AGROPUR
COOPERATIVE

ANNUAL REPORT
2016

2016

Agropur transforms itself

PRESENTED
TO THE MEMBERS
OF THE COOPERATIVE

Throughout its 78-year existence, the Cooperative has been in a state of constant evolution, punctuated by watershed periods of accelerated change. 2016 was one such year of intense activity for our organization.

Introduction

"SUSTAINABILITY FROM GENERATION TO GENERATION"

- DWAYNE PERRY (top)
- DYLAN AND PAIGE PERRY (bottom)
- BECKY PERRY (top right)
- PAIGE AND JACK PERRY (bottom right)

Photos taken at Perry Hill Farm in Perry Settlement, New Brunswick.

ORGANIZATIONAL TRANSFORMATION

First, the new structures announced in Fall 2015 were implemented and filled out during the year. The Canada Operations and US Operations teams were assembled with a view to harnessing each individual's knowledge and strengths, and capturing internal synergies.

COMPREHENSIVE NEW INNOVATION STRATEGY

During the year, Agropur introduced a comprehensive innovation strategy called "Inno Agropur" to spur the development of new ideas, internally and externally, and accelerate the creation of new products and procedures. The strategy will help propel the Cooperative into the future.

LEADERS SUMMIT AND SECTOR SUMMITS

The Leaders Summit, held in May 2016 under the theme "Aiming Higher," gave Agropur executives a chance to meet, get to know each other and exchange ideas. They discussed the organization's direction and aspirations, as well as the new mission and values that will inform Agropur's decisions and actions aimed at ensuring our organization's growth and sustainability going forward. The information was then circulated throughout the organization via sector summits and manager presentations to employees.

OPENING OF HEAD OFFICE

The Cooperative officially opened its new head office in June 2016 with a large congregation of guests in attendance. More than 800 administrative employees who previously worked in Longueuil, Granby, Saint-Hubert, Saint-Laurent and the Ultima Foods head office have been brought together under one roof in Longueuil. The new head office provides a stimulating, collaborative work environment that promotes synergies among Agropur's departments and teams.

INTERNATIONAL SUMMIT OF COOPERATIVES

Our executives and directors were very much in evidence at the International Summit of Cooperatives, held in Quebec City from October 11 to 13. Over 3,000 participants from thousands of cooperatives around the world gathered for the event. Agropur was a major sponsor of the two main luncheon speeches which drew about 1,000 people.

New mission and values

The new mission and values unveiled at Agropur's Annual General Meeting in February 2016 project a truer image of our organization's identity and aspirations, and reflect its rapid development of recent years.

OUR NEW MISSION

Be faithful to the long-term vision of members, owners of efficient processing assets, by offering quality dairy products to our clients and consumers.

To achieve it, we must apply strategies designed to:

_Develop dairy brands that consumers love, and be the first-choice supplier for all our business partners.

_Focus our growth by processing milk into innovative, value-added products and ingredients.

_Create a dynamic, performance-driven work environment while taking our employees' current and future needs into account.

_Maintain superior profitability and a solid capital structure for the long-term benefit of our members.

In pursuit of its mission, Agropur relies on five core values:

Boldness

DEMONSTRATING COURAGE AND CREATIVITY IN A CONSTANTLY CHANGING WORLD.

Communication

SHARING INFORMATION TO ENSURE INFORMED DECISIONS.

Integrity

ACTING DILIGENTLY AND HONESTLY.

Excellence

TRANSCENDING THE REST TO BE THE BEST.

Collaboration

WORKING TOGETHER IN A SPIRIT OF TRUST AND COOPERATION.

Message from the President

I thank our members and our employees for their support and the trust they have placed in me during my 26 years on the Board, including 15 years as President. Together, we have accomplished great things.

As I prepare to step down as President of Agropur, I would like, first of all, to express my profound gratitude to our Cooperative's 3,271 members and 8,000 employees. I thank them for their support and the trust they have placed in me during my 26 years on the Board, including 15 years as President. Together, we have accomplished great things.

It has been an honour and a privilege to work for the advancement of our Cooperative day after day, year after year. I am proud of the road we have travelled. Between 2002 and 2016, Agropur's sales swelled from $1.8 billion to $6 billion. We have built on the legacy left by our predecessors in order to serve the Cooperative's current members, while striving to leave future generations a financially sound organization that is geared for growth. For 78 years, we have consistently worked together toward a single goal: to take our fate into our own hands and secure the Cooperative's future.

Agropur is an organization in which the member-owners share their points of view in a respectful and democratic way, to serve the interests of the Cooperative. Our rich associational life, conducted through numerous meetings and assemblies for members every year, is vital to the tight-knit connection that powers our Cooperative's progress over time.

More than ever, we are in a position to say that the decisions we made to support our organization's responsible growth were the right ones. In 2016, the Cooperative was able to declare a $60.1 million patronage dividend. Agropur will also make a redemption of members' capital and debt certificates in the amount of $40 million.

In all, $719.8 million have been returned to our member-owners over the past 15 years. That money has been reinvested in the development of farms and supports

Serge Riendeau

the economic vitality of local communities. Our business model is based on fair sharing.

The past few years have seen a number of major mergers and acquisitions at Agropur, including Farmers, Dairytown, Davisco, Northumberland and the Sobeys dairy assets. After the end of the fiscal year, we concluded an agreement to buy Scotsburn's assets. Agropur is Canada's largest dairy co-op, realizing our vision of consolidating ownership of processing assets in the hands of our dairy farmers.

We have also made considerable capital expenditures, including capacity expansions at our Oka, Quebec City and Saint-Hyacinthe, Quebec, plants, the completion of the project at our Lethbridge plant in Alberta, and substantial increases in feta and mozzarella production capacity at our US plants, including Luxemburg and Weyauwega. In all, we have invested near $1.4 billion over the past 15 years in our infrastructures.

Today, we process 5.9 billion litres of milk per year, compared with 1.7 billion litres in 2002, hoisting us to the top ranks of the global dairy industry.

We have also demonstrated leadership on major issues that affect the dairy industry, such as the cheese standards introduced in 2008 and the negotiations on the Canada-EU agreement and the Trans-Pacific Partnership.

I am proud of our contribution to maintaining the supply management system. Canada's dairy industry provides consumers with dairy products that meet the highest quality standards, at a fair price. Unfortunately, the trade talks did end up granting other countries 5.5% of our market, which is milk that will no longer be produced by our farmers or processed by our processors. And we are still missing a key component for protecting the supply management system: border controls over dairy products that are circumventing Canadian regulations.

After years of effort, we reached an agreement on a national ingredients strategy with our processor partners and the provincial marketing boards, the most significant change in Canada's dairy system in the last 20 years. It will solve the structural surplus problem and give dairy producers more secure income.

As well, we enthusiastically announced our decision to display on all our made-in-Canada products sold under Agropur's brand the "Quality Milk" certification of origin logo unveiled by Dairy Farmers of Canada. This important step shows that we support Canadian dairy farmers by using Canadian ingredients. In the same spirit, we announced earlier in the year that we had decided to stop importing and using diafiltered milk.

Agropur's strong performance is due to a series of actions taken in recent years, including our mergers and acquisitions, our cost-cutting program, careful debt management, and major investments in our brands and facilities in both Canada and the US. Our Cooperative's solid foundation enables us to look to our future development with confidence and continue our expansion in the US market.

I thank our CEO Robert Coallier for his leadership and acute business sense, and for giving Agropur more agile structures that are conducive to operational improvements and will support achievement of our aggressive performance and growth targets. I thank the management team and all employees for their team spirit and the energy they have devoted to building Agropur into what it is today.

From the bottom of my heart, I thank my fellow members of the Board for repeatedly placing their trust in me over the past 15 years. We have always worked with and for the membership, in Agropur's best interests.

And again, I thank our members for their steadfast commitment. Our founding members said "our Cooperative has no borders." Today more than ever, I am convinced that the force of cooperation has equipped us for success in the fast-consolidating global dairy industry. Our founders decided to take control of their future. Let's keep up the good work, together. Long may Agropur prosper!

SERGE RIENDEAU
President

Message from the CEO

2016 was an eventful year. We took a series of actions to achieve the ambitious targets we had set at the beginning of the year, and we are very pleased to report substantially improved earnings in 2016.

Our earnings from operations[1] increased by $105.7 million, or 34.6%, to $411.7 million despite still-unsteady global prices for whey products and a fiercely competitive Canadian market environment. Earnings before patronage dividends and taxes were also up significantly, increasing 63.1% to $154.0 million.

We believe that in a globalizing dairy industry we need to remain a significant player. We have therefore been in transformation mode in recent years and that is the theme of our 2016 Annual Report.

We can see the positive results of our strategies, operating decisions and actions of the past five years, all of which have revolved around our five developmental pillars. Agropur is now the fifth largest dairy processor in North America, and one of the 20 largest dairy companies in the world, according to Rabobank, an international financial services provider.

We are again very grateful to consumers, who made us Canada's most trusted dairy brand this year, according to the Gustavson Brand Trust Index. The faith consumers place in Agropur is a source of tremendous pride to us.

In keeping with its commitment to be responsive to consumers, Agropur took a big step this year by announcing that it will henceforth use the Dairy Farmers of Canada certification logo. From now on, all Agropur products made in Canada and sold under our brands will display the "Quality Milk" logo. The move will help consumers know where our products come from and support our producers.

Agropur also prioritizes innovation as a key driver of its development and a way to exceed consumers' expectations. Our annual spending on research and development is very substantial and in recent years we have also turned our attention to incorporating innovation into our organization.

1 Earnings from operations for 2015 have been adjusted to make them comparable with the 2016 figures.

Robert Coallier

This year, in partnership with the Quartier de l'innovation de Montréal, Agropur launched its Inno Challenge program to stimulate the reinvention of dairy products through open innovation, a Canadian first in agri-food innovation.

The clarion call "Together, let's rethink dairy!" therefore went out to creative thinkers at home and abroad. They were asked to come up with impactful new innovations that expand, sustain and reinvigorate the use of dairy, and that elevate dairy beyond a household staple. We want to turn convention on its head as we create the dairy products of tomorrow.

As we promised, we have paid special attention to debt management. The proceeds from the second issuance of preferred units in the amount of $300 million in December 2015 were used in their entirety to pay down term debt. That repayment, combined with our other actions, positions us to continue our strategic development.

We also launched a new three-year, $100-million cost-reduction program. After one year, we have already realized $41.0 million in savings.

Capital expenditures totalled a hefty $148 million in Canada and the US. Among other things, we have increased the capacity of our feta cheese facilities in Weyauwega by 128%. The expansion will not only reduce costs but also keep us number one in feta production in the US.

Our US operations generate an increasing proportion of revenues and now account for 44.3% of the total.

Finally, we opened our new head office in Longueuil, Quebec. The $90-million, near-42,000-square-metre head office keeps Agropur's decision-making centre in Quebec. More than 800 people work at the collaborative smart offices, which have been unobtrusively integrated into their natural setting.

