# Rogers Sugar Inc.

## Press release - 4th Quarter 2016 Results

**CONTINUED ABOVE TREND VOLUME GROWTH DELIVERS A STRONG FOURTH QUARTER AND CAPS OFF AN EXCEPTIONAL YEAR!**

*Message to Shareholders:* On behalf of the Board of Directors, I am pleased to present the highlights of the consolidated financial results of Rogers Sugar Inc. (the "Company") for the three months and year ended October 1, 2016.

It should be noted that fiscal 2015 had 53 weeks of operations, compared to 52 weeks in fiscal 2016. The additional week is included in the fourth quarter results of fiscal 2015. Results for the fourth quarter and fiscal years 2016 and 2015 are as follows:

| (In thousands of dollars, except for volume and per share information) | For the three months ended October 1, 2016 (unaudited) | For the three months ended October 3, 2015 (unaudited) | For the years ended October 1, 2016 (unaudited) | For the years ended October 3, 2015 (unaudited) |
|---|---|---|---|---|
| Volume | 187,179 | 192,912 | 675,224 | 658,812 |
| Gross margin | $ 32,418 | $ 23,675 | $ 128,223 | $ 76,295 |
| Expenses: | | | | |
| Administration and selling expenses | 5,659 | 6,982 | 19,636 | 22,430 |
| Distribution | 2,287 | 2,940 | 9,989 | 9,395 |
| Results from operating activities ("EBIT") | 24,472 | 13,753 | 98,598 | 44,470 |
| Net finance costs | 2,227 | 3,298 | 9,612 | 11,931 |
| Income tax expense | 5,792 | 2,654 | 23,407 | 8,506 |
| Net earnings | $ 16,453 | $ 7,801 | $ 65,579 | $ 24,033 |
| Net earnings per share basic | $ 0.18 | $ 0.08 | $ 0.70 | $ 0.26 |

Fourth quarter volume decreased by approximately 5,700 metric tonnes versus the last quarter of fiscal 2015. However, it should be noted that last year included an additional shipping week versus the current year's comparable quarter, which represented approximately 13,000 metric tonnes of incremental sales volume. Therefore, once the adjustment is made to exclude the additional shipping week, volume for the fourth quarter of fiscal 2016 increased by approximately 7,300 metric tonnes with an improvement in all categories. Due to the segment size, the fifty-third week in fiscal 2015 had the most significant impact on industrial volume. When compared to the fourth quarter of fiscal 2015, industrial volume for the quarter decreased by approximately 5,900 metric tonnes. When the additional week is excluded from the volume of the fourth quarter of fiscal 2015, the industrial volume increased by approximately 2,900 metric tonnes due to strong demand from existing customers. Consumer volume was slightly above last year's fourth quarter and approximately 2,100 metric tonnes higher when the additional shipping week is excluded. The improvement is due to an increase in customer promotions and timing in deliveries. Liquid volume was approximately 500 metric tonnes lower than the comparable period last year. The impact of the additional shipping week represents approximately 2,100 metric tonnes. Therefore, on a comparable basis, the liquid segment was approximately 1,600 metric tonnes higher than the fourth quarter last year due to timing in deliveries. Finally, the export segment was approximately 300 metric tonnes higher than last year. Excluding the additional shipping week, export volume was approximately 700 metric tonnes higher than the comparable quarter last year. The increase is mainly due to opportunistic sales in export markets.

For the full year, the Company's total sugar deliveries improved compared to the prior year and ended at approximately 16,400 metric tonnes higher than in fiscal 2015, despite the fact that last year included an additional shipping week. Eliminating the impact of the fifty-third week of fiscal 2015, total volume would have been approximately 29,400 metric tonnes higher than the previous year. Furthermore, all segments ended the year with positive growth, when adjusted for the additional week in fiscal 2015, with the industrial segment being the clear leader in volume improvement.

The industrial segment increased by approximately 10,600 metric tonnes or approximately 19,300 metric tonnes when the fifty-third shipping week of fiscal 2015 is removed, mostly due to strong demand from existing customers. The volume growth was experienced throughout the year but more significantly in the last nine months of the year.

