-
Business combinations	-	138,966	138,966	175,342
Depreciation and amortization	(12,777)	(7,644)	(20,421)	-
Translation adjustment	12,579	1,873	14,452	102,600
Balance as at October 31, 2015	84,921	237,311	322,232	1,017,601
Cost	133,239	290,187	423,426	1,048,165
Accumulated depreciation and amortization	(48,318)	(52,876)	(101,194)	(30,564)
Net carrying amount	84,921	237,311	322,232	1,017,601

¹ Acquisitions of intangible assets include an amount of \$990 (2014 – \$331) in capitalized interest.

Software include a major work in progress of which an amount of \$34,364 (2014 – \$36,070) is unamortized.

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

	2015	2014
Cheese and Ingredients Division – Cheese Canada	47,899	46,906
Cheese and Ingredients Division – Fine Cheese	20,837	20,837
Division Natrel and Fresh Products – Canada	212,029	34,559
Cheese and Ingredients Division – Cheese United States	633,284	548,092
Cheese and Ingredients Division – Ingredients United States	52,404	45,174
Division Natrel – United States	51,148	44,091
	1,017,601	739,659

No impairment loss resulted from the impairment tests made on October 31, 2015 and November 1, 2014.

NOTES TO THE FINANCIAL STATEMENTS AS AT OCTOBER 31, 2015

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

12. OTHER ASSETS

	2015	2014
Procurement agreements and others	25,683	26,740
Income tax credits receivable	5,632	4,376
	31,315	31,116

13. BANK OVERDRAFTS AND BANK LOANS

The Cooperative and its subsidiaries have lines of credit for a maximum of \$49,803 (of which \$2,805 are used as of October 31, 2015), bearing interest at variable rates generally not exceeding the prime rate plus 2.75%. 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 used for \$15,489 as of November 1, 2014.

14. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2015	2014
Members	121,882	134,085
Third parties	546,383	480,671
Joint ventures	1,864	1,072
	670,129	615,828

15. LONG-TERM DEBT

	2015	2014
Term loan (2015 – US\$1,063,600 and 2014 – US\$1,150,000) ¹	1,378,714	1,284,981
Revolving term loan ²	14,971	-
Revolving term loan (US\$115,000) ²	150,363	-
Loans of the Cooperative, not bearing interest ³	41	214
	1,544,089	1,285,195
Current portion	147,219	95,149
	1,396,870	1,190,046

¹ U.S. dollars term loan bearing interest at the U.S. base rate plus 2.88% (3.40% as at October 31, 2015) and refundable at 10% per year on average until maturity in August 2019. 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 31, 2015.

² Revolving term loan of \$400,000, of which \$165,334 is used as at October 31, 2015, bearing interest at a rate of 3.18% and repayable in August 2020 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 2.75% or the U.S. base rate plus 2.75%. 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 These loans, secured by specific equipment, do not bear interest and mature between December 2015 and February 2016.

NOTES TO THE FINANCIAL STATEMENTS AS AT OCTOBER 31, 2015

(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:

2016	150,404
2017	150,363
2018	180,435
2019	909,496
2020	165,334

As at October 31, 2015, the term loan was designated as a hedge of a net investment in a foreign establishment.

16. OTHER LONG-TERM LIABILITIES

	2015	2014
Deferred income tax credits	4,818	4,433

17. SHARE CAPITAL (in dollars)

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

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

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

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

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

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 don't 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, 2017.

NOTES TO THE FINANCIAL STATEMENTS AS AT OCTOBER 31, 2015

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

18. ACCUMULATED OTHER COMPREHENSIVE INCOME, NET OF INCOME TAXES

	2015	2014
Losses on financial instruments designated as cash flow hedges	(517)	(724)
Foreign currency translation adjustment of foreign operations, net of hedging operations	338,994	60,886
Foreign currency translation adjustment of term loan designated as hedge of a net investment in foreign operations	(245,139)	(34,500)
Share of accumulated other comprehensive loss of joint ventures	(218)	(13)
	93,120	25,649

19. FINANCIAL INSTRUMENTS

The following analysis explains the financial risks associated with financial instruments as at October 31, 2015:

FAIR VALUE

The fair value of a financial instrument corresponds to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The carrying amount of short-term financial instruments is assumed to approximate their fair value due to their short-term maturity. These financial instruments generally include cash and temporary investment, accounts receivable, bank overdrafts and bank loans, and accounts payable and accrued liabilities.

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

LIQUIDITY RISK

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

CREDIT RISK

Accounts receivable mainly relate to trade receivables generated in the normal course of business. Although there are some major accounts resulting from a certain volume concentration in the food industry, the diversification of customer market segments (retailers, wholesalers, manufacturers, food services) and the extent of the Cooperative's geographical activities reduce credit risk. Moreover, credit risk is reduced by the terms of payment in connection with the relatively fast cycle of product consumption. At year-end, 5% of accounts receivable exceeded normal terms of payment by more than 30 days.

NOTES TO THE FINANCIAL STATEMENTS AS AT OCTOBER 31, 2015

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

INTEREST RATE RISK

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

The Cooperative is exposed to cash flows risk 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.

Sensitivity analysis for interest rate risk

The term loan is subject to market interest rate fluctuation risk. If the average interest rate was higher than 1%, and assuming all other variables remained constant, earnings before patronage dividends and the Cooperative's income taxes would have decreased by \$14,902.

FOREIGN EXCHANGE RISK

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

During the year ended October 31, 2015, if the U.S. dollar had increased by an average of \$0.01 compared to the Canadian dollar, and assuming all other variables remained constant, the impact of this increase on earnings before income taxes would have been marginal, and the impact on comprehensive income would have resulted in an increase of \$3,807.