Our new head office is already having an observable positive impact on our ability to attract and retain the best talent. We also continued deploying management tools such as the succession management program and the leadership program. We are confident that we have the best people in both Canada and the US.

It is because of all the decisions we have made in recent years, the support of our 3,271 members and the dedication of our 8,000 coworkers that we are experiencing remarkable growth overall and are better positioned than ever.

During this year of consolidation, we continued building on our five pillars. Our actions were also informed by our new mission and our new values. In a constantly changing environment, we believe it is vitally important to have clear objectives and compelling shared ambitions for the future.

We still have a long way to go. To achieve our goals, we want to make teamwork our byword at every level of the organization. We believe our management practices must be modern and motivational for all of our 8,000 employees. As we look forward to 2017, we are filled with confidence and enthusiasm.

Finally, I sincerely thank the members of the Board and our President, Serge Riendeau, who is retiring in February 2017. I salute his leadership. His vision has been instrumental in our organization's responsible growth. I am grateful to my colleagues on the Management Committee and to all the Agropur employees who work every day to advance our organization.

I thank the entire Agropur team for a highly successful year.

ROBERT COALLIER
CEO

Board of Directors

1_SERGE RIENDEAU
President
Presented and elected
by universal suffrage 1991

2_RENÉ MOREAU
Vice-President
Nicolet–Bois-Francs 1998

3_JEANNIE VAN DYK
Vice-President
Atlantique 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


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8_STÉPHANIE BENOIT
Presented and elected
by universal suffrage 2015

9_CLAUDE CRESSIER
Érable–Seigneuries 2015

10_JEAN FILIATRAULT
Montérégie 1993

11_ALAIN FORGET
Laurentides–Lanaudière 2014

12_JEAN-PIERRE LACOMBE
Salaberry–Richelieu 2007

13_VALÈRE LIEUTENANT
Estrie–Granby 2012

14_RALPH BALLAM
Guest member of the Board 2013

15_SUZANNE BLANCHET
Guest member of the Board, the
Human Resources Committee and
the Environment Committee 2015

16_JIM WALKER
Guest member of the Board 2014

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

16


Natrel
bIPro

Senior Management Committee

STANDING

SIMON OLIVIER
Senior Vice-President, Strategy and Innovation

SERGE FORTIER
Senior Vice-President, Information Technology

SERGE PAQUETTE
President, Canada Operations

NICOLAS MARIE
Senior Vice-President, Strategic Sourcing and Development

ROBERT COALLIER
Chief Executive Officer

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

DOUG SIMON
President, US Operations

JOCELYN LAUZIÈRE
Senior Vice-President and Chief Financial Officer

SEATED

PIERRE CORRIVEAU
Senior Vice-President, Human Capital

BENOÎT ZOLNAÏ
Senior Vice-President, Operational Excellence and Quality

DOMINIQUE BENOIT
Senior Vice-President, Institutional Affairs and Communications

The brand strategy Agropur has been pursuing for several years continues to pay dividends and to produce conclusive results.

Brand Strategy

PILLAR

01

Transforming to build our brands

AGROPUR IS CANADA'S MOST TRUSTED DAIRY BRAND

The Agropur brand topped the list in the dairy category on the prestigious Gustavson Brand Trust Index. In September 2016, the Peter B. Gustavson School of Business at the University of Victoria published its latest in-depth analysis of the corporate and product brands Canadian consumers trust the most.

NATREL CONTINUES GAINING GROUND

Natrel's various initiatives continue to bear fruit. Examples include increased emphasis on lactose-free products, new concepts that let consumers fully experience Natrel's brand promise, and ongoing efforts to grow Natrel's Canadian market share in all high-volume categories. Natrel is number one in Canada in the lactose-free, fine-filtered and organic categories.

We adopted a more dynamic approach by launching an advertising campaign for Natrel Lactose Free on social networks in English Canada in April 2016. The campaign has been a resounding success. As well, the Natrel Milk Bar by java u concept also came to English Canada with the opening of a coffee shop in Toronto's West Queen West neighbourhood in July 2016.

The fact that the Natrel product line now includes milk, cream, butter and cultured products raises its national profile and generates new business opportunities and possibilities for building brand equity.

OKA STILL GROWING

OKA has been on a strong uptrend since 2013, which continued in 2016 with healthy growth both inside and outside Quebec. OKA sales (by weight) have increased 75% since 2013.

In only a few months, OKA portion packs have achieved wide distribution across the country. Consumer adoption has been so strong that performance is above projections. This latest addition to the OKA line promises to become a new flagship product for Agropur.

BIPRO, THE BRAND ATHLETES AND CONSUMERS TRUST

In the US, significant amounts are being allocated to marketing for our biPro brand's flavoured protein powders and protein drinks. BiPro continues gaining popularity with both elite athletes and consumers.

BiPro is also entering the Canadian market as of January 2017. BiPro protein powders will be sold on an online shopping site and at sports nutrition shops, two new distribution channels for Agropur.

BiPro already has its first Canadian ambassador, Olympic medallist Jennifer Heil, as well as many influencers, including kinesiologists, trainers and nutritionists, in its corner and will have a presence at many sporting events in the coming year.

ULTIMA FOODS: BOLDNESS PAYS OFF

Our Ultima Foods joint venture is successfully pursuing its brand strategy: it has reinvented its Olympic brand and is evolving its iögo brand. The two brands topped growth in the fresh dairy products category in fiscal 2016 with 10% and 6% increases, respectively (Nielsen: 4 weeks ended October 15, 2016), compared with annual growth of approximately 3% for the category as a whole.

Ultima Foods has reinvigorated the Olympic brand with a new slogan ("Good nature. Good people. Good yogurt."), new positioning and new packaging. Just a few weeks after the August 2016 facelift, Olympic had buttressed its position as a national leader with a nearly 37% market share in the organic segment and 12% growth in the gourmet segment for its Krema brand.

Already dominant in the early-childhood segment with a 52.5% market share, iögo is now bidding to strengthen its posture as an innovative brand in all market segments. Of the 335 million kilograms of yogurt sold in Canada, 15.7% bear the iögo or Olympic label.

"QUALITY MILK" CERTIFICATION OF ORIGIN LOGO ON OUR AGROPUR PRODUCTS

One of the highlights of the year on the brand strategy front was Agropur's decision to display on all its products the new certification of origin logo for quality Canadian milk, unveiled on November 1 by Dairy Farmers of Canada.

The move was the result of lengthy discussions with DFC about each party's role in the marketing process. The logo will gradually make its appearance on the packaging of products sold under Agropur brands made in Canada and in Agropur's marketing and promotion activities. This strategy will not only support our brands but also promote our industry, quality milk and the work of our dairy farmers.

DAIRY FARMERS OF CANADA LES PRODUCTEURS LAITIERS DU CANADA

Source: Nielsen


OKA
OLYMPIC
KREMA
Natrel
SANS LACTOSE FREE

During the year, we made great strides on our innovation pillar by setting up a new "Inno Agropur" process.

PILLAR

Innovation 02

Transforming to surprise and delight consumers

ROBERT COALLIER,
Agropur CEO,
at the Inno Challenge launch.

Photo on previous page (on the left) :

DAMIEN SILÈS,
Director of the Quartier de l'innovation de Montréal

SERGE RIENDEAU,
President, Agropur

ROBERT COALLIER,
CEO, Agropur

NICOLAS MARIE,
Senior VP, Strategic Sourcing and Development, Agropur.

NEW INNOVATION PROCESS

The Agropur teams worked hard during the year to set up a new four-pronged "Inno Agropur" process that will speed up innovation:

INNO FABRIK is an annual in-house idea-generation process. Employees from different departments and age groups come together for brainstorming sessions. The selected concepts are then prototyped and presented at Inno Expo in the following spring.

INNO EXPO, formerly known as the Innovation Marketplace and held for the first time in May 2016, gives Agropur's leaders a chance to see the new prototyped concepts, comment on them and vote for the ones they consider most promising. The top eight concepts then progress to the Inno Boutique stage and the other promising concepts are sent to the Marketing department.

INNO BOUTIQUE, our "incubator," is an accelerated development process that brings the selected concept to market for testing in the space of 90 days. The goal is to surprise and delight consumers.

INNO CHALLENGE, launched on October 31, 2016, is a crowdsourced innovation initiative open to all creative thinkers in Quebec, Canada and around the world who have innovative ideas about the dairy products of the future. It is a first in agri-food innovation. The selected candidates will work with the R&D team to develop prototypes, which will be showcased at Inno Expo the following Spring.

ENTERPRISE RESOURCE PLANNING (ERP) PHASE 2 COMPLETED

Agropur continued rolling out its enterprise resource planning system. On October 31, 2016, Phase 2 of the deployment of our Oracle ERP integrated management software was successfully completed. The financial processes for Canadian operations have now been migrated to the system. Phase 3, which is now starting up, will be the largest IT project in Agropur's history by far.

ALPHA-LACTALBUMIN

In 2016, we made a strong push to increase alpha-lactalbumin production and develop the market for the high-end whey product. Alpha-lactalbumin, the purest cow's milk protein isolate in the world, was developed by our American operations.

Over the past several years, Agropur has made investments to modernize its plants, improve their performance and endow them with the capacity to support our sales growth.

Cost Leadership

PILLAR

03

Those capital expenditures have made the solid growth we are now experiencing possible.

Transforming to create effective structures

MAJOR INVESTMENT IN WEYAUWEGA

The latest, a US$58-million project at the Weyauwega plant, was launched in October 2014. Operations at the new facilities began on schedule in June 2016. The project will enable us to cut costs and remain number one in feta production in the US.

The expansion was necessitated to meet the strong market demand for the high-quality feta made at the plant. By the end of 2016, we had increased the Weyauwega plant's capacity by 128%. Agropur is the largest feta-maker in the US.

STRATEGIC SOURCING & DEVELOPMENT GENERATES SIGNIFICANT SAVINGS

The Strategic Sourcing & Development group, created at the end of 2014, has already generated supply cost reductions. These savings were made possible by aligning our Canadian and US operations around common objectives in order to harmonize and rationalize our needs, making it possible to reduce the number of suppliers, integrate them more closely into our business processes, and hence maximize our purchasing power.

OPERATIONAL EXCELLENCE GROUP IMPROVES QUALITY AND CONTAINS COSTS

In 2014, the creation of the Operational Excellence group helped standardize our processes, improve quality control and ensure respect for the environment, thereby contributing to achievement of our objectives and to cost reduction. The group works to establish programs that standardize our approaches by modelling them after best practices from across the organization.

OUR COST-CUTTING TARGET AFTER ONE YEAR

Our new $100-million target over three years was therefore announced at the beginning of the 2016 financial year. After only one year, we have already achieved $41 million in savings. We are therefore well on track to reaching our goal.

_MICHELLE WALDVOGEL
_MICAH KLUG and
_KYLE HIGGINS
working on the new feta line at the Weyauwega plant, Wisconsin, USA.