Total consumer volume was slightly higher than last year by approximately 1,300 metric tonnes and approximately 3,100 metric tonnes when the additional shipping week is excluded. The increase is mainly explained by additional demand from existing customers due to an increase in promotional activities.

When compared to last fiscal year, the liquid segment ended approximately 400 metric tonnes lower than fiscal 2015. However, when removing the impact of the fifty-third week from fiscal 2015, the liquid segment was higher by approximately 1,700 metric tonnes due to continued strong demand from existing customers, which started in the second half of last year and due to timing in deliveries.

The export segment was approximately 4,900 metric tonnes higher than last year or approximately 5,300 metric tonnes higher than fiscal 2015, without the fifty-third shipping week last year. The increase is mostly explained by opportunistic sales due to favourable export conditions and an increase in sales to Mexico.

With the mark-to-market of all derivative financial instruments and embedded derivatives in non-financial instruments at the end of each reporting period, the Company's consolidated operating results could have large fluctuations. This accounting income does not represent a complete understanding of factors and trends affecting the business. We therefore prepared adjusted gross margin and adjusted earnings results to reflect the performance of the Company during the reporting period, which are non-GAAP measures. This adjusted performance is comparable to the adjusted earnings reported in previous interim reports. In this press release we will discuss adjusted gross margin which reflects the consolidated operating income without the impact of the mark-to-market of derivative financial instruments and embedded derivatives in non-financial instruments.

| | For the three months ended | | For the years ended | |
|---|---|---|---|---|
| Gains/(Loss)<br>(In thousands of dollars) | October 1, 2016 (unaudited) | October 3, 2015 (unaudited) | October 1, 2016 (unaudited) | October 3, 2015 (unaudited) |
| Mark-to-market adjustment | $ 2,332 | $ 158 | $ 8,078 | $ (7,350) |
| Cumulative timing differences | 471 | (537) | 23,974 | (2,237) |
| Total adjustment to cost of sales | $ 2,803 | $ (379) | $ 32,052 | $ (9,587) |

During the quarter, a mark-to-market gain of $3.6 million was recorded on sugar futures contracts, versus a gain of $0.6 million for the comparable quarter of fiscal 2015, as world raw sugar values increased from the closing values of the previous quarter. Year-to-date, a mark-to-market gain of $10.6 million was recorded in fiscal 2016 compared to a loss of $2.3 million in fiscal 2015. For natural gas, a mark-to-market loss of $1.4 million and $2.5 million were recorded for the quarter and year-to-date, respectively versus a mark-to-market loss of $3.6 million and a loss of $11.9 million for last year's comparable periods. The mark-to-market loss in fiscal 2015 is explained by the decline in natural gas future values during the year. Foreign exchange forward contracts and embedded derivatives, on which foreign exchange movements have an impact, had a combined mark-to-market gain of $0.1 million for the quarter and a nominal loss for the

year as a result of the movement of the Canadian dollar versus the U.S. dollar. In fiscal 2015, the Company recorded a gain of $3.2 million and a gain of $6.8 million for the quarter and for the year, respectively.

The cumulative timing differences are as a result of the fact that mark-to-market gains or losses are recognized by the Company only when sugar is sold to a customer and when natural gas is used. In addition, the gains or losses on the sugar and related foreign exchange paper transactions are largely offset by corresponding gains or losses from the physical transactions being the sale and purchase contracts with customers and suppliers. The year-end adjustment is the total of all quarterly results. This adjustment is added to the mark-to-market results to arrive at the total adjustment to cost of sales. For fiscal 2016, the total cost of sales adjustment is a gain of $32.1 million to be deducted from the consolidated operating results compared to a total cost of sales loss of $9.6 million to be added to the consolidated operating results in fiscal 2015 to arrive at the adjusted consolidated operating results of these two years.