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

Purchases of US\$2,157 against CA\$
Purchases of 10,138 euros against CA\$
Sales of 183 GBP against CA\$
Purchases of 3,531 euros against US\$

MEASUREMENT RISK

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

- a) Level 1: Fair value based on quoted prices in active markets for identical assets.
- b) Level 2: Fair value based on data observable either directly or indirectly, other than the quoted prices in Level 1.
- c) Level 3: Fair value not based on observable market data.

	Level 1	Level 2	Level 3	2015	2014
Foreign exchange contracts	-	(116)	-	(116)	(1,020)
Commodity futures contracts	(728)	-	-	(728)	-

U.S. MARKET RISK

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

NOTES TO THE FINANCIAL STATEMENTS AS AT OCTOBER 31, 2015

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

20. COMMITMENTS AND CONTINGENCIES

- a) Commitments relating mainly to operating leases are as follows: \$9,145 for the following year, \$13,637 from 2017 to 2020 and \$16,015 thereafter.
- b) The Cooperative is committed for an amount of \$50,757 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 that the amount can be estimated. Furthermore, management estimates that the losses that could result from these litigations are negligible.

21. EMPLOYEE FUTURE BENEFITS

Employee future benefits relate mainly to pension plans. The obligations of the defined benefit plans are based on the employee's length of service and salary of the last employment years. The pension benefits can be adjusted according to a formula based on the return on plan assets and the consumer price index. Actuarial valuations of the plans are performed every year. The most recent valuations were performed in December 2014.

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

The net expense is as follows:

	2015	2014
Defined contribution plans		
Net expense	18,648	13,868
Defined benefit plans		
Current service cost	5,771	5,837
Administrative costs	747	743
Past service cost	1,179	-
Interest cost on accrued benefit obligation	9,980	9,656
Interest on asset ceiling impact	43	199
Projected return on plan assets	(9,316)	(8,759)
Net expense	8,404	7,676

The information on defined benefit plans is as follows:

	2015	2014
Plan assets		
Fair value – beginning of year	221,277	195,201
Administrative costs	(747)	(743)
Projected return on plan assets	9,316	8,759
Employer contributions	4,147	9,749
Employee contributions	1,890	1,942
Benefits paid	(9,283)	(8,525)
Actuarial gains	575	14,894
Fair value – end of year	227,175	221,277

Equity securities represented 55% (2014 – 53%) and obligations represented 37% (2014 – 40%) of total plan assets invested mainly in Canada.

NOTES TO THE FINANCIAL STATEMENTS AS AT OCTOBER 31, 2015

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

	2015	2014
Accrued benefit obligation		
Balance – beginning of year	231,711	212,194
Current service cost	5,771	5,837
Interest cost	9,980	9,656
Past service cost	1,179	-
Employee contributions	1,890	1,942
Benefits paid	(9,283)	(8,525)
Actuarial losses (gains)	(914)	10,607
Balance – end of year	240,334	231,711

	2015	2014
Pension plan obligation		
Funding status – plan assets net of obligation (deficit)	(13,159)	(10,434)
Impact of asset ceiling test	(2,502)	(1,009)
Pension plan obligation	(15,661)	(11,443)
Other plans	(6,161)	(4,146)
Employee future benefits obligation	(21,822)	(15,589)

For pension plans with an accrued benefit obligation that is in excess of assets, the accrued benefit obligation is \$142,115 (2014 – \$108,983) and the assets are \$125,476 (2014 – \$93,395).

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

	2015	2014
Actuarial gains for the year	1,489	4,281
Impact of asset ceiling test	(1,450)	3,623
Amount accounted for in other comprehensive income	39	7,904
Balance – Beginning of year	(680)	(8,584)
Balance – End of year	(641)	(680)

	2015	2014
Weighted average assumptions		
Accrued benefit obligation		
Discount rate	4.25%	4.25%
Long-term inflation rate of salary expense	4.00%	4.00%
Net benefit expense for the year		
Discount rate	4.25%	4.50%
Expected return on plan assets	4.25%	4.50%
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 \$4,548.

The Cooperative expects to make contributions of \$15,369 to defined benefit plans in the next financial year.

NOTES TO THE FINANCIAL STATEMENTS AS AT OCTOBER 31, 2015

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

SENSITIVITY ANALYSIS

The significant actuarial assumptions for the determination of the defined benefit obligation are the discount rate and the rate of future compensation increase. The following table summarises the effect of a change in these actuarial assumptions on the value of the defined benefit obligation as at October 31, 2015.

	Change in assumption	Increase in assumption
Discount rate	0.25%	9,277
Long-term inflation rate of salary expense	0.25%	995

22. RELATED PARTIES

SUBSIDIARIES AND JOINT VENTURES

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

	Country of incorporation	% owned	
		2015	2014
Agropur inc.	United States	100%	100%
Agropur Export Group Inc.	Canada	100%	100%
Ultima Foods Inc.	Canada	50%	50%

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

During the year, the Cooperative purchased \$42,998 (2014 – \$44,801) in raw materials and finished goods from its joint ventures.

KEY MANAGEMENT PERSONNEL COMPENSATION

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

	2015	2014
Salary and other benefits	18,375	10,080
Post-employment benefits	2,351	1,165
	20,726	11,245

23. COMPARATIVE FIGURES

Certain comparative figures have been reclassified in order to conform with the current year's presentation.

24. SUBSEQUENT EVENTS (in dollars)

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 don't 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. The consideration received from this issuance will be used to repay the term loan.

AGROPUR
COOPERATIVE

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*Joint venture