In 2016, Agropur continued its efforts with respect to Human Capital. Several initiatives during the year played a major role in moving Agropur's transformation forward.

Human Capital

PILLAR

04

Transforming to create the best work environment for employees

NEW STRUCTURES ESTABLISHED

The most significant change during the past year was certainly the establishment of new structures for both US and Canadian operations. That transformation gives us greater agility to change and innovate and a customer-driven focus. The new structures are tailored to each market.

Our Canadian teams, which have been brought together under Canada Operations, reviewed their ways of doing things in order to be able to bring customers a comprehensive, integrated offering of Agropur's full product portfolio. Employees did outstanding work to help enhance our customer relationships and our operating results.

In the US, the management team will ensure Agropur's future development in the American market by laying solid foundations to drive growth.

The new structures also open up new possibilities, such as:

- Increased customer focus.
- Better teamwork at all levels of the organization.
- Harmonized corporate culture based on common values.
- Succession planning.

SUCCESSION MANAGEMENT PROGRAM

Human capital is vitally important to our business: Agropur needs to attract and retain the best employees if it is to achieve its operating objectives. During the year, Agropur established new programs and modernized talent management practices.

Sustainability is among our member-owners' central concerns. Succession management is therefore a vital priority. A new program based on corporate best practices was introduced in order to identify and develop young talent. It also identifies key positions and provides for succession planning in order to ensure business continuity. The program was finalized and implemented during 2016.

As well, employees' potential will be taken into account in setting compensation, in addition to the individual's annual performance, in order to better recognize employees in the succession pool and strong performers.

EVOLUTION PROGRAM

Implementation of the Evolution project continued at some Agropur plants in 2016. Evolution is a customized program that Agropur developed on the basis of best continuous improvement practices. The goal is to foster a new performance management culture in the plants in order to remain the industry leader. Evolution is helping to improve health and safety, enhance quality, reduce costs, cut lead time, motivate employees and improve the environment.

CHANGE MANAGEMENT

In the last two years, Agropur has set up a change management team in the Human Capital department to support managers and employees with corporate transformation projects.

In 2016, the team worked on the head office campus project, helping employees get off to a running start in their new collaborative work environment and use the new technology available to them to enhance their performance. For the ERP deployment in the Fresh and Frozen Dairy Products business unit (Finance and Procurement module), the change management team not only helped managers and employees quickly adopt the new software but also new business processes and new work organization.

The change management team supports Agropur's performance by becoming part of corporate projects and making sure all the employees affected by the changes understand the new ways of doing things and are prepared to adopt them.

POSITIVE RESULTS IN OCCUPATIONAL HEALTH AND SAFETY

Our "zero tolerance" approach to accident risks spawned a 15-point prevention program based on behaviours as a Canadian standard.

Our health and safety record improved in 2016. The number of accidents with lost time decreased by 14% compared with 2015. Our prevention efforts and our management of occupational health and safety files were rewarded with an 8% decrease in our workers' compensation premiums in Quebec, a 4% decrease in British Columbia and a stable rate in Ontario (2015 vs. 2016). We are continuing our accident reduction and harmonization efforts by establishing health and safety standards.

OPENING OF THE NEW AGROPUR HEAD OFFICE

Agropur Dairy Cooperative's new head office in Longueuil, Quebec, was officially opened on June 21, 2016. The $90-million, nearly 42,000-square-metre facility houses more than 800 employees from the Granby, Longueuil, Saint-Hubert and Saint-Laurent administrative offices and from Ultima Foods.

The opening was the culmination of more than three years of planning and construction. The head office's distinguishing features include a design that is integrated into nature and respectful of the environment. The layout of the work spaces promotes discussion and team work. A variety of new facilities are available to employees, including a cafeteria, a gym and a daycare which will open in Summer 2017.

EMPLOYEES IN THE CAFETERIA at the new head office in Longueuil, Quebec.

In recent years, our development strategy has included mergers and acquisitions, which have enabled us to grow and become a major player in the North American market.

National and International Strategies

PILLAR

05

Transforming to pursue our development

A YEAR OF INTEGRATING MERGERS AND ACQUISITIONS

Like 2015, the year 2016 was devoted to integrating the many significant mergers and acquisitions of recent years. Those transactions have helped propel Agropur to an enviable position in the North American market, making us one of the top five players in the dairy processing industry. Our mergers and acquisitions have therefore made us an industry leader. Our customers demand that the companies with which they do business have the capacity to meet their needs and requirements; they therefore want to deal with leaders such as Agropur.

We made the right strategic choices at the right time. We are now very advantageously positioned and can look to the future with optimism. Despite volatile markets, we expect to be able to realize the full potential of all our gains of recent years.

After the end of the fiscal year, we concluded an agreement to buy Scotsburn Co-operative Services Ltd. assets. The transaction is subject to the customary regulatory approvals, including go-aheads from the Competition Bureau and other competent authorities.

AGROPUR BECOMES ONE OF THE WORLD'S TOP 20 DAIRY COMPANIES

In 2016, for the first time in our history, we appeared on the list of the 20 largest dairy companies in the world compiled by Rabobank, an international financial services provider. Our solid financial performance in 2015 and our latest investments and acquisitions, notably Davisco, have made us a major player in the global dairy industry.

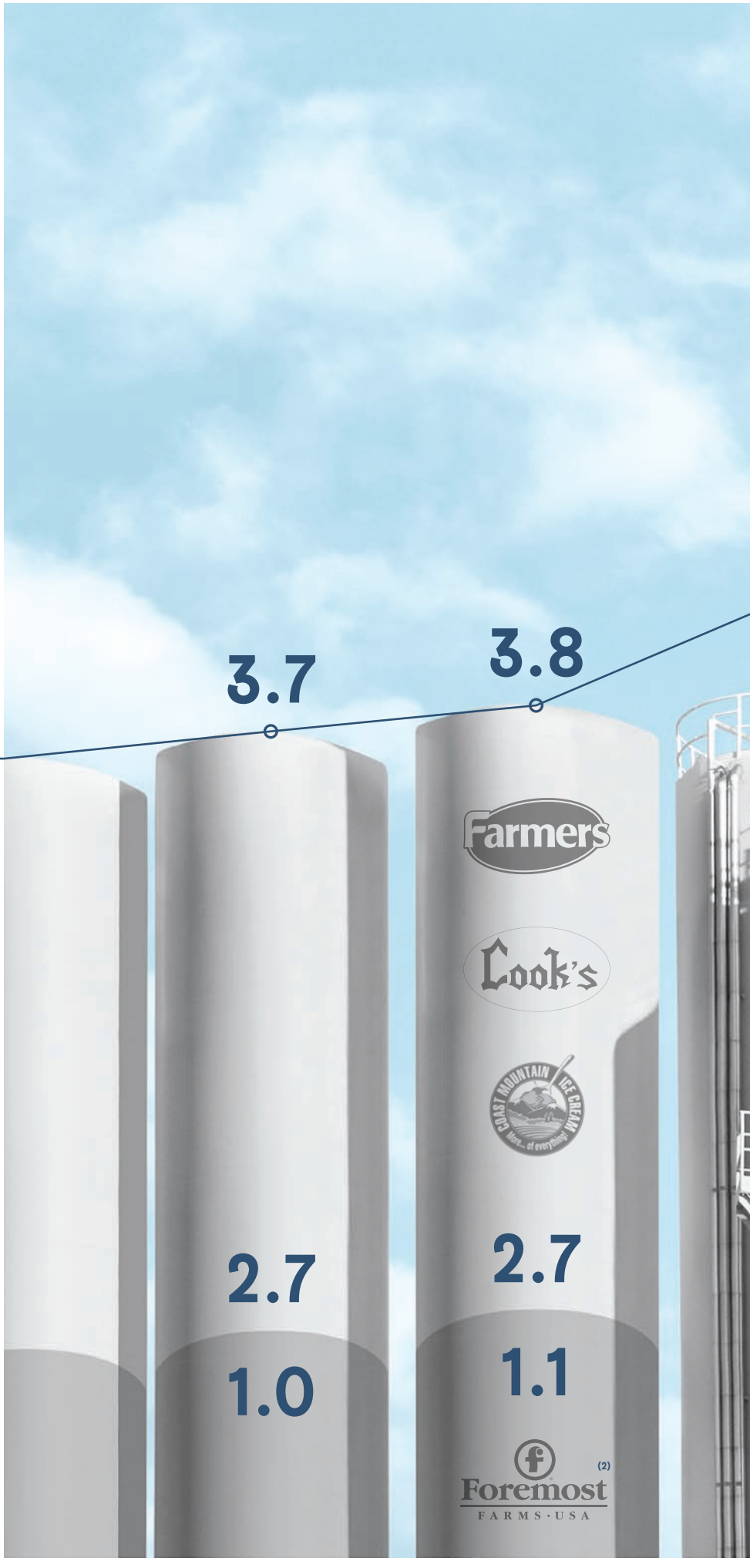
Sales

IN BILLIONS OF DOLLARS

Agropur's growth through mergers and acquisitions

About $1.6 billion was spent on mergers and acquisitions between 2012 and 2016. Those deals have helped propel Agropur to the leading position in the North American market that it enjoys today.

+63%



(1) Fiscal year including 53 weeks.
(2) Foremost: acquired dry blending business.
Foremost Farms U.S.A. is a trademark of Foremost Farms U.S.A.
(3) Sobeys: acquired dairy processing assets.
Sobeys is a trademark of Sobeys Capital Incorporated.


4.7
5.9
6.0
Damafro
MLI
M. Larivée International Inc.
Dairytown
"In the heart of the dairy country!"
DAVISCO
FOODS INTERNATIONAL, INC.
Sobeys (3)
NORTHUMBERLAND
3.0
1.7
3.3
2.6
3.3
2.7
2014
2015
2016

Though Agropur has developed rapidly in recent years and is now one of the 20 largest dairy companies in the world, its values of solidarity and mutual aid remain intact. These are principles that are embedded in a cooperative's DNA.

Corporate Social Responsibility

Transforming to benefit the communities where we operate

In 2016, our organization gave, in the form of donations and sponsorships, the equivalent of more than 1% of its earnings before patronage dividends and taxes to organizations dedicated to improving the well-being of children and families.

DONATIONS AND SPONSORSHIPS

Through this program, Agropur supports the economic and social development of dozens of communities across North America in which it has facilities. Throughout the year, Agropur contributed to organizations such as the Breakfast Club, food banks in Quebec and the rest of Canada, Fondation OLO, which helps vulnerable expectant mothers, and hospital foundations.

In April 2016, the President of the Cooperative agreed to serve as honorary co-chair of the Pacific Path Institute's major fundraising campaign. Pacific Path offers programs and services that fight bullying and violence by promoting mediation and peaceful conflict resolution. Agropur has pledged a total of $250,000 to the campaign over five years. The Cooperative's members were also canvassed and responded generously with donations.

Also in keeping with its commitment to solidarity and mutual aid, Agropur donated $25,000 to the Canadian Red Cross to help the victims of the wildfires that ravaged Fort McMurray in May 2016.

Agropur encourages its employees to support local organizations in their communities. Under Agropur's employee fundraising campaign, employees form committees and choose the causes they wish to support. They organize fundraising activities across Canada and the US, and Agropur matches every dollar raised. Counting Agropur's matching contribution, nearly $73,000 was collected in 2016 at 11 workplaces for 18 organizations in Canada and the US.

SUPPORTING THE NEXT GENERATION

As the Cooperative's sustainability is a core element of its mission, encouraging and promoting young farmers is a priority. For more than 30 years, Agropur's Young Cooperative Leaders Program has been giving young people who will be taking over a farm in the coming years an opportunity to explore all facets of the cooperative movement in general and our organization in particular.

In 2016, for the first time, a study tour of the US Midwest was organized for former participants in the Young Cooperative Leaders Program. They learned about the US dairy system and visited Agropur plants and dairy farms in the region.

Agropur also funds merit-based scholarships for students enrolled in a Canadian college or university-level program related to agriculture or food industries, and it makes annual donations to the University of Wisconsin and the University of South Dakota.

ENVIRONMENT

To protect the environment, Agropur has been applying environmentally responsible management practices for years. At this time, a number of projects are in progress at all levels of the organization, including initiatives relating to wastewater, recycling and energy reduction. Fast-changing regulatory requirements are exerting pressure on the entire organization. Among other things, major investments have been made at the Oka plant to install a new wastewater treatment system. The Beauceville and Notre-Dame-du-Bon-Conseil plants are already equipped with the system, which treats wastewater by aerobic degradation of organic materials using a sequencing batch reactor. The treated water can then be released into nearly bodies of water, in accordance with Environment Ministry standards.

Agropur is also pursuing multiple green initiatives that go beyond meeting regulatory requirements. For example, the logistics and transportation department has taken various steps to reduce greenhouse gas emissions, including programming engines to limit idling time to 10 minutes, and replacing 36 refrigeration units with hybrid units.

In the operational sphere, Agropur has partnered with the town of Saint-Hyacinthe and joined its biomethanation project aimed at diverting biodegradable matter from local landfill sites.

Two Agropur committees are charged with ensuring effective environmental management and monitoring environmental initiatives in Canada and the US. The Environment Committee, made up of members of the Board of Directors, is responsible for environmental policy decisions, orientation and oversight. The Environmental Steering Committee, which includes members of the Management Committee, is responsible for development and implementation of action plans. Agropur's environment administers the environmental management system and works with all Agropur entities to help them meet their obligations and support their projects.

ANIMAL WELFARE

Agropur is sensitive to animal welfare issues and accordingly adopted a statement on the matter in 2016. Agropur has zero tolerance for animal mistreatment or cruelty. We also support industry initiatives to address this issue.

In 2016, our organization gave, in the form of donations and sponsorships, the equivalent of more than 1% of its earnings before patronage dividends and taxes to organizations dedicated to improving the well-being of children and families.

Our Cooperative's earnings increased significantly year over year due to more stable cheese prices in the US, our cost-reduction efforts and the contribution of the dairy processing plants acquired from Sobeys last year. The weak Canadian dollar also affected 2016 results.

Financial Review

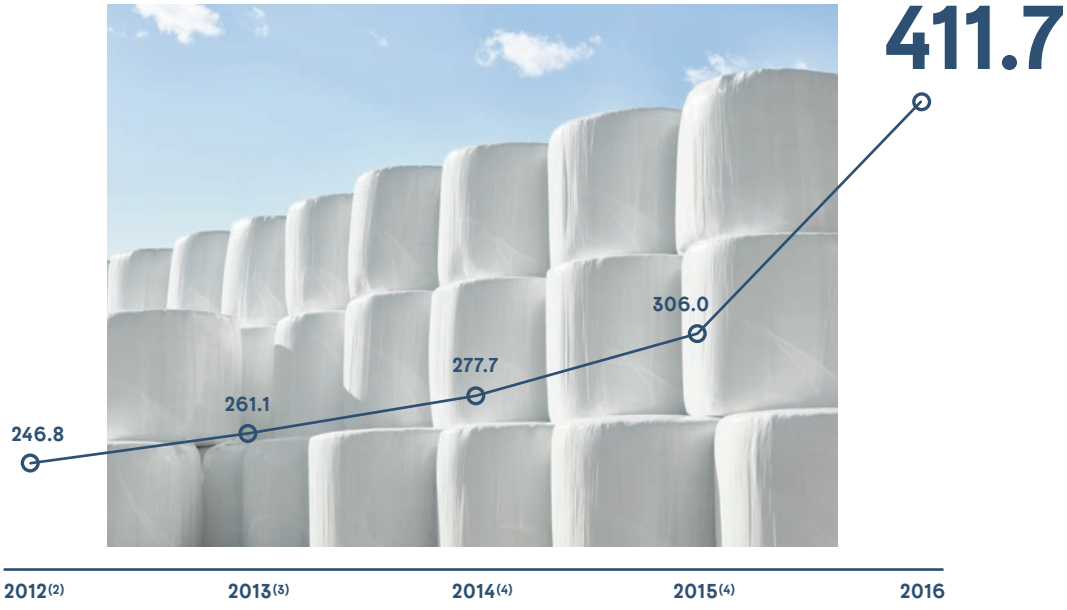
Sales

_IN MILLIONS OF DOLLARS

(1) Fiscal year including 53 weeks.

Earnings from Operations(1)

_IN MILLIONS OF DOLLARS



(1) Earnings before interest, income taxes, depreciation, amortization, restructuring costs, integration and other non-recurring costs and joint ventures.
(2) 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

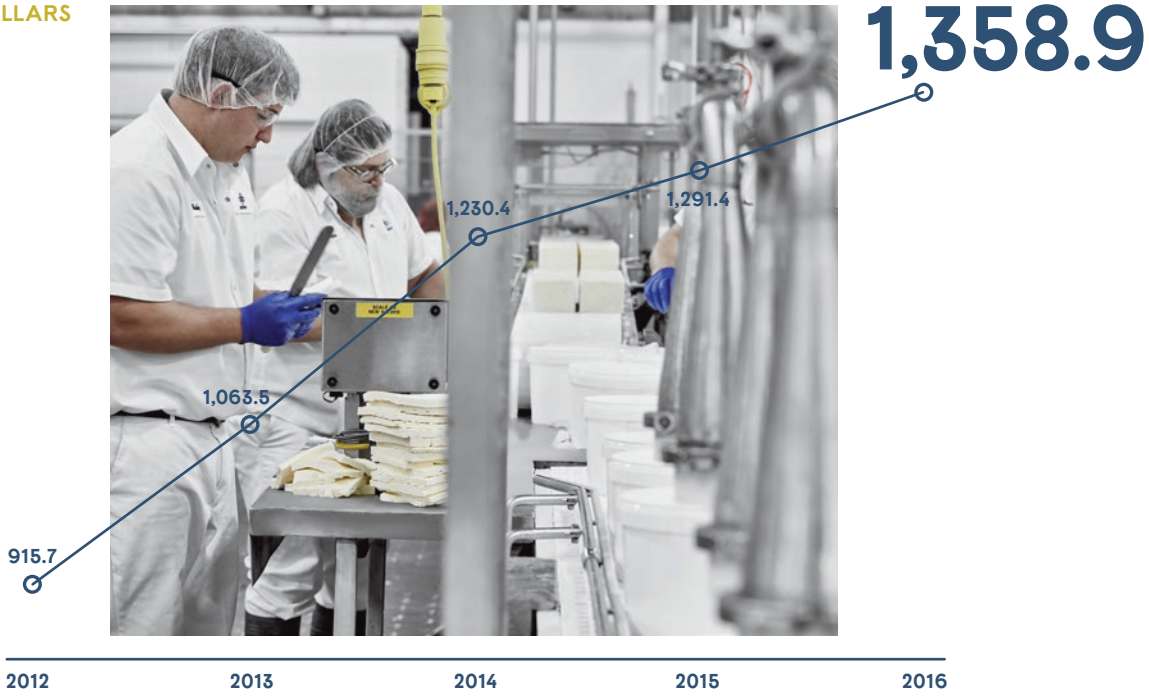
(1) Fiscal year including 53 weeks.
(2) Restated to reflect the adoption of the revised employee future benefits accounting standard.
(3) Excluding the impact of Davisco's inventories accounting treatment, net of income taxes.

Patronage Dividends

_IN MILLIONS OF DOLLARS

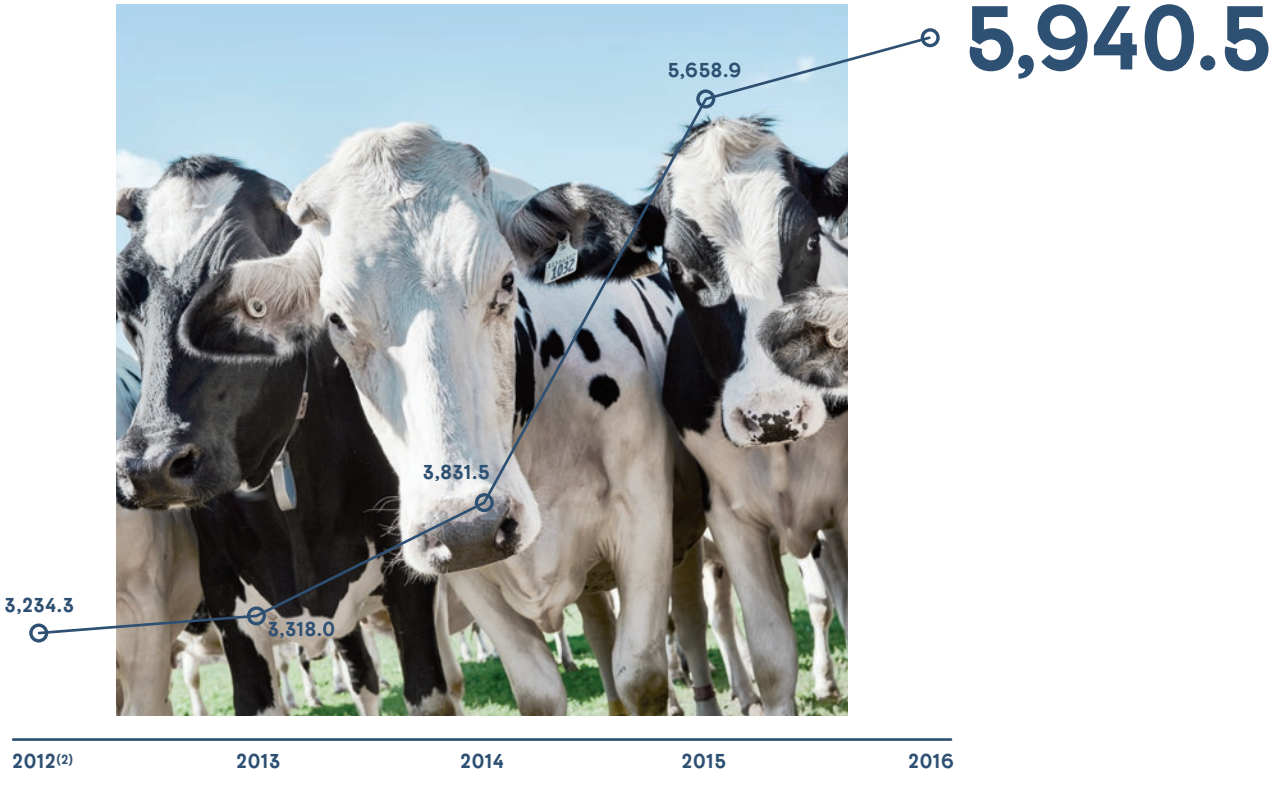
Members' Equity

_IN MILLIONS OF DOLLARS



Milk Processed[1]

_IN MILLIONS OF LITRES



(1) Milk processed includes joint ventures.
(2) Fiscal year including 53 weeks.

Message from the Senior Vice-President and Chief Financial Officer

Our Cooperative's earnings increased significantly year over year due to more stable cheese prices in the US, our cost-reduction efforts and the contribution of the dairy processing plants acquired from Sobeys last year. The weak Canadian dollar also affected 2016 results.

Consolidated sales amounted to close to $6 billion, a new high. Earnings from operations totalled $411.7 million. During the year, world dairy prices again prevented us from realizing the full potential of our operations, but the gradual market recovery is having a favourable effect. We are however being impacted by strong competition in the Canadian market. In the US, despite lower average cheese prices, the decrease in volatility had a positive impact on earnings. Despite these market contingencies, we recorded significant growth in our results because of the full-year contribution from the Sobeys dairy processing plants, higher sales volumes in the US related in particular to investments in capacity expansion, and the new three-year cost-reduction program. It should be noted that the appreciation of the US dollar was also a factor in the increase. Earnings before patronage dividends and the Cooperative's income taxes totalled $154.0 million.

Following the announcements made in 2015, production was transferred from our plants in Saint-Bruno, Quebec, and Chilliwack, British Columbia, to other Agropur facilities in May and October respectively, yielding efficiency gains.

More than 5.9 billion litres of milk were processed at our plants in 2016, a 5.0% increase from the previous year. Volumes of processed milk rose by 6.5% to 3.5 billion litres in the US and by 2.8% to 2.4 billion litres in Canada.

Jocelyn Lauzière

Fiscal 2016 was also marked by the Cooperative's second issuance of first preferred shares in the amount of $300 million on December 16, 2015. Continuation of the capital investment plan aimed at, among other things, increasing production capacity was also a priority for the Cooperative. The major structural changes in both Canada and the US announced in 2015 took shape during the year. In addition to increasing our efficiency and our agility, the new structures enable us to more effectively meet specific customer needs on both sides of the border. Finally, after the end of the fiscal year, we concluded an agreement to acquire the frozen dairy product manufacturing assets of Scotsburn Co-operative Services Limited in Truro, Nova Scotia, and Lachute, Quebec.

GOVERNANCE

The financial statements were prepared in accordance with International Financial Reporting Standards and were reviewed by the Audit Committee. On the Committee's recommendation, the Board of Directors approved the 2016 financial statements.

Review of the 2016 financial statements

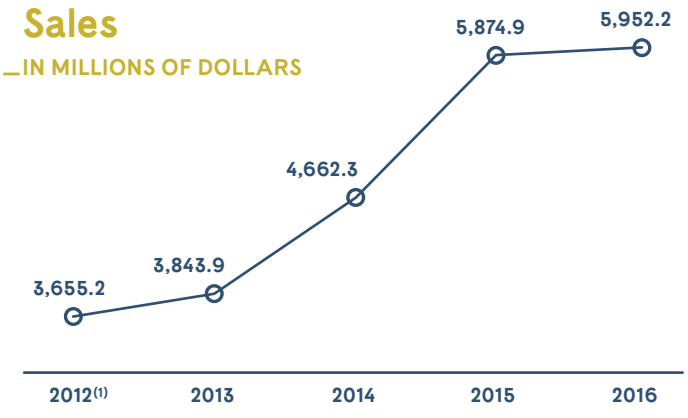
EARNINGS

Sales reached nearly $6 billion in 2016, an increase of $77.3 million.

Canadian sales were stable at $3.3 billion. Fresh and frozen dairy products sales volume increases were supported by the volumes from the Sobeys processing plants that we operated for a full year in 2016. At our cheese operations, increases in sales of retail cheese and of dried milk-based products were outweighed by lower prices for ingredients. Finally, with respect to butter sales, growing consumer demand for butter translated into increased sales volumes.

US operations recorded sales totalling $2.7 billion, a 3.0% increase. The growth in volume and the translation of US sales into Canadian dollars had a positive impact on sales. On the other hand, the decline in dairy ingredient prices in global markets that began last year and the decrease in the average cheese block price had a negative impact on sales in 2016. Our US operations generated 44.3% of consolidated sales in 2016, compared with 43.8% in 2015.

The following chart shows the evolution of consolidated sales over the past five years. They amounted to nearly $6 billion in 2016 compared with $3.7 billion in 2012, a 62.8% increase for a compound annual growth rate of 13.0%. The growth was mainly due to mergers and acquisitions, as well as numerous capital projects aimed at increasing production capacity.



(1) Fiscal year including 53 weeks.

Earnings from operations amounted to $411.7 million, an increase of $105.7 million, or 34.6%, compared with adjusted earnings* in 2015.

Earnings from Canadian operations increased by 9.4% year over year. We were negatively impacted by aggressive competition in the Canadian market and by whey product prices, but the inclusion of the Sobeys dairy processing plants for the full year and the results of our cost-reduction efforts had a very positive effect. In this connection, the various initiatives undertaken during the past year under the new three-year, $100-million cost-reduction program have already contributed $39.1 million to Canadian earnings.

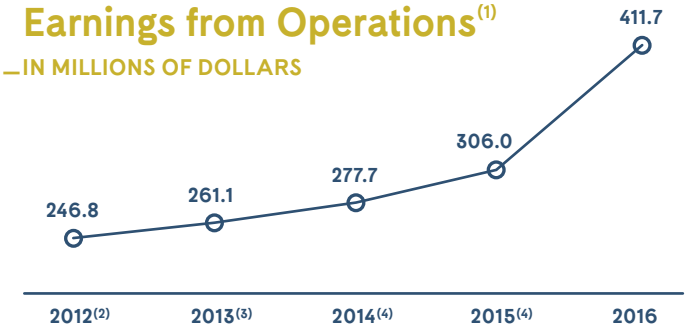
*Earnings from operations for 2015 have been adjusted to make them comparable with the 2016 figures; a $10.9-million adjustment was made in connection with the low-margin sale in 2015 of inventories acquired from Davisco in August 2014.

Earnings from US operations surged 60.1% compared with adjusted earnings* in 2015. Earnings were favourably impacted by a more stable cheese block price/cost of milk ratio, combined with higher sales volumes for cheeses and whey products. The dry blending business and the operations of Natrel USA also contributed to the increase in earnings. Lastly, translation of US earnings into Canadian dollars had a positive impact due to the weak Canadian dollar.

The following chart shows the evolution of consolidated earnings from operations over the past five years. Consolidated earnings rose by $164.9 million from $246.8 million in 2012 to $411.7 million in 2016, a compound annual growth rate of 13.7%.

Earnings from Operations[1]

IN MILLIONS OF DOLLARS



(1) Earnings before interest, income taxes, depreciation, amortization, restructuring costs, integration and other non-recurring costs and joint ventures.
(2) 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 earnings, we deducted a depreciation and amortization expense of $163.3 million, up $18.0 million from 2015, essentially because of the acquisition of Sobeys' dairy assets last year, the commissioning of some major projects, and translation of the depreciation and amortization charge on US assets into Canadian dollars. We then deducted restructuring costs, integration and other non-recurring costs in the amount of $18.9 million, consisting mainly of expenses related to the restructuring of Canadian operations, plant closure costs, startup costs for the Weyauwega feta plant, and expenses related to the move to our new head office. Financial expenses were up $2.1 million due to higher interest rates and translation into Canadian dollars of the interest on US-denominated debt. The income tax expense recorded by our subsidiaries rose by $39.4 million as a direct result of the improved US earnings. Finally, the Ultima Foods joint venture showed improved earnings and iögo's market share continued to climb. Agropur therefore generated earnings before patronage dividends and the Cooperative's income taxes in the amount of $154.0 million, a 63.1% increase compared with adjusted earnings in 2015.

The Board of Directors approved patronage dividends of $60.1 million, compared with $40.6 million in 2015, payable 25% in cash and 75% in investment shares.

After deducting patronage dividends, the Cooperative recorded income tax recovery in the amount of $4.7 million. Agropur therefore generated net earnings of $98.6 million, which were added to the reserve.

Comprehensive income totalled $84.0 million in fiscal 2016, broken down as follows: net earnings of $98.6 million plus the items recorded under accumulated other comprehensive income, including a $6.6 million net gain to account for the effect of depreciation of the Canadian dollar on consolidation of the assets and liabilities of our US subsidiaries and on translation of long-term debt into Canadian dollars. As at October 29, 2016, the exchange rate was C$1 for US$0.75, compared with US$0.76 at October 31, 2015. The weak Canadian dollar resulted in recognition of a net cumulative unrealized translation gain of $99.7 million on the balance sheet for foreign operations and long-term debt. However, these accounting translation variances will continue to fluctuate with the movements of the Canadian dollar against the US dollar over time. The other elements of comprehensive income are the items transferred to the reserve, which consist of actuarial losses on the defined benefit pension plans in the amount of $21.2 million, net of income taxes, caused by the decrease in the discount rate for pension obligations. Current interest rates are very low and an increase in rates would result in an equally rapid decrease in the actuarial losses.

CASH FLOWS

Cash flows from operating activities kept pace with earnings from operations, totalling $392 million. During the year, the funds devoted to non-cash items totalled $100 million as presented in detail in note 8 to the financial statements. This change in working capital resulted mainly from increased maturation cheese inventories and decreases in milk payable and other payables.

With respect to financing activities, net of expenses, the second issuance of first preferred shares generated $298 million, which was fully allocated to the repayment of debt. Aside from this share issuance, liquidities in the amount of $183 million were used for debt service and dividend payments in 2016.

Investments in property, plant and equipment and intangible assets during the year totalled $148 million, allocated mainly to the feta capacity expansion project at the Weyauwega plant in the US, completion of our new head office in Quebec, and the ongoing ERP implementation project.

Finally, outflows associated with member activities amounted to $16 million, consisting essentially of the cash portion of patronage dividends.

*Earnings from operations for 2015 have been adjusted to make them comparable with the 2016 figures; a $10.9-million adjustment was made in connection with the low-margin sale in 2015 of inventories acquired from Davisco in August 2014.

Inflows and Outflows

IN MILLIONS OF DOLLARS

Inflows

Total – **745**

OPERATIONS – 392

LIQUIDITIES – 48

PREFERRED SHARES, NET OF ISSUANCE EXPENSES – 298

PROCEEDS FROM DISPOSAL OF ASSETS – 7

Outflows

Total – **745**

PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS – 148

MEMBERS AND CAPITAL – 16

DEBT SERVICE AND DIVIDENDS – 481

WORKING CAPITAL – 100

Use of Funds 2012 to 2016

3.0 billion dollars

For the past five years, inflows totalled $3.0 billion, of which $277 million, or 9.2%, was paid out to members as patronage dividends in cash and capital redemptions. Outflows related to mergers, acquisitions and disposal totalled $1.574 billion. In addition, $892 million was disbursed for investments in property, plant and equipment and intangible assets.

BALANCE SHEET

As at October 29, 2016, the Cooperative's net assets were $2.1 billion. Assets totalled $4.1 billion, unchanged from last year. The positive impact of translation of the US subsidiaries' assets into Canadian dollars was offset by a decrease in cash and a variance in deferred income taxes. Liabilities were nearly $2.0 billion, a $358-million decrease. Despite the impact of translation of US-denominated debt into Canadian dollars, debt decreased by $335 million, partly as a result of debt repayment following the second issuance of first preferred shares.

Note 17 to the financial statements provides details of share capital. Patronage dividends distributed as Class A investment shares in the amount of $45.2 million were added to the 2015 capital. The Cooperative also issued first preferred shares in the amount of $300 million, as noted above. Share issuance expenses, net of income taxes, in the amount of $2.1 million were deducted from the reserve. Consequently, equity totalled $2.1 billion as at October 29, 2016. Excluding the first preferred shares, members' equity stood at $1.359 billion, up $67.5 million from 2015.

OUTLOOK

As discussed above, our earnings have increased significantly. To maintain the uptrend, we will continue our efficiency improvement efforts. Major capital expenditures as well as the cost-reduction program are all initiatives that allow us to increase our profitability despite the global dairy market environment, which has so far prevented us from realizing our full potential. We plan to continue along the same path, to stay focused on our growth strategy, and to maintain our development objectives.

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

JOCELYN LAUZIÈRE
Senior Vice-President and Chief Financial Officer

Risks and uncertainties

PRODUCT-RELATED RISKS

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

RAW MATERIAL RISKS

Price volatility, 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 prices of its products.

CUSTOMER-RELATED RISKS

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

COMPETITION RISKS

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

MARKET RISKS

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

BUSINESS ENVIRONMENT RISKS

Demand for our products could be affected by an economic slowdown or market recession, which would consequently impact 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. Insufficient quantities, quality or timeliness could negatively impact our results.

RISKS RELATED TO UNPLANNED DISRUPTION OF OPERATIONS

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

ACQUISITION RISKS

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

INTEREST RATE RISKS

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

INFORMATION SYSTEM RISKS

The integration of computer applications into the Cooperative's operations makes the Cooperative more dependent on such applications. 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 production levels.

REGULATORY RISKS

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

ENVIRONMENTAL RISKS

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

LABOUR RELATIONS RISKS

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

PERSONNEL RISKS

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

RISKS ASSOCIATED WITH TARIFF RULES

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

RISKS RELATED TO EMPLOYEE FUTURE BENEFITS

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

Consolidated Financial Statements

CONSOLIDATED FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT

December 16, 2016

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 29, 2016 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 29, 2016 and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP[1]

Montréal, Quebec

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

CONSOLIDATED EARNINGS

Years ended (IN THOUSANDS OF CANADIAN DOLLARS)	**October 29 2016**	October 31 2015
Sales	**5,952,187**	5,874,931
Operating expenses excluding depreciation and amortization	**5,540,505**	5,579,828
Earnings before interest, income taxes, depreciation, amortization, restructuring costs, integration and other non-recurring costs and joint ventures	**411,682**	295,103
Depreciation and amortization (notes 10 and 11)	**163,290**	145,326
Restructuring costs, integration and other non-recurring costs (note 4)	**18,868**	23,343
Operating earnings	**229,524**	126,434
Net financial expenses	**43,786**	41,727
Loss (gain) on disposal of assets	**(591)**	108
Income taxes of subsidiaries (note 5)	**32,340**	(7,059)
Share of net earnings of joint ventures	**-**	3,838
Earnings before patronage dividends and the Cooperative's income taxes	**153,989**	87,820
Patronage dividends (note 6)	**60,107**	40,588
Cooperative's income taxes (note 5)	**(4,685)**	(268)
Net earnings	**98,567**	47,500

CONSOLIDATED COMPREHENSIVE INCOME

Years ended (IN THOUSANDS OF CANADIAN DOLLARS)	**October 29 2016**	October 31 2015
Net earnings	**98,567**	47,500
Items recorded under accumulated other comprehensive income		
Net change in fair value of derivative instruments designated as cash flow hedges, net of income taxes of $603 (2015 income tax recovery – $490)	**690**	206
Change in foreign currency translation adjustment of foreign operations	**46,689**	278,107
Change in foreign currency translation adjustment of term loan designated as hedge of a net investment in foreign operations	**(40,791)**	(210,637)
Share of other comprehensive income of joint ventures	**-**	(205)
	6,588	67,471
Items transferred to the reserve		
Actuarial gain (loss) on the accrued benefit obligation, net of income tax recovery of $7,697 (2015 income tax expense – $12) (note 21)	**(21,202)**	27
Share of actuarial gain on the accrued benefit obligation of joint ventures	**-**	579
	(21,202)	606
Total other comprehensive income	**(14,614)**	68,077
Total comprehensive income	**83,953**	115,577

CONSOLIDATED CASH FLOWS

Years ended (IN THOUSANDS OF CANADIAN DOLLARS)	**October 29 2016**	October 31 2015
CASH FLOWS FROM		
Operating activities		
Earnings before patronage dividends and the Cooperative's income taxes	**153,989**	87,820
Net financial expenses	**43,786**	41,727
Cooperative's current income taxes	**126**	4,569
Items not involving use of funds		
Depreciation and amortization	**163,290**	145,326
Share of net earnings of joint ventures	**-**	3,838
Deferred income taxes of subsidiaries	**31,730**	(7,617)
Others	**(591)**	(2,933)
	392,330	272,730
Patronage dividends payable in cash (note 6)	**(14,946)**	(10,025)
Change in non-cash items (note 8)	**(100,075)**	(15,031)
	277,309	247,674
Financing and share capital activities		
Interest paid	**(43,367)**	(39,113)
Long-term debt, net of issuance expenses	**(380,096)**	44,559
Issuance of first preferred shares, net of issuance expenses (note 17)	**297,637**	467,111
Dividends on first preferred shares	**(57,495)**	(26,564)
Issuance and redemption of members' shares and certificates of indebtedness	**(990)**	(57,743)
	(184,311)	388,250
Investing activities		
Business combinations (note 3)	**-**	(392,660)
Property, plant and equipment and intangible assets (notes 10 and 11)	**(148,091)**	(278,596)
Subordinated loan to a joint venture (note 7)	**-**	(3,532)
Proceeds from disposal of assets	**7,415**	1,007
	(140,676)	(673,781)
Effect of exchange rate fluctuations on cash position	**816**	(2,467)
Net change in cash position over the year	**(46,862)**	(40,324)
Cash position – Beginning of year (note 8)	**96,389**	136,713
Cash position – End of year (note 8)	**49,527**	96,389
Additional information:		
Member and share capital activities		
Patronage dividends payable in cash	**(14,946)**	(10,025)
Issuance of shares and certificates of indebtedness	**64**	102
Redemption of shares and certificates of indebtedness	**(1,054)**	(57,845)
	(15,936)	(67,768)

CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS OF CANADIAN DOLLARS)	**October 29 2016**	October 31 2015
ASSETS		
Current assets		
Cash and temporary investment	**49,527**	105,124
Accounts receivable	**429,177**	411,250
Inventories (note 9)	**727,257**	671,105
Income taxes	**2,611**	2,775
Prepaid expenses	**20,502**	21,210
	1,229,074	1,211,464
Investments and loan (note 7)	**13,462**	12,596
Property, plant and equipment (note 10)	**1,423,091**	1,421,962
Intangible assets (note 11)	**319,050**	322,232
Goodwill (note 11)	**1,034,091**	1,017,601
Other assets (note 12)	**38,520**	31,315
Deferred income taxes (note 5)	**37,174**	68,030
	4,094,462	4,085,200
LIABILITIES		
Current liabilities		
Bank overdrafts and bank loans (note 13)	**-**	8,735
Accounts payable and accrued liabilities (note 14)	**650,124**	670,129
Income taxes	**9,136**	582
Current portion of long-term debt (note 15)	**150,791**	147,219
	810,051	826,665
Long-term debt (note 15)	**1,057,983**	1,396,870
Deferred income taxes (note 5)	**48,648**	73,616
Employee future benefits obligation (note 21)	**42,089**	21,822
Other long-term liabilities (note 16)	**6,779**	4,818
	1,965,550	2,323,791
EQUITY		
Members' capital (note 17)	**770,837**	726,666
First preferred shares (note 17)	**770,000**	470,000
Reserve	**488,367**	471,623
Accumulated other comprehensive income (note 18)	**99,708**	93,120
	2,128,912	1,761,409
	4,094,462	4,085,200

Approved by the Board of Directors, on December 16, 2016.

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 surplus	**Total shares (note 17)**	Certificates of indebtedness	**Total members' capital**	First preferred shares (note 17)	**Total share capital (note 17)**	Reserve	Comprehensive income ("AOCI")[2]	**Total**
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**
As at November 1, 2015	**4,194**	**651,313**	**51,180**	**706,687**	**19,979**	**726,666**	**470,000**	**1,196,666**	**471,623**	**93,120**	**1,761,409**
Net earnings	-	-	-	**-**	-	**-**	-	**-**	98,567	-	**98,567**
Other comprehensive income (loss)	-	-	-	**-**	-	**-**	-	**-**	(21,202)	6,588	**(14,614)**
Issuance of shares as payment for patronage dividends	-	45,161	-	**45,161**	-	**45,161**	-	**45,161**	-	-	**45,161**
Issuance of shares for cash and issuance expenses net of income taxes of $214	60	4	-	**64**	-	**64**	300,000	**300,064**	(2,149)	-	**297,915**
Dividends on first preferred shares including income taxes of $977	-	-	-	**-**	-	**-**	-	**-**	(58,472)	-	**(58,472)**
Redemption of shares and certificates of indebtedness	(55)	(968)	-	**(1,023)**	(31)	**(1,054)**	-	**(1,054)**	-	-	**(1,054)**
As at October 29, 2016	**4,199**	**695,510**	**51,180**	**750,889**	**19,948**	**770,837**	**770,000**	**1,540,837**	**488,367**	**99,708**	**2,128,912**

[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.

NOTES TO THE FINANCIAL STATEMENTS AS AT OCTOBER 29, 2016

(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 Saint-Hubert, Canada.

2. SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

These consolidated financial statements of the Cooperative have been prepared in accordance with International Financial Reporting Standards ("IFRS") in effect as at October 29, 2016, 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.

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 29, 2016

(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 impairment testing purposes, property, plant and equipment are grouped at the lowest level for which there are identifiable cash flows.

Property, plant and equipment under construction are not amortized.

INTANGIBLE ASSETS

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

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

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

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

Intangible assets under construction are not amortized.

BORROWING COSTS

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

GOODWILL

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

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

NOTES TO THE FINANCIAL STATEMENTS AS AT OCTOBER 29, 2016

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

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

OTHER ASSETS

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

BUSINESS COMBINATIONS

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

REVENUE RECOGNITION

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

EMPLOYEE FUTURE BENEFITS

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

INCOME TAXES

Income tax expenses include current income tax and deferred income tax expenses. Current income tax expenses are calculated using enacted or substantively enacted income tax rates as at the balance sheet date. Deferred income taxes are measured from the difference between tax bases and carrying amounts of assets and liabilities. However, deferred tax is not recognized on the initial recognition of goodwill and the initial recognition of assets and liabilities when the related transaction is not a business combination and does not affect accounting nor tax earnings. Deferred income tax assets and liabilities are measured using the tax rates that are expected to be in effect in the years when these temporary differences are expected to reverse. Income tax assets are recognized when it is more likely than not that the asset will be realized.

NOTES TO THE FINANCIAL STATEMENTS AS AT OCTOBER 29, 2016

(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	• Exchange contracts • Commodity futures contracts	• Cash and temporary investment • Accounts receivable • Subordinated loan	• Bank overdrafts and bank loans • Accounts payable and accrued liabilities • Long-term debt
Subsequent accounting	Fair value[1]	Amortized cost using the effective interest method	Amortized cost using the effective interest method

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

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 29, 2016

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

HEDGING OPERATIONS

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

Hedge of net investment

Currency exchange differences resulting from the translation of a financial liability designated as a hedge of a net investment in a foreign operation are recorded in other comprehensive income and are presented in members' equity as long as the hedge is effective. If the hedge is ineffective, these currency exchange differences are recorded in earnings. At the disposal of a hedged foreign investment, the accumulated exchange differences recorded in 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 ended October 29, 2016.

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. The Cooperative does not expect the adoption of these amendments to have a significant impact on the information presented in its consolidated financial statements.

Financial instruments

On July 24, 2014, the IASB issued the final version of IFRS 9, "Financial Instruments", which replaces IAS 39, "Financial Instruments: Recognition and Measurement". At the same time, 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.

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

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

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

3. BUSINESS COMBINATIONS

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

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

As part of the acquisition of Sobeys' dairy processing plants, there are purchase price adjustment mechanisms. These adjustments are based on volume and profitability parameters. Any possible adjustment would be recorded in earnings.

BUSINESS COMBINATIONS IN 2015

Acquisitions
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 2015, 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.

NOTES TO THE FINANCIAL STATEMENTS AS AT OCTOBER 29, 2016

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

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 which represent a gross amount of $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 2015
Cash	391,666
Fair value of the consideration transferred	391,666

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

During the year 2015, 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**

NOTES TO THE FINANCIAL STATEMENTS AS AT OCTOBER 29, 2016

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

Cash flows from acquisitions:

	Acquisitions 2015	Adjustments	Total
Bank overdraft assumed	209	-	**209**
Cash consideration	391,666	785	**392,451**
Cash flows from business acquisitions	391,875	785	**392,660**

4. EARNINGS

The following items are included in the consolidated earnings:

	2016	2015
Raw materials and other inputs	**3,811,564**	3,858,204
Salaries and employee benefits	**641,012**	604,134
Interest on long-term debt	**44,457**	42,579

Restructuring costs, integration and other non-recurring costs include costs for the Saint-Bruno and Chilliwack plant closures, the major restructuring of certain activities, the integration of newly acquired plants, and the head office relocation.

5. INCOME TAXES

The income tax expense is detailed as follows:

	2016	2015
Current income taxes	**484**	(4,011)
Deferred income taxes	**27,171**	(3,316)
	27,655	(7,327)
Comprised of:		
The Cooperative's income taxes	**(4,685)**	(268)
Income taxes of subsidiaries	**32,340**	(7,059)
	27,655	(7,327)

Reconciliation of income taxes:

	2016	2015
Income taxes, calculated at Canadian statutory rates of 26.63% (2015 – 26.39%)	**33,609**	11,614
Differences attributable to the following:		
Difference in tax rates of foreign subsidiaries	**(7,746)**	(19,736)
Changes in tax rates and provincial allocation	**857**	(209)
Others	**935**	1,004
Income taxes	**27,655**	(7,327)

NOTES TO THE FINANCIAL STATEMENTS AS AT OCTOBER 29, 2016

(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 1 2014	Earnings	Comprehensive income and others	Business combinations	October 31 2015
Deferred tax assets					
Goodwill	10,050	(17,222)	(2,291)	-	**(9,463)**
Tax losses carry forward	15,500	59,458	15,725	-	**90,683**
Property, plant and equipment	(2,123)	(30,987)	(6,240)	5,815	**(33,535)**
Intangible assets and other assets	8,417	1,196	1,618	-	**11,231**
Accounts payable, accrued liabilities and others	11,648	(4,743)	1,303	906	**9,114**
	43,492	**7,702**	**10,115**	**6,721**	**68,030**
Deferred tax liabilities					
Goodwill	227	(4,856)	-	4,862	**233**
Tax losses carry forward	3,286	12,778	6,019	-	**22,083**
Employee future benefits obligation	3,186	1,381	(12)	-	**4,555**
Property, plant and equipment	(45,500)	492	-	(6,692)	**(51,700)**
Intangible assets and other assets	(15,231)	(14,464)	-	(20,838)	**(50,533)**
Outside basis difference on investment in subsidiaries	(3,127)	(613)	-	-	**(3,740)**
Accounts payable, accrued liabilities and others	4,350	896	43	197	**5,486**
	(52,809)	**(4,386)**	**6,050**	**(22,471)**	**(73,616)**
Total deferred tax assets (liabilities)	**(9,317)**	**3,316**	**16,165**	**(15,750)**	**(5,586)**

NOTES TO THE FINANCIAL STATEMENTS AS AT OCTOBER 29, 2016

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

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

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

	2016	2015
Deferred tax assets		
Deferred tax assets to be recovered in more than 12 months	**143,338**	132,222
Deferred tax assets to be recovered within the next 12 months	**15,893**	11,161
	159,231	143,383
Deferred tax liabilities		
Deferred tax liabilities to be settled in more than 12 months	**(170,705)**	(148,969)
Total of deferred tax liabilities	**(11,474)**	(5,586)

The Cooperative has also accumulated $99,808 of deferred capital losses for which no deferred tax asset was recorded. These losses may be carried forward indefinitely.

6. PATRONAGE DIVIDENDS

Patronage dividends are paid out to members as follows: $14,946 (2015 – $10,025) in cash and $45,161 (2015 – $30,563) through the issuance of investment shares.

NOTES TO THE FINANCIAL STATEMENTS AS AT OCTOBER 29, 2016

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

7. INVESTMENTS AND LOAN

	2016	2015
Joint ventures	**136**	136
Subordinated loan to a joint venture, bearing interest at a rate of 7.00%	**12,995**	12,129
Others	**331**	331
	13,462	12,596

INVESTMENTS IN JOINT VENTURES

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

	2016	2015
Cash	**195**	-
Current assets	**47,861**	45,942
Long-term assets	**98,360**	96,865
Current liabilities	**50,823**	51,118
Current financial liabilities	**1,571**	1,686
Long-term liabilities	**3,889**	2,669
Long-term financial liabilities	**80,965**	75,932
Sales	**283,463**	280,894
Depreciation and amortization	**9,473**	10,257

The Cooperative's share of commitments of joint ventures is $1,817 for the next year, and $2,805 for 2018 to 2021.

8. CASH FLOWS

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

	2016	2015
Accounts receivable	**(12,383)**	13,386
Inventories	**(45,603)**	(48,734)
Income taxes	**(5,662)**	(2,497)
Prepaid expenses	**870**	(4,485)
Accounts payable and accrued liabilities	**(23,715)**	22,235
Other assets and others	**(13,582)**	5,064
	(100,075)	(15,031)

Income taxes paid (received) are detailed as follows:

	2016	2015
Income taxes paid (received)	**6,255**	(3,377)

The cash position is detailed as follows:

	2016	2015
Cash and temporary investment	**49,527**	105,124
Bank overdrafts and bank loans	**-**	(8,735)
	49,527	96,389

NOTES TO THE FINANCIAL STATEMENTS AS AT OCTOBER 29, 2016

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

9. INVENTORIES

	2016	2015
Finished goods	**586,098**	530,949
Raw materials, goods in process and supplies	**141,159**	140,156
	727,257	671,105

The cost of goods sold amounting to $5,123,146 (2015 – $5,164,339) is mainly composed of the amount of inventories accounted for in expenses, including an impairment loss of $9,704.

10. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	**Equipment**	**Rolling stock**	**Total**
As at November 1, 2014				
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**
Year 2016				
Additions[1]	30,896	92,459	1,737	**125,092**
Transfers	(125)	(3,671)	3,796	**-**
Disposals	(2,251)	(3,955)	(618)	**(6,824)**
Depreciation and amortization	(17,701)	(107,164)	(9,188)	**(134,053)**
Translation adjustment	7,256	9,615	43	**16,914**
Balance as at October 29, 2016	**662,519**	**737,062**	**23,510**	**1,423,091**
Cost	800,877	1,523,483	88,670	**2,413,030**
Accumulated depreciation and amortization	(138,358)	(786,421)	(65,160)	**(989,939)**
Net carrying amount	**662,519**	**737,062**	**23,510**	**1,423,091**

[1] Acquisitions of property, plant and equipment include an amount of $2,211 (2015 – $3,185) in capitalized interest, at an annual rate ranging from 2.84% to 3.55%.

Buildings and equipment include major works in progress of which an amount of $18,076 (2015 – $151,111) is unamortized.

NOTES TO THE FINANCIAL STATEMENTS AS AT OCTOBER 29, 2016

(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 1, 2014				
Cost	113,869	132,170	**246,039**	**765,942**
Accumulated depreciation and amortization	(31,161)	(47,463)	**(78,624)**	**(26,283)**
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**	**1,048,249**
Accumulated depreciation and amortization	(48,318)	(52,876)	**(101,194)**	**(30,648)**
Net carrying amount	**84,921**	**237,311**	**322,232**	**1,017,601**
Year 2016				
Additions[1]	-	23,303	**23,303**	**-**
Transfers	3,557	(3,557)	**-**	**-**
Business combinations	76	970	**1,046**	**(1,046)**
Depreciation and amortization	(14,024)	(15,669)	**(29,693)**	**-**
Translation adjustment	1,826	336	**2,162**	**17,536**
Balance as at October 29, 2016	**76,356**	**242,694**	**319,050**	**1,034,091**
Cost	140,223	311,461	**451,684**	**1,065,463**
Accumulated depreciation and amortization	(63,867)	(68,767)	**(132,634)**	**(31,372)**
Net carrying amount	**76,356**	**242,694**	**319,050**	**1,034,091**

[1] Acquisitions of intangible assets include an amount of $1,319 (2015 – $990) in capitalized interest at an annual rate ranging from 2.84% to 3.55%.

Software includes a major work in progress of which an amount of $53,339 (2015 – $34,364) is unamortized.

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

	2016	2015
Business sector – Canada Operations	**279,842**	280,765
Business sector – United States Operations	**701,892**	685,688
Business sector – Natrel United States	**52,357**	51,148
	1,034,091	1,017,601

No impairment loss resulted from the impairment tests made on October 29, 2016 and October 31, 2015. On November 1, 2015, following a reorganization of the Canadian and American operations, the Cooperative revised the allocation of its reportable business units. The business sectors named Cheese Canada, Fine Cheese, and Natrel and Fresh Products Divisions - Canada were consolidated into one new business sector named Canada Operations. The business sectors United States Cheese and United States Ingredients were consolidated into one new business sector named United States Operations.

NOTES TO THE FINANCIAL STATEMENTS AS AT OCTOBER 29, 2016

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

12. OTHER ASSETS

	2016	2015
Procurement agreements and others	**29,732**	25,683
Income tax credits receivable	**8,788**	5,632
	38,520	31,315

13. BANK OVERDRAFTS AND BANK LOANS

The Cooperative and its subsidiaries have lines of credit of a maximum of $50,637 (unused as at October 29, 2016), bearing interest at variable rates generally not exceeding the prime rate plus 1.88%. 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 $2,805 as at October 31, 2015.

14. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2016	2015
Members	**134,802**	121,882
Third parties	**513,950**	546,383
Joint ventures	**1,372**	1,864
	650,124	670,129

15. LONG-TERM DEBT

	2016	2015
Term loan (2016 – US$759,650 and 2015 – US$1,063,600)[1]	**1,007,930**	1,378,714
Revolving term loan[2]	**9,000**	14,971
Revolving term loan (2016 – US$143,000 and 2015 – US$115,000)[2]	**191,391**	150,363
Obligation under finance lease[3]	**453**	-
Loans of the Cooperative, not bearing interest	**-**	41
	1,208,774	1,544,089
Current portion	**150,791**	147,219
	1,057,983	1,396,870

[1] U.S. dollar term loan bearing interest at an average rate of 2.87% 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 29, 2016.

As at October 29, 2016, the term loan was designated as hedge of a net investment in a foreign operation.

[2] Revolving term loan of $400,000, of which $200,391 is used as at October 29, 2016, bearing interest at a rate of 2.68% and repayable in August 2021 if no request for an extension is submitted to the lenders and accepted by them. Should the remaining amount of the revolving term loan be used, the interest rate would not generally exceed the prime rate plus 1.88% or the U.S. base rate plus 1.88%. The unused portion of this loan is subject to standby fees. The revolving term loan is not secured by any of the Cooperative's assets.

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

NOTES TO THE FINANCIAL STATEMENTS AS AT OCTOBER 29, 2016

(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:

2017	153,987
2018	184,775
2019	678,182
2020	86
2021 and thereafter	200,530

16. OTHER LONG-TERM LIABILITIES

	2016	2015
Deferred income tax credits	**4,611**	4,818
Other long-term liabilities	**2,168**	-
	6,779	4,818

17. SHARE CAPITAL (in dollars)

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

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

Class A investment shares are issued in consideration of patronage dividends. Should a minimum threshold of capital per hectolitre of produced milk fail to be reached, deductions shall be made from the cash payment of patronage dividends 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 for the Registered Retirement Savings Plan, the Cooperative Investment Plan, and tax deferral.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS AS AT OCTOBER 29, 2016

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

18. ACCUMULATED OTHER COMPREHENSIVE INCOME, NET OF INCOME TAXES

	2016	2015
Gains (losses) on financial instruments designated as cash flow hedges	**173**	(517)
Foreign currency translation adjustment of foreign operations, net of hedging operations	**385,683**	338,994
Foreign currency translation adjustment of term loan designated as hedge of a net investment in foreign operations	**(285,930)**	(245,139)
Share of accumulated other comprehensive loss of joint ventures	**(218)**	(218)
	99,708	93,120

19. FINANCIAL INSTRUMENTS

The following analysis explains the financial risks associated with financial instruments as at October 29, 2016:

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. Centralization of treasury and financing management allows the Cooperative to reduce liquidity risk. The Cooperative also reduces this risk by maintaining detailed financial forecasts and strategic long-term plans. If there is a surplus of liquidity, it is applied to the repayment of the debt.

CREDIT RISK

Accounts receivable mainly relate to trade receivables generated in the normal course of business. Although some major accounts are derived from a certain volume concentration in the food industry, the diversification of customer market segments (retailers, wholesalers, manufacturers, food services), and the extent of the Cooperative's geographical activities reduce credit risk. Moreover, credit risk is reduced by the terms of payment in connection with the relatively fast cycle of product consumption. At year-end, 3% of accounts receivable exceeded normal terms of payment by more than 30 days.

NOTES TO THE FINANCIAL STATEMENTS AS AT OCTOBER 29, 2016

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

Sensitivity analysis for interest rate risk
The term loan is subject to market interest rate fluctuation risk. If the average interest rate had been higher by 1%, and assuming all other variables remained constant, earnings before patronage dividends and the Cooperative's income taxes would have decreased by $13,601.

FOREIGN EXCHANGE RISK

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

During the year ended October 29, 2016, 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 $6,426.

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$12,400 against CA$
Purchases of 4,678 euros against CA$
Purchases of 3,011 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**	**2016**	2015
Foreign exchange contracts	-	(535)	-	**(535)**	(116)
Commodity futures contracts	986	-	-	**986**	(728)

U.S. MARKET RISK

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

NOTES TO THE FINANCIAL STATEMENTS AS AT OCTOBER 29, 2016

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

20. COMMITMENTS AND CONTINGENCIES

a) Commitments relating mainly to operating leases are as follows: $10,758 for the following year, $32,542 for 2018 to 2021, and $22,954 thereafter.

b) The Cooperative is committed for an amount of $12,035 to purchase property, plant and equipment and intangible assets as part of major projects.

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

21. EMPLOYEE FUTURE BENEFITS

Employee future benefits relate mainly to pension plans. The obligations of the defined benefit plans are based on the employee's length of service and salary of the last employment years. The pension benefits can be adjusted according to a formula based on the return on plan assets and the consumer price index. Actuarial valuations of the plans are performed every year. The most recent valuations were performed in December 2015.

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

The net expense is as follows:

	2016	2015
Defined contribution plans		
Net expense	**21,123**	18,648
Defined benefit plans		
Current service cost	**5,244**	5,771
Administrative costs	**704**	747
Past service cost	**-**	1,179
Interest cost on accrued benefit obligation	**10,298**	9,980
Interest on asset ceiling impact	**106**	43
Projected return on plan assets	**(9,944)**	(9,316)
Net expense	**6,408**	8,404

The information on defined benefit plans is as follows:

	2016	2015
Plan assets		
Fair value – Beginning of year	**227,175**	221,277
Administrative costs	**(704)**	(747)
Projected return on plan assets	**9,944**	9,316
Employer contributions	**15,568**	4,147
Employee contributions	**1,761**	1,890
Benefits paid	**(14,921)**	(9,283)
Actuarial gains	**9,422**	575
Fair value – End of year	**248,245**	227,175

Equity securities represented 55% (2015 – 55%) and obligations represented 35% (2015 – 37%) of total plan assets invested mainly in Canada. The fair value is based on inputs other than quoted prices.

NOTES TO THE FINANCIAL STATEMENTS AS AT OCTOBER 29, 2016

(IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

	2016	2015
Accrued benefit obligation		
Balance – Beginning of year	**240,334**	231,711
Current service cost	**5,244**	5,771
Interest cost	**10,298**	9,980
Past service cost	**-**	1,179
Employee contributions	**1,761**	1,890
Benefits paid	**(14,921)**	(9,283)
Actuarial losses (gains)	**40,404**	(914)
Balance – End of year	**283,120**	240,334

	2016	2015
Pension plan obligation		
Funding status – Plan assets net of obligation (deficit)	**(34,875)**	(13,159)
Impact of asset ceiling test	**(525)**	(2,502)
Pension plan obligation	**(35,400)**	(15,661)
Other plans	**(6,689)**	(6,161)
Employee future benefits obligation	**(42,089)**	(21,822)

For pension plans with an accrued benefit obligation that is in excess of the asset, the accrued benefit obligation is $240,016 (2015 – $142,115) and the asset is $201,458 (2015 – $125,476).

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

	2016	2015
Actuarial gains (losses) for the year	**(30,982)**	1,489
Impact of asset ceiling test	**2,083**	(1,450)
Amount accounted for in other comprehensive income	**(28,899)**	39
Balance – Beginning of year	**(641)**	(680)
Balance – End of year	**(29,540)**	(641)

	2016	2015
Weighted average assumptions		
Accrued benefit obligation		
Discount rate	**3.25%**	4.25%
Long-term inflation rate of salary expense	**4.00%**	4.00%
Net benefit expense for the year		
Discount rate	**4.25%**	4.25%
Expected return on plan assets	**4.25%**	4.25%
Long-term inflation rate of salary expense	**4.00%**	4.00%

The Cooperative participates in multi-employer defined benefit plans for certain unionized employee groups. Based on available information, these plans are accounted for as defined contribution plans. Contributions for the year amounted to $5,227.

The Cooperative expects to make contributions of $9,015 to defined benefit plans in the next financial year.

NOTES TO THE FINANCIAL STATEMENTS AS AT OCTOBER 29, 2016

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SENSITIVITY ANALYSIS

The significant actuarial assumptions for the determination of the defined benefit obligation are the discount rate and the rate of future compensation increase. The following table summarizes the effect of a change in these actuarial assumptions on the value of the defined benefit obligation as at October 29, 2016.

	Change in assumption	**Increase in assumption**
Discount rate	0.25%	11,454
Long-term inflation rate of salary expense	0.25%	1,184

22. RELATED PARTIES

SUBSIDIARIES AND JOINT VENTURES

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

		% owned	
	Country of incorporation	**2016**	2015
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 $44,118 (2015 – $42,998) 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:

	2016	2015
Salary and other benefits	**15,734**	18,375
Post-employment benefits	**1,219**	2,351
	16,953	20,726

23. SUBSEQUENT EVENTS

On November 30, 2016, the Cooperative has entered into a binding agreement to acquire frozen dairy product assets from Scotsburn Co-operative Services Limited, a dairy cooperative established in Nova Scotia.

24. COMPARATIVE FIGURES

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

Agropur Cooperative

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