The Company also recorded a mark-to-market gain of $0.2 million for the quarter and the full year for the mark-to-market of interest rate swaps under finance costs, as compared to a mark-to-market loss of $0.6 million and $1.2 million for the fourth quarter of 2015 and for the full year in 2015, respectively, as a result of movements in forward interest rate.

The total adjustment to earnings before income taxes for the quarter was a gain of $3.0 million compared to a loss of $1.0 million for the comparative quarter in 2015. For the full year, the total adjustment to earnings before income taxes was a gain of $32.3 million for fiscal 2016 compared to a loss of $10.8 million in the previous year.

Adjusted consolidated financial information (non-GAAP reconciliation) is as follows:

| (In thousands of dollars, except per share information) | For the three months ended October 1, 2016 (unaudited) | For the three months ended October 3, 2015 (unaudited) | For the years ended October 1, 2016 (unaudited) | For the years ended October 3, 2015 (unaudited) |
|---|---|---|---|---|
| Gross margin as per above | $ 32,418 | $ 23,675 | $ 128,223 | $ 76,295 |
| Adjustment as per above | (2,803) | 379 | (32,052) | 9,587 |
| Adjusted gross margin | 29,615 | 24,054 | 96,171 | 85,882 |
| EBIT as per above | 24,472 | 13,753 | 98,598 | 44,470 |
| Adjustment as per above | (2,803) | 379 | (32,052) | 9,587 |
| Adjusted EBIT | 21,669 | 14,132 | 66,546 | 54,057 |
| Net earnings as per above | 16,453 | 7,801 | 65,579 | 24,033 |
| Adjustment to cost of sales as per above | (2,803) | 379 | (32,052) | 9,587 |
| Adjustment for mark-to-market interest rate swap | (180) | 582 | (205) | 1,168 |
| Income taxes on above | 793 | (269) | 8,581 | (3,030) |
| Adjusted net earnings | $ 14,263 | $ 8,493 | $ 41,903 | $ 31,758 |
| Adjusted net earnings, per share basic | $ 0.15 | $ 0.09 | $ 0.45 | $ 0.34 |

For the quarter, adjusted gross margin amounted to $29.6 million, an increase of $5.6 million when compared to the same period last year. The increase is explained by a combination of factors. Firstly, lower beet costs in Taber and lower operating costs in our three operating facilities contributed positively to the adjusted gross margin for the quarter. In addition, the Taber factory started its production of the 2016 crop in mid-September as opposed to last year, where the 2015 crop production started early October. As a result of the early start of the 2016 campaign, some fixed costs were

deferred into inventory in the fourth quarter of fiscal 2016 as opposed to being expensed in fiscal 2015. This resulted in a $0.7 million positive variation in adjusted gross margin. Moreover, the Company recorded a non-cash profit of $0.6 million to adjust the pension expense recorded in the third quarter of the current year for committed future pension plan upgrades to one of the Company's defined benefit pension plans following the agreement with the Montreal unionized employees. Finally, the Montreal refinery suffered from operating inefficiencies in the last quarter of last year, following a refinery equipment breakdown. These variations contributed to an overall improvement in adjusted gross margin rate of more than 25%. The current quarter's adjusted gross margin rate was $158.22 per metric tonne as compared to $124.69 per metric tonne in fiscal 2015, an increase of $33.53 per metric tonne.

Year-to-date, adjusted gross margin improved significantly when compared to last year and amounted to $96.2 million, an increase of $10.3 million versus fiscal 2015. Adjusted gross margin for the current year includes a non-cash pension charge of $1.8 million for committed future pension plan upgrades as explained above. Without this adjustment, the Company's adjusted gross margin would have been $12.1 million higher than last year. The favourable variance in adjusted gross margin is mostly due to higher sales volume, higher by-product revenues, lower beet costs and better operating costs in its three operating facilities. It should be noted that the Taber beet factory incurred additional operating costs in fiscal 2015 as a result of severe beet deterioration at the end of the slicing campaign from its 2014 crop. Furthermore, a weaker Canadian dollar was also beneficial to the Company on export sales contracted in fiscal 2016. However, the Company experienced a six-day work stoppage in June 2016 at the Montreal refinery, which added approximately $0.8 million in additional costs and slightly reduced the year-over-year positive variance.

On a per metric tonne basis, the current year's adjusted gross margin was $142.43 per metric tonne as opposed to $130.36 per metric tonne for the comparable period last year, an improvement of $12.07 per metric tonne. Excluding the non-cash pension expense, the adjusted gross margin rate would have been $145.10. The increase year-over-year is mostly explained by efficiency gains due to higher throughput at both cane refineries as well as a good harvest and processing campaign in Taber and the subsequent juice campaign, which resulted in lower beet costs and lower operating costs.

Administration and selling expenses decreased by approximately $1.3 million compared to the same quarter of fiscal 2015. The positive variance is mostly explained by the non-recurrence of a non-cash expense of $0.8 million recorded in the fourth quarter of fiscal 2015 for the termination of the only remaining salaried defined benefit pension plan ("Salaried Plan") , for which years of service had been frozen since 2008, as well as a reduction in bad debt expense of $0.4 million.

Year-to-date, administration and selling expenses were $2.8 million lower than in fiscal 2015. In fiscal 2016, the Company completed the termination of the Salaried Plan, with the settlement and transfer of the defined benefit pension liabilities to an insurance company. The settlement process resulted in the reversal of a non-cash accrual of $1.2 million against administration and selling expenses, pertaining to the deficit outstanding as at October 3, 2015. In fiscal 2015, a non-cash expense of $0.8 million was recorded, resulting in a year-over-year positive variation of $2.0 million. Excluding the impact of the settlement of the Salaried Plan, administration and selling expenses were $0.8 million lower than the comparable period last year. The reduction in administrative and selling expenses is explained by lower consulting fees and allowance for doubtful accounts. However, somewhat offsetting the positive variation are additional administrative and selling expenses incurred as a result of the Montreal refinery work stoppage as well as higher employee benefits.

Distribution expenses for the quarter were $0.7 million lower than the comparable period last year but $0.6 million higher than fiscal 2015. The increase in distribution expenses is due to additional transfer costs between the Company's various locations as a result of an increase in sales volume and as a contingency plan for the Montreal refinery work stoppage. In the fourth quarter of fiscal 2015, the Company incurred incremental transfer costs between its various locations as a result of low inventory levels at the Taber factory and production inefficiencies at the Montreal refinery, which mainly explain the positive variation versus the comparable period last year.

Net finance costs were $0.3 million and $0.9 million lower than the fourth quarter of fiscal 2015 and year-to-date, respectively, when we exclude the mark-to-market gain and loss on the interest rate swaps. The reduction is due to lower level of borrowings for the quarter and throughout the year, mainly due to the lower level of raw sugar inventories and better financial results.

In order to provide additional information, the Company measures free cash flow that is generated from operations. Free cash flow is defined as cash flow from operations excluding changes in non-cash working capital, mark-to-market and derivative timing adjustments, financial instruments non-cash amounts, funds received or paid from the issue or purchase of shares and investment capital expenditures. Free cash flow is not intended to be representative of cash flows or results of operations determined in accordance with IFRS. It may also not be comparable to similar measures used by other companies.

Free cash flow is as follows for the quarter and year-to-date:

| | For the three months ended | | For the year ended | |
|---|---|---|---|---|
| *(In thousands of dollars)* | October 1, 2016 (unaudited) | October 3, 2015 (unaudited) | October 1, 2016 (unaudited) | October 3, 2015 (unaudited) |
| Operating activities: | | | | |
| Cash flow from operating activities | $ 20,498 | $ 41,878 | $ 66,672 | $ 55,485 |
| Adjustments: | | | | |
| Changes in non-cash working capital | 3,049 | (30,551) | 27,703 | (11,407) |
| Changes in non-cash income taxes payable | (2,310) | 676 | (3,620) | 28 |
| Changes in non-cash interest payable | (1,580) | 239 | 11 | 93 |
| Mark-to-market and derivative timing adjustments | (2,983) | 961 | (32,257) | 10,755 |
| Financial instruments non-cash amount | 727 | (1) | (2,155) | (6,414) |
| Capital expenditures | (7,116) | (4,382) | (15,156) | (11,439) |
| Operational excellence capital expenditures | 544 | 269 | 835 | 772 |
| Buyback of securities | – | (122) | (727) | (14) |
| Deferred financing charges | – | – | (90) | (90) |
| Free cash flow | $ 10,829 | $ 8,967 | $ 41,216 | $ 37,769 |
| Declared dividends | $ 8,445 | $ 8,463 | $ 33,796 | $ 33,856 |

Free cash flow for the quarter was $1.9 million higher than the comparable quarter of fiscal 2015. Free cash flow for 2016 was $3.4 million higher than the previous year. The increase is due mainly to a higher adjusted gross margin of $10.3 million. This positive variance was somewhat offset by higher capital expenditures, net of operational excellence capital, of $3.7 million, higher pension plan contributions and income taxes of $0.8 million and $0.1 million, respectively. In addition, the Company applied an incremental $0.9 million against its provision for asset retirement obligation, therefore reducing free cash flow. Finally the share buyback also reduced free cash flow by $0.7 million.

## OUTLOOK

In fiscal 2017, we expect the industrial and consumer volume to be comparable to fiscal 2016.

However, we expect the liquid and export segments to increase in fiscal 2017. As previously announced, the Company took advantage of favourable market conditions and the security of supply provided by its four year grower contract to enter into two, three-year agreements with a HFCS substitutable account and with an export customer.

As a result, the liquid segment is expected to increase by approximately 20,000 metric tonnes in fiscal 2017.

As for the export segment, we anticipate total volume to increase by approximately 5,000 metric tonnes in fiscal 2017. The expected improvement is explained by additional volume to Mexico of approximately 10,000 metric tonnes but should be slightly offset by lower export sales that occurred on an opportunistic basis in fiscal 2016.

Overall, we expect total volume to increase by approximately 25,000 metric tonnes.

The ratification process for the CETA is expected to be completed sometime in fiscal 2017. The Company will augment its market development activities and pursue export opportunities with the aim to fully capture the export opportunities provided by the new trade agreement. The Company does not expect CETA to have a significant impact on adjusted gross margin in fiscal 2017.

In the second half of fiscal 2016, the Alberta government announced the introduction of a carbon tax on natural gas of $1.011 per gigajoule starting on January 1, 2017 and increasing to $1.517 per gigajoule on January 1, 2018. The impact of the carbon tax is expected to be approximately $0.5 million in fiscal 2017 as most of the slicing campaign would have been completed by January 1, 2017. We foresee a greater financial impact in subsequent years as the whole slicing campaign will be subject to the new carbon tax.

Approximately 65% of fiscal 2017's natural gas requirements have been hedged at average prices comparable to those realized in fiscal 2016. In addition, some futures positions for fiscal 2018 to 2020 have also been taken. Some of these positions are at prices higher than current market value, but are at the same or better levels than those achieved in fiscal 2016. We will continue to monitor natural gas market dynamics with the objective of maintaining competitive costs and minimizing natural gas cost variances.

Capital expenditures for fiscal 2017 are expected to be comparable to fiscal 2016 due to various. carry-over of projects and a commitment to update targeted plant control systems in our Western plants. The Company will continue to aggressively pursue operational excellence capital investments in order to reduce costs and improve manufacturing efficiencies.

As a result of the additional volume secured starting for fiscal 2017 and to be supplied from our Taber plant, a total of 28,000 acres was contracted for planting in Taber. The harvest and beet slicing campaign started mid-September. Early indications are favourable as the yield per acre harvested and the extraction rate achieved to date are slightly better than forecast. If current harvesting conditions continue and no significant beet storage issues arise, the current crop should derive approximately 115,000 metric tonnes of refined sugar.

FOR THE BOARD OF DIRECTORS,

A. Stuart Belkin

Stuart Belkin, Chairman
Vancouver, British Columbia – November 23, 2016

*For further information:*
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