

Our Network's Strength

Annual Report



La Coop
FÉDÉRÉE

Our Organization

Through its cooperative base in the heart of the Québec agricultural community and through its presence at all levels of the agri-food industry, La Coop fédérée and its network are natural partners of all who whole heartedly seek the harmonious development of the rural areas in our country.

Today, La Coop fédérée represents 51,000 members in 101 cooperatives ranging from farm supply cooperatives to consumer and processing coops. These cooperatives satisfy the many varied needs of farm producers and consumers who have joined forces to enjoy access to high-quality products and services at competitive prices.

As a wholesaler, La Coop fédérée provides farm producers in Québec, Ontario and New Brunswick with the goods and services they need to run their businesses, including petroleum products. In addition, via its subsidiary Olymel L.P., La Coop fédérée processes pork and poultry products and markets them locally and internationally. La Coop fédérée has also formed joint ventures in other fields, including the marketing of swine genetics and soybeans for human consumption.

The organization fosters cooperative life and represents the collective interests of the agricultural cooperative movement in relation to the various government bodies and the general public.

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Imprimerie L'Empreinte

Photo Index
Denis Masse and Isabelle Roy,
milk producers,
Ferme Hautpré, Louiseville. p. 11

Éric Nadeau, forklift operator, Hardware Department; Eloïse Gagnon, horticultural advisor; Daniel Chauvette, forklift operator, Building Materials Department; Réal Laroche, machinery and parts warehouse supervisor. All of these employees work in La Coop fédérée's Hardware and Farm Machinery Sector (Trois-Rivières). p. 21

Michel Leclerc, milk producer,
Ferme M.C.F. Leclerc inc.,
Sainte-Marthe-du-Cap, Trois-Rivières. p. 25

Mario Desaulniers, petroleum product distribution agent for La Coop fédérée, and Martial Lemire, milk producer,
Ferme Micheret inc., Saint-Zéphirin p.27

Sébastien Bilodeau, day worker,
Olymel hog slaughtering/processing plant, Princeville. p.33

List of locations



SUPPLY OPERATIONS

LA COOP FÉDÉRÉE
9001 DE L'ACADIE BOULEVARD
MONTRÉAL, QUÉBEC H4N 3H7

AGRIBUSINESS SECTOR

Animal Production Department

Feedmills and warehouses

Joliette
Lévis
New Liskeard, Ontario
Saint-Jacques (Montcalm)
St. Isidore de Prescott, Ontario
60 feedmills and warehouses
owned by affiliated cooperatives

Micro premix plant

Lévis

Sogéporc genetic hog farms

Laurierville
Notre-Dame-de-Lourdes
(sow herd)
Notre-Dame-de-Lourdes
(nursery)
Saint-Apollinaire
Sainte-Narcisse-de-Rimouski
Trinité-des-Monts

Research farms

Frampton (swine)
Saint-Jean-Baptiste-de-Rouville
(poultry)

Hatcheries

Saint-Félix-de-Valois
Saint-Jude
Victoriaville

Breeding farms

(Broiler chickens)
Saint-Jude
Wickham

Breeding farms

(Poultry)
Lanoraie d'Autray
Ormstown
Saint-Christophe-d'Arthabaska
Saint-Dominique
Saint-Germain-de-Grantham
Saint-Jean-Baptiste-de-Rouville
Saint-Paul-d'Abbotsford
Saint-Lin-Laurentides
Wickham

Crop Production Department

Research farm

Techno Champs, Saint-Hyacinthe

Distribution centres

Longueuil
Sainte-Catherine
Sillery

Joint venture enterprises

6 Agrocentres (50%)
Fertichem (50%)
SQS inc

Grains Department

Office and distribution centre

Montréal
Sillery

Joint venture enterprise

Sillery Distribution Centre Inc.
(50%)

Subsidiary

Elite Grain L.P., Napierville

Agrienvironment

Montréal

Agrifood laboratory

Longueuil

SONIC PETROLEUM SECTOR

Sales offices

Brossard
Drummondville
Montréal
Québec City
Rivière-du-Loup
Saint-Hyacinthe
Trois-Rivières

52 distribution agents

8 bulk stations

185 service stations

Joint venture enterprise

Groupe pétrolier Norcan inc.
(25%)

HARDWARE AND FARM MACHINERY SECTOR

Distribution centre

Trois-Rivières

Sales outlets

148 CO-OP hardware
and renovation centres
10 Unimat renovation centres
70 independent outlets
190 farm machinery
and forestry dealers
400 agricultural parts dealers

COOPERATIVE MEMBER SERVICES AND COOP AGRICULTURAL CENTRE

Offices

Montréal
Sillery

Coop agricultural centre

AgriEst, St. Isidore de Prescott,
Ontario

MARKETING OPERATIONS

OLYME L.P.
2200 LÉON-PRATTE AVENUE SUITE 400
SAINT-HYACINTHE, QUÉBEC J2S 4B6

Sales and distribution centres

Boucherville
Saint-Jean-sur-Richelieu
Toronto, Ontario
Tokyo, Japan
Australia

HOG SECTOR

Slaughterhouses and cutting plants

Princeville
Red Deer, Alberta
Saint-Esprit (Montcalm)
Saint-Simon
Saint-Valérien
Vallée-Jonction

Processing plants

Anjou
Cornwall, Ontario
Drummondville
Princeville
Saint-Henri (Bellechasse)
Saint-Hyacinthe
Saint-Jacques (Montcalm)
Saint-Jean-sur-Richelieu

POULTRY SECTOR

Slaughterhouses and cutting plants

Berthierville
Saint-Damase
Saint-Jean-Baptiste

Processing plants

Anjou
Brampton, Ontario
Saint-Hyacinthe
Saint-Jean-sur-Richelieu

Joint venture enterprises

Unidindon
Volaille Giannone inc.

Other operations

Transport Transbo inc.
Machinerie Olymel (1988) inc.
Transbo Exportation inc.

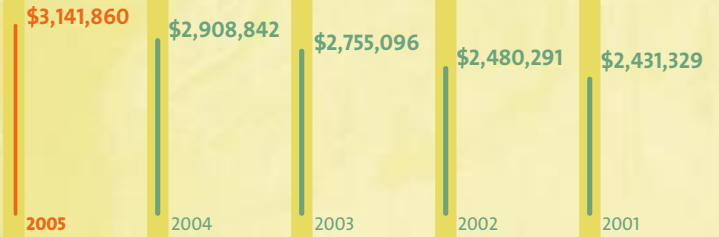
Highlights

[in thousands of dollars]

| | 2005 | 2004 |
|---|-------------|-------------|
| Revenues | \$3,141,860 | \$2,908,842 |
| Operating earnings | 19,979 | 33,076 |
| Earning before patronage refunds and income taxes | 42,463 | 35,456 |
| Patronage refunds | 8,500 | 12,000 |
| Net earnings | 32,412 | 15,569 |
| Accounts receivable and inventories | 484,271 | 413,282 |
| Current assets | 497,991 | 422,992 |
| Working capital | 197,750 | 139,486 |
| Fixed assets, at cost | 847,536 | 672,503 |
| Fixed assets, net book value | 451,177 | 305,328 |
| Total assets | 1,058,252 | 808,765 |
| Long-term debt | 269,989 | 163,356 |
| Preferred shares and equity | 321,928 | 284,711 |
| Number of employees | 12,287 | 9,587 |

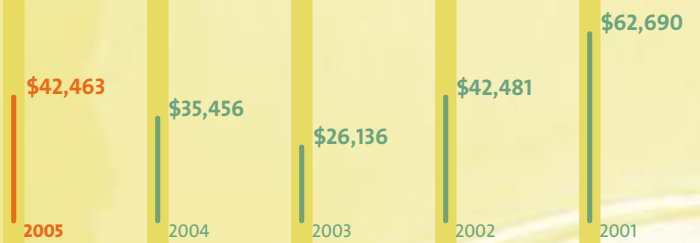
Revenues

[in thousands of dollars]



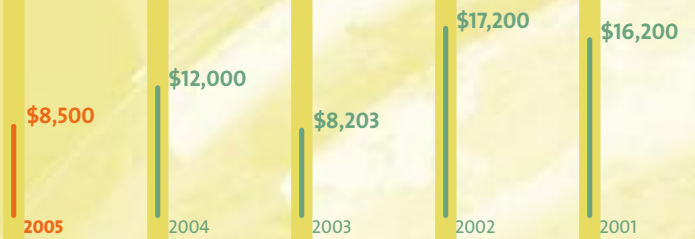
Earnings before patronage refunds and income taxes

[in thousands of dollars]



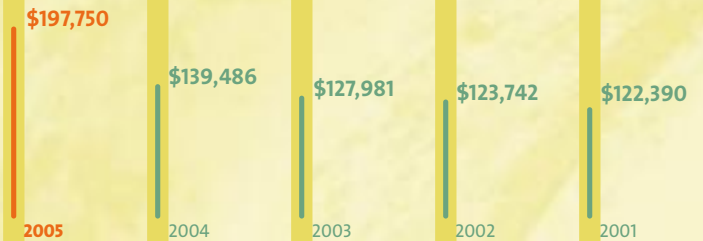
Patronage refunds

[in thousands of dollars]



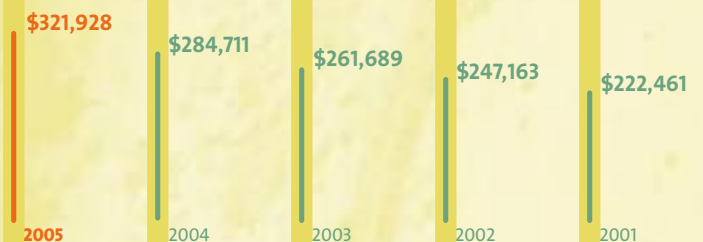
Working capital

[in thousands of dollars]



Preferred shares and equity

[in thousands of dollars]



At the 2004-2005 fiscal year-end, La Coop fédérée recorded earnings before patronage refunds and income taxes of \$42.5 million, up nearly \$7 million compared with last year.

In a major improvement over last year, sales continued to rise, totalling \$3.142 million. This increase reflected larger sales volumes in most sectors and higher product prices, particularly in the Sonic Petroleum Sector.

These improvements, although modest in relation to the expected return on assets, are a tribute to the solid performance of our supply operations and to the transition underway in our marketing operations.

It is reassuring to note that, despite the challenges the agricultural community has faced in recent years, our supply operations continue to show steady growth, thereby confirming the relevance of our business offering.

These improvements are also a reflection of our member cooperatives' growth in recent years. Fiscal 2006, however, is likely to be more difficult.

A number of affiliated cooperatives involved in hog production have been hit hard by animal health problems, which have compounded the difficulties facing the Québec hog sector.

YEAR IN REVIEW

The 2004-2005 year may be summed up under four key themes: continuity, consolidation, representation and value-added initiatives.

Continuity

We continued to explore and examine new ways to adapt our cooperative model to better meet current needs and address future challenges.

This process of dialogue and deliberation has often focused on one central concern: since our planet has become a "global village," the issues we face have broadened in scope and scale.

The survival of our organizations and businesses thus hinges on our ability to adapt to the challenges posed by economic globalization and to develop the right tools for success.

As all agricultural producers know, revenues are frequently unstable and insufficient due to the shortcomings of existing systems. At the same time, farmers have little financial leeway to respond to increasing government and consumer requirements.

To gauge first-hand how the world's largest agrifood cooperatives are grappling with these issues, the Board of Directors asked La Coop's senior management to visit various locations throughout Europe, the U.S. and Brazil.

"Consumer to producer" is the emerging global marketing trend. This model is designed to ensure a rapid and targeted response, rather than providing a wide variety of agricultural commodities without due regard to market forces.

Against this backdrop – and in light of the views expressed at the August 2004 semi-annual meeting and subsequent consultation forums – we have adopted the principle of "cooperative contractualization."

President's Message

This new approach seeks to foster potential synergies between each link in the production chain, to maximize resulting productivity gains and to carry out value-added marketing initiatives. Achieving these goals will depend on our ability to deliver high-quality products and product tracking services to consumers, thereby benefiting all of our affiliated producers.

As part of the initial implementation of this approach, "Coop-certified" hog production was introduced. This pilot project sparked keen interest among producers, who view it as an attractive revenue opportunity.

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Ghislain CLOUTIER
*1st Vice-President and Executive
Committee Member*

Denis RICHARD
*President and
Executive Committee Member*

Laurent BOUSQUET
*2nd Vice-President and
Executive Committee Member*

President's Message



Léo PINARD
Executive Committee Member



Roger BÉLIVEAU
Executive Committee Member



Claude COUTURE

During the development of this project, La Coop took steps to ensure full compliance with the agreements entered into when the hog supply management system was implemented. Rest assured that contractualization will be phased in gradually so as not to jeopardize this supply management system, which was created by the Québec hog producers.

We are currently looking into the possibility of expanding Coop-certified production to other sectors in which cooperative contractualization may prove effective in boosting cooperative producers' income levels and securing market access.





Gaston **BLAIS**



Francine **FERLAND**



Luc **FORGET**
Audit Committee Member

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In addition, the Coop-certified soy production project is underway. We intend to make these new programs available to our member producers as soon as the benefits are clearly demonstrated.

At the same time, this new approach will require us to make additional adjustments to our procedures in order to foster closer links within the production chain.

In view of the foregoing, La Coop and a majority of the member cooperatives have initiated a major computer upgrade over five years. Ultimately, this upgrade will generate IT system development and maintenance cost savings, in addition to creating synergies as regards the communication of management information throughout the agricultural cooperative network.

In the coming months, we will be consulting extensively with our partners and owners to determine whether our advisory service offering should be expanded. This would lighten the producer cooperatives' administrative burden and lead to greater economic prosperity.

This drive toward continuity of action has shaped our large-scale effort to optimize the feed sector in conjunction with the member cooperatives. Originating from the 2003 Presidents' Forum, this project is in line with our strategic goal of reducing farm input costs.

These efforts have taken longer than some would have liked. Nevertheless, the size of the task, our need to forge a broad consensus and the large number of stakeholders involved account for this extended timeframe.

Still, I am satisfied with the progress we have made thus far. Our representatives have put in thousands of hours in an attempt to analyze and accurately determine our optimization potential, both locally and regionally. The main cooperatives involved are now considering a variety of scenarios.

It is increasingly clear that streamlining our product mix and providing specialized production facilities will be key success factors. La Coop's Board of Directors recently created a permanent advisory team of highly experienced employees who will help the cooperatives address these issues and speed up project implementation.

Once significant progress has been made on these reforms, we will examine additional optimization opportunities, focusing on other sectors in which La Coop and its producer/member cooperatives could work more closely.

Consolidation

Consolidation within the marketing operations is a key concern for agricultural cooperatives and agriculture throughout the province. For the third consecutive year, our hog slaughtering and cutting operations, primarily in Québec, recorded substantial losses.

As noted last year, Olymel's operating losses in the hog sector are not due to a prolonged economic slump. Fundamental structural changes are thus required.

We are very pleased with the Olymel/Supraliment merger, which was authorized by the Competition Bureau during the year. Québec's agricultural producers now have access to meat processing facilities that can compete on even terms with our main global competitors.



Bertrand COMEAU



Claude G. COUTURE
Audit Committee Member

This merger also enables us to develop more balanced relationships with food distribution giants in Canada and abroad while protecting market access for Québec producers. It also provides Olymel with the leeway it needs to rationalize its operations and reduce its production costs.

Nevertheless, the laws of economics are unforgiving, and cooperative values alone cannot protect against market forces. In the interests of its stakeholders and employees, Olymel's management was obliged to make a number of difficult decisions stemming from the hog production moratorium, the markedly higher Canadian dollar and Québec-specific supply conditions.

These decisions included a number of plant closures and lay-offs of competent long-serving employees. Other staff members agreed to changed working conditions to preserve their jobs and enable Olymel to reposition itself in the market.

During this entire process, Olymel's Board of Directors received unconditional shareholder support. Rest assured that every effort will continue to be made to ensure that the Québec hog sector returns to profitability.

In tandem with these profitability initiatives in Québec, Olymel initiated and completed efforts to reposition itself nationwide by partnering with the country's second and third-largest hog producers in its Western Canadian operations.

We take great pride in these partnerships, which are a clear acknowledgement of Olymel's standing in the meat processing sector. Our new partners were undoubtedly won over by Olymel's operating skills, sales expertise, market knowledge and valuable brand image.

Olymel has thus achieved cost-effective positioning in the Western Canadian region, where hog production is soaring and slaughtering operations are running at less than full capacity. Moreover, the partnership agreement guarantees a portion of the projected procurement needs for the Red Deer plant's second shift.

Representation

The preceding "Continuity" and "Consolidation" sections outline our operating highlights for 2005. However, as a federation of agricultural cooperatives, La Coop is also responsible for representing all of its members and defending their interests.

With La Coop's financial support, Citadelle requested a Supreme Court clarification on Section 2 of the Farm Products Marketing Act.

We continued to lobby the Canadian government to set up a cooperative investment plan and submitted a report on the capitalization of cooperatives to the Parliamentary Standing Committee on Finance.

We would like to salute the excellent work of the Canadian Federation of Agriculture, which carried out representational duties in this regard.

As part of provincial consultations, we filed a brief on the Québec government's sustainable development policy and made representations on its draft energy policy.



Normand **MARCIL**



Marc A. **TURCOTTE**
Audit Committee Member

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As part of consultations on the tender to supply 2,000 megawatts of wind power, we filed a brief addressing the potential negative impacts for farm producers under the proposed development model. La Coop assigned a full-time representative to assist producers setting up wind power cooperatives with a view to maximizing the regional economic benefits in this emerging sector.

We actively partnered with the GO5 Coalition in support of supply management and with the Québec Coalition to Protect Farmland.

La Coop also pursued efforts to modernize and harmonize the image of the agricultural cooperative movement, along the lines of those employed by other large networks such as Desjardins. To date, some 50 cooperatives have adopted the new Coop brand image and have received customized guidelines on design standards.

Value-added initiatives

La Coop's active involvement in initiatives to enhance and develop the agricultural profession dates back many years. Our continuing sponsorship of the French-language TV show *Par-dessus le marché*, currently in its second season, has been a resounding success. Now in a more convenient timeslot, this highly entertaining program deals with a wide range of agrifood issues and attracts nearly 800,000 viewers per episode.

For the third consecutive year, we were a major sponsor of the Québec Farm Open House day.

It is often said that adopting the cooperative philosophy means developing a long-term framework for action. To this end, La Coop invests in the future by providing financial assistance to a variety of organizations, including Québec's regional centres for agricultural institutions (CRÉA), which promote farm transfers, in addition to rural youth/farming succession groups and agricultural educational institutions.

CONCLUSION

In closing, on behalf of all of the agricultural cooperative network's stakeholders, I would like to extend my special thanks to Pierre Gauvreau, our Chief Executive Officer, who began his well-deserved retirement after more than 12 years of loyal and dedicated service.

I am also grateful to Réjean Nadeau and his team for the expertise and determination they have shown in striving to adapt Olymel to current and future economic conditions.

My thanks go out as well to my colleagues on the Board of Directors for their hard work, valuable insights and managerial expertise – and especially for the vitality and energy they bring to the management of Québec's largest agrifood cooperative. Their commitment and support will be essential to our success during this transitional period.

I would also like to extend my best wishes to Claude Lafleur, Chief Executive Officer; Paul Noiseux, Chief Financial Officer; Ernest Desrosiers, Chief Operating Officer; and their colleagues on the Corporate Management Committee. I have the deepest respect for their expertise and skills, which have benefited the entire agricultural cooperative network.

Since La Coop's success is inextricably linked to that of the affiliated cooperatives, I would be remiss if I failed to acknowledge the commitment of all those who take on active roles making



Michel DOUVILLE
Audit Committee Member



Charles PROULX

decisions and managing agricultural cooperatives. Thanks to the support and dedication of these men and women, we can move forward with confidence.

Let there be no doubt about it: we will not let down our guard, despite the truce called at the WTO negotiations in Hong Kong. The agrifood economy continues to evolve under the influence of powerful long-term trends such as trade globalization and liberalization. As a result, new agricultural powers are emerging, while others are disappearing.

Regardless of the outcome of the next round of WTO negotiations, we must continue to adapt to economic globalization while strongly defending our agricultural policies and approaches.

Now more than ever, I am convinced that the well-being of independent agricultural producers will depend on their participation in a network that is capable of supporting them in their daily work and ensuring the stability and success of their operations.

A handwritten signature in black ink, appearing to read 'Denis Richard', written in a cursive style.

Denis RICHARD
President

Our Network's Strength

The Strength of Commitment

*Isabelle ROY and
Denis MASSE,
agricultural producers,
Louiseville.*



Cooperative Overview



La Coop fédérée (“La Coop”) fully supports the principles set out in the International Co-operative Alliance’s “Statement on the Co-operative Identity,” which ensures that the decisions made by all of La Coop’s stakeholders reflect the cooperative philosophy.

First Principle: Voluntary and Open Membership

In the past year, La Coop added six new cooperatives, while one existing member ended its affiliation and another was liquidated. At year-end, La Coop comprised 101 member cooperatives representing 68,000 members (51,000 regular and 17,000 auxiliary or associate members), or a 3% increase over last year.

As part of La Coop’s ongoing efforts to extend its services to new types of non-network-based agricultural cooperatives, a special auxiliary membership status was created during the year to integrate CUMAs (Québec farm machinery cooperatives) into the network.

Second Principle: Democratic Member Control

As at October 29, 2005, the network included 664 elected directors.

For the purposes of the Annual General Meeting in February 2005, the member cooperatives were entitled to designate 347 delegates to represent their members and voice their opinions. Of that number, 262 delegates and 44 alternates availed themselves of that right, for an effective participation rate of 88%.

Other meetings throughout the year provided cooperative executives with opportunities to enter into open dialogue and guide La Coop’s actions. A total of 297 presidents, vice-presidents and general managers participated in the President’s Tour in January 2005, while 44 cooperative presidents took part in the Presidents’ Forum in April 2005 and 135 cooperative executives attended the semi-annual meeting in August 2005.

The Board, which is made up of 15 elected directors from the 15 regional and provincial territories, met during the year and devoted 29 working days to La Coop’s commercial and cooperative affairs. The Executive Committee spent an additional 12 days reviewing various matters.

Third Principle: Member Economic Participation

The member cooperatives hold \$83.6 million in La Coop’s share capital and \$231.2 million in the form of a collective reserve. This reserve is used to ensure La Coop’s development and to support various undertakings in accordance with member cooperatives’ needs.

In 2005, La Coop declared \$8.5 million in patronage refunds to its members, for a five-year total of \$62.1 million, and announced plans to buy back (in February 2006) \$6.6 million in Class D shares issued in 1990 and 1991.

Fourth Principle: Autonomy and Independence

La Coop ensures its independence from lenders by maintaining conservative financial ratios. It also strives to retain a majority interest when entering into alliances with other enterprises.

La Coop promotes sound governance practices, most notably by separating the positions of president and general manager, by fostering directors' independence from management and by pursuing sustainable results.

In recognition of its members' autonomy and independence, La Coop has launched a number of initiatives to meet the needs of a minimum number of the member cooperatives, while respecting the freedom of each cooperative to participate.

Fifth Principle: Education, Training and Information

La Coop provides training for all elected representatives to support their role within the agricultural cooperative network. Currently, 443 of the 664 elected representatives are taking part in this program. Of that number, 114 have earned formal designations as members after accumulating 15 training credits; 71 are companions (30 credits) and 58 are commanders (45 credits or more).

Employees have access to 63 training courses tailored to their needs, representing a \$7.0 million investment by La Coop during the year.

Moreover, La Coop pursues its training objectives among a number of target groups, including young and/or female agricultural producers. To this end, it organizes special seminars and annual forums and provides financial support to various educational institutions. Further efforts are devoted to educating opinion leaders and the general public on the cooperative agricultural model.

Sixth Principle: Cooperation among Cooperatives

La Coop's active involvement in a variety of organizations and associations enables it to enhance its member services and strengthen the cooperative movement. These groups include, the Conseil de la coopération du Québec, the Conseil Canadien de la Coopération and the Coopérative de développement régional Montréal-Laval, in addition to Co-operators Life Insurance Company, Cooperative Research Farms, Gene + and Interprovincial Co-operative.

Within its own network, La Coop strives to foster collaborative efforts between cooperatives so that they may reap the benefits of intercooperation. Accordingly, it promotes a comprehensive vision of the network as a highly integrated organization.

Seventh Principle: Concern for Community

In 2005, La Coop earmarked \$872,000 in donations and sponsorships for various organizations and events, including the UPA-sponsored *Portes ouvertes sur les fermes du Québec* [Farm Open House Day] and a number of agricultural succession organizations and contests designed to promote the agricultural profession. Other worthy causes included Centraide, the Conseil de développement du loisir scientifique, the Québec Midget AAA Development Hockey League and the Fondation pour l'éducation à la coopération. La Coop also supported the French-language television program *Par-dessus le marché*, which seeks to educate Québec consumers on agriculture and the food industry.

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Photo captions:

- 1) **Wind Power**
La Coop has launched a campaign to educate its members on wind power development issues in Québec.
- 2) **Quality of life on the farm**
As part of a scientific study to determine the stress and anxiety levels of its member producers. La Coop fédérée seeks to identify root causes and to enhance quality-of-life initiatives.
- 3) **Women's Agricultural Seminar**
This annual seminar enables female agricultural producers in managerial or organizational roles to meet, exchange information and learn more about the cooperative movement.
- 4) **Youth Forums**
Approximately 135 young farmers attended the Youth Forums to discuss relevant business issues (including Olymel L.P. and the World Trade Organization) and cooperation-related themes.



Management Discussion and Analysis

For the fiscal year ended October 29, 2005, La Coop fédérée (“La Coop”) reports operating earnings before patronage refunds and income taxes of \$42.5 million, compared with \$35.5 million for the previous year.

La Coop’s consolidated earnings before patronage refunds and income taxes for the year, excluding a \$23.5 million gain on dilution, decreased by \$16.5 million, compared with 2004.



As regards our marketing operations, i.e., our subsidiary Olymel L.P. (“Olymel”), the poultry sector turned in another fine performance this year, although its results were down compared with 2004. After hitting record highs last year, primarily due to the avian flu epidemic in British Columbia, selling prices declined in fiscal 2005, thereby hampering the poultry sector’s contribution. Once again, the hog sector incurred significant losses this year due to the Canadian dollar’s appreciation against the U.S. dollar and the recording of restructuring expenses.

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*Ernest DESROSIERS
Chief Operating Officer*

*Claude LAFLEUR
Chief Executive Officer*

*Paul NOISEUX
Chief Financial Officer*

The results for our supply operations, particularly the Sonic Petroleum Sector, were down slightly.

As at October 29, 2005, La Coop's consolidated revenues were \$3.142 billion, up from \$2.909 billion in fiscal 2004. This increase stemmed from business acquisitions during the year, despite a decline in hog and poultry sector revenues as a result of lower selling prices.

The cost of sales, selling and administrative expenses totalled \$3.109 billion, compared with \$2.866 billion last year. This was mainly attributable to business acquisitions and higher input costs, particularly in the petroleum sector.

Financial expenses totalled \$13 million, up \$3.1 million from last year. This was attributable to debt assumed in business acquisitions, in addition to higher average borrowings relating to additions to property, plant and equipment and slightly higher interest rates.

Other income amounted to \$21.1 million, compared with \$5.7 million last year. The main item under this heading was a \$23.5 million gain on dilution arising from the capital transaction with Supraliment Inc., an Olymel partner, as described in note 4 to the financial statements.

After patronage refunds in 2005 of \$8.5 million and income taxes of \$1.6 million, net earnings amounted to \$32.4 million, compared with \$15.6 million last year.

SEGMENTED INFORMATION

(Segmented revenues include amounts related to intersegment transactions.)

Marketing Operations

Our subsidiary Olymel had an eventful year in 2005. Highlights included the merger with Supraliment L.P. ("Supraliment"), the acquisition of a stake in Volaille Giannone Inc. ("Volaille Giannone") and the expansion of the pork processing plant in Red Deer, Alberta.

For the year ended October 29, 2005, Olymel recorded total sales of \$2.103 billion, compared with \$1.937 billion last year. This increase was due mainly to the acquisition of Supraliment (effective April 13, 2005), contributing \$208 million in additional sales, offset in part by a \$42 million decline resulting from lower selling prices in the hog and poultry sectors.

Difficult conditions continued in the hog sector, including the higher Canadian dollar, which led to lower margins on raw materials. The net results of the hog slaughtering and processing sector was thus an important loss.

On April 13, 2005, the Competition Bureau approved plans to merge the operations of Supraliment (including its 50% stake in Prince Foods L.P.) with those of Olymel. This acquisition was accounted for using the purchase method and was consolidated as of the acquisition date. In consideration for the acquisition of Supraliment's shares, Olymel shares totalling \$100 million were issued. As a result, Olymel is now the largest company in Canada operating in the hog and poultry slaughtering, cutting, boning, processing and marketing fields.



Mario LECLERC
Chief Human Resources



Alain GARNEAU
Legal Counsel and Chief, Legal Affairs



Gaétan DESROCHES
General Manager, Agribusiness

Olymel's results were also impacted by the recording of restructuring and severance expenses following the closure of the Magog and Granby facilities. These expenses were in line with the Olymel/Supraliment merger plan, under which meat processing was shifted from Granby, Magog and Laval to other Olymel plants.

In addition, Olymel reopened the Princeville plant after signing a new collective agreement with the employees. Consolidation of plant operations aims to modernize production processes, reduce operating costs and enhance productivity in the face of competition and other market pressures.

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In the Western Canadian fresh pork market, the Red Deer plant's results were better than last year's. Sales of value-added products had a beneficial effect on the plant's net contribution, although this was offset in part by the Canadian dollar's appreciation and the increase in storage and interest costs due to higher inventory levels.

In April 2005, meat cutting operations were initiated for the Red Deer plant's second shift.

On November 14, 2005, Olymel announced that it had entered into a partnership with two Western Canadian hog producers to build and operate a slaughtering and cutting plant in Manitoba. With production scheduled to begin by 2007, the new OlyWest plant is projected to process 2.5 million hogs and generate \$450 million in sales every year.

The hog sector accounted for 81.4% of Olymel's sales in fiscal 2005, with exports to international markets representing 50.4%.

The poultry sector's results were down from last year, when conditions were exceptional. After hitting record highs in 2004 as a result of the avian flu epidemic in British Columbia, selling prices fell in fiscal 2005, reducing the sector's gross contribution. Higher premiums paid to producers also had an adverse effect on the gross contribution.

On May 9, 2005, Olymel acquired a 50% stake in Gestion Bruno Giannone Inc., including its subsidiary Volaille Giannone. Acquiring this poultry meat processing company will allow Olymel to expand its operations and gain access to new sector markets.

Business acquisitions in 2005 (including the Supraliment merger and the equity participation in Volaille Giannone) helped to fuel La Coop's growth. They also made it possible for Olymel to secure a larger portion of its own supply volumes while supporting growth in the further processing sector.

Supply Operations

Sales from supply operations totalled \$1.060 billion, compared with \$975 million last year. This rise stemmed mainly from larger sales volumes in the new Ontario market and growing hardware and industrial fertilizer sales. In addition, the upward trend in petroleum product prices boosted sales in the Sonic Petroleum Sector, while lower input prices resulted in lower Feed Department and Grains Department sales.

Net earnings from supply operations were higher than in 2004 even though we received unusual revenues last year from sales of quotas and from a Canadian class action lawsuit.

Earnings before other income were also higher than in 2004, primarily due to savings on feed purchases and the acquisition of Nutrite. Larger hardware sales volumes and improved grain market conditions also contributed to this increase.

The main variations in supply sector results are as follows.

The Animal Production Department recorded sales of \$186.6 million, down from \$211.3 million in 2004, primarily stemming from an ingredient price decrease averaging 11.5%. The Department's net contribution was down 18.6%, compared with 2004. It should be noted that last year's results included revenues from the favourable resolution of a class action lawsuit. Despite these additional revenues in 2004, earnings for fiscal 2005 were up, thanks mainly to exceptional gains on long positions.

In fiscal 2005, Crop Production Department sales totalled \$178.2 million, compared with \$138.8 million last year. Two factors contributed to this increase: first, fertilizer sales received a \$26.4 million boost thanks to higher selling prices (which climbed an average of \$39 per metric ton) and higher sales volumes (which rose by 52,368 metric tons). The latter was due mainly to larger industrial sales volumes and Ontario market growth. Second, crop protection sales increased by \$12.4 million, also due mainly to Ontario market growth. Regular sales (primarily of herbicides and fertilizers) were up nearly \$3.5 million. The Department's net contribution in the herbicide and fertilizer sector exceeded that of last year, mainly due to the gain on disposal of La Coop's investment in CF Industries ("CFI"), a large U.S.-based cooperative. Following CFI's demutualization and initial public offering, we disposed of our ownership interest on favourable terms. CFI continues to be one of La Coop's major fertilizer suppliers.

For the year ended October 29, 2005, Grains Department sales fell \$42.7 million to \$112 million as a result of a 5% decline in sales volumes and lower average selling prices (which dropped from \$236 to \$180 per metric ton). The Department's net contribution after the cooperatives' share in Elite Grain L.P.'s results was slightly better than that in 2004 although a loss was incurred.

The Hardware and Farm Machinery Sector recorded total sales of \$188.3 million, compared with \$173.7 million last year, thanks to greater loyalty from the cooperatives and ongoing renovations at Coop network stores. The Sector's net contribution was higher than in 2004, with sales growth and rigorous expense controls offsetting higher development expenses for the Coop network and the new Unimat banner. These results are a tribute to teamwork, including sustained efforts to improve the Sector's profitability.

The Sonic Petroleum Sector posted sales of \$388 million, up from \$312.4 million last year. This was entirely due to higher input costs since sales volumes actually declined. Overall market demand for heating products fell, while weather conditions had an adverse effect on propane consumption. Compared with 2004, the Sector reported lower net earnings because of increased administrative and selling expenses, as well as higher soil clean-up and restoration costs.

In 2005, one of the Sonic Petroleum Sector's key strategic priorities was to expand its networking activities and strengthen its relationships with the cooperative network. Another was to carry



François **DUPONT**
General Manager, Sonic Petroleum



Claude **GINGRAS**
General Manager, Hardware and Farm Machinery

out business acquisitions to achieve growth in an essentially flat market. To this end, La Coop acquired almost 100% of Irving Oil Inc.'s heating oil clients and small commercial accounts in Québec (representing a volume of 50 million litres), as part of a nearly \$2.5 million investment on behalf of the cooperative network.

Sales for AgriEst, Coop Agricultural Centre totalled \$12 million, compared with \$13.1 million last year. This drop was due to reduced volumes in the poultry, grain and seed sectors, in addition to lower grain prices. AgriEst's net contribution, however, was higher than that recorded last year.

La Coop's Member Services team maintained a steady presence alongside the affiliated cooperatives in fiscal 2005. Team members worked closely with the cooperatives and La Coop's various departments.

In January 2005, a committee comprising ten representatives from the cooperatives and three from La Coop was formed to make recommendations concerning the standardization of the cooperative network's information systems. The committee met on a number of occasions and recommended a standard system. With a majority of the cooperatives expressing support for the proposal, La Coop's Board of Directors agreed to contribute financially to the system's implementation. Over the next 12 months, the project team will be working closely with the cooperatives. The selected supplier has reviewed the business processes and completed the necessary programming to ensure that the new system will meet our network's operating requirements.

Administrative Departments

The Administrative Departments' net expenses (including a 50% share in the results of a real estate joint venture) totalled \$12.3 million in 2005, up from \$10.1 million last year. This rise stemmed from higher costs associated with systems and technological upgrades, in addition to increases in professional fees.

Human Resources

La Coop, including its subsidiaries, employed 12,287 people at fiscal 2005 year-end, compared with 9,587 in 2004, primarily due to the inclusion of employees from companies acquired by Olymel.

Thanks to the integration of these new employees, including those in the agricultural cooperative network, a number of benefit programs were launched. For example, the various pension plans for the agricultural cooperative network were combined to form a single trust fund, with more than \$215 million in assets at 2005 fiscal year-end. This large-scale fund provides a range of investment opportunities, including six mutual funds and two term deposit certificates.

Consolidation also benefited our group insurance program by ensuring more effective management of insurance contracts in partnership with the employees. Thanks to this strategy and the group's extensive experience, premium increases were considerably lower than for the market as a whole.

In addition, 12 collective agreements were negotiated, with our operations remaining undisturbed by strikes. Discussions were held at various Olymel plants to help employees adapt to the new rules of global competition. Various suggestions were raised to enhance our competitive position and achieve growth in this sector.

The Strength of Teamwork

Éric NADEAU,
forklift operator

Daniel CHAUVETTE,
forklift operator

Eloise GAGNON,
horticultural advisor

Réal LAROCHE,
supervisor





Gilles **DENETTE**
Chief, Member Services



Jean-Yves **CARON**
Senior Manager, Finance, Control and Administration

The development program for elected members continues to be available for all agricultural cooperative network directors. Among the active directors, 114 hold a formal designation as member, 71 as companion and 58 as commander.

Furthermore, La Coop invested 2.6% of its total payroll in training to ensure continuous upgrading of employee skill levels.

FINANCIAL POSITION

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As at October 29, 2005, La Coop's consolidated balance sheet showed total assets of \$1.058 billion, up from \$808.8 million at the end of last year. This resulted primarily from meat sector mergers and acquisitions and from investments in property, plant and equipment at the Red Deer facility, including a new stabilization room, a refrigerated warehouse and an automated slaughter line. As previously noted, we disposed of our investment in a fertilizer supply cooperative.

Current liabilities rose to \$300.2 million, versus \$283.5 million last year, primarily due to the integration of companies acquired during 2005.

Short-term borrowings (exclusively for Olymel) amounted to \$9.5 million as at October 29, 2005, up from \$3.7 million last year.

Working capital stood at \$197.8 million, compared with \$139.5 million last year, with ratios of 1.7 and 1.5 respectively. In addition, La Coop's consolidated debt/equity ratio rose to 47:53 at year-end, compared with 40:60 in 2004.

Preferred shares and equity totalled \$321.9 million at year-end, up from \$284.7 million in 2004. These items accounted for 30.4% of total assets, compared with 35.2% at the end of last year. As at October 29, 2005, La Coop had a \$231.2 million reserve, representing 71.8% of preferred shares and equity.

LIQUIDITY AND CAPITAL RESOURCES

In June 2005, La Coop obtained financing consisting of a new bank syndication and took out additional long-term loans from Canadian financial institutions, thereby enabling it to refinance its existing debt. Refinancing also enabled La Coop to reorganize the debts assumed in business acquisitions, most notably the Supraliment/Olymel merger.

The new agreement with a syndicated group of financial institutions consisted of a \$350 million total credit facility (or line of credit), including a \$100 million term loan and \$250 million in rotating credit, with the latter renewable in April 2008. The term loan becomes repayable in July 2006, with two quarterly payments (\$2.5 million each) due in 2006, four quarterly payments (\$3.8 million each) due in fiscal 2007 and two quarterly payments (\$5 million each) due in the first half of fiscal 2008.

The line of credit used at 2005 year-end totalled \$184.1 million, up from \$121.3 million in 2004. In addition, La Coop took out a new \$30 million term loan in June 2005. This fixed-rate loan comes due in August 2011, with annual repayments required over four years. Also in June 2005, La Coop

arranged a \$25 million non-guaranteed fixed-rate debenture loan, with annual repayments required over three years beginning in August 2012.

Furthermore, La Coop had a balance owing of \$25 million on a term note, compared with \$26.1 million in 2004. This fixed-rate term note is repayable in monthly instalments over 12 years. The credit facility, term loan and term note (collectively totalling \$239 million as at October 29, 2005) are secured by first-rank hypothecs on substantially all of the present and future tangible and intangible assets of our subsidiary Olymel and of its own subsidiaries. La Coop expects to meet its financial obligations without difficulty while complying with the covenants in its financing agreements for the year ending October 28, 2006.

Each year, La Coop specifies its investment capacity for current capital investments based on funds generated in each sector. For fiscal 2005, current capital investments and major capital investments totalled \$72.1 million, more than our specified annual investment capacity. However, thanks to careful management of working capital and given that the main projects were completed up to fiscal 2006, we were able to maintain rigorous controls and thus minimize our financing costs.

DERIVATIVE FINANCIAL INSTRUMENTS

In accordance with its internal risk management policies, La Coop decided to maintain hedge accounting. Accordingly, all hedging relationships were identified, designated and documented throughout the year. Derivative financial instruments are used by La Coop for the purpose of risk management in the ordinary course of business.

La Coop often sells and buys outside Canada, mainly in U.S. dollars and Japanese yen. To manage exchange-rate risks, La Coop uses foreign exchange contracts. Gains and losses on foreign exchange contracts entered into to hedge future transactions are deferred and accounted for when these transactions occur. In 2005, foreign exchange contracts used by La Coop as a hedge against currency fluctuations, mainly for transactions in U.S. dollars and Japanese yen, exceeded C\$1 billion. To manage interest-rate risks, La Coop uses other financial instruments to convert a portion of its floating-rate debt into fixed-rate debt. Payments and receipts under derivative financial instruments are recognized as financial expenses at the same time as the interest expense on the liabilities being hedged.

RISKS AND UNCERTAINTIES

La Coop is exposed to various risk factors that may influence the profitability of its operations in the marketing and supply operations.

Input Price Fluctuation Risks

Input prices are constantly influenced by factors external to La Coop, while extreme price volatility stems from continually changing supply markets. La Coop's economic context is regulated by national and provincial policies affecting slaughterhouse supply procurement. As a result, market policy changes influence livestock volumes and prices. La Coop strives to exercise tight control over its production costs to offset its lack of control over supply costs and prices. La Coop is able to minimize this risk by operating in various sectors.



Jean-François HAREL
*Board Secretary and 1st Executive
Communications Officer*



Mario HÉBERT
1st Executive Economist and Sustainable Development Officer

Food Safety Risks

La Coop is exposed to a number of industry-related risks, primarily in its food processing and marketing operations. Consumer product contamination and spoilage, as well as related liability, are among the risks that La Coop faces. In accordance with government requirements, La Coop maintains and applies stringent food safety controls at all of its plants.

Livestock Health Risks

The prospect of livestock contamination and epidemics is a crucial risk factor for La Coop. Indeed, epidemics can have a major impact on production at processing plants and their access to raw materials. Since quality control is essential for La Coop, efforts to improve internal tracking procedures and implement a national strategy in close cooperation with government authorities are an important component of sound livestock management.

Environmental Risk

Respect for the environment is of paramount importance to La Coop, which implemented an environmental policy to ensure that its practices consistently reflect this concern. An environmental management system is in general use to ensure policy compliance and enforcement.

Most environmental activities pertain to statutory and regulatory compliance, which is at the core of La Coop's policy. The ongoing pursuit of improvements and sustainable development is expressed in a variety of concrete measures, as well as in investments in equipment and research aimed at limiting releases into the environment and fostering awareness.

Establishing an audit calendar allows for periodic reviews of compliance with environmental legislation, regulations and practices at all of La Coop's facilities in every sector. Over the past year, the agrocentres and hog farms were visited by the Environment Department's audit specialists. Their findings were recorded in a computer system in order to facilitate environmental data management and improve follow-up on risk mitigation measures. Follow-up actions involved the direct participation of La Coop's environmental specialists in support of managers at the facilities visited.

Furthermore, the internal audit team carried out an audit of La Coop's environmental management practices. Implementing the internal auditor's recommendations will enable La Coop to improve its practices and, consequently, its risk management techniques.

Global Market Risks

La Coop's exports are affected by a number of economic variables that influence global markets. Export volumes are dependent on economic conditions in importing countries and, in some cases, on tariff barriers. Export growth and profitability are closely linked to the strength of these markets and their compliance with international trade treaties and rules.

Credit Risk

In the ordinary course of business, La Coop regularly evaluates the financial position of its clients and examines new clients' credit history. The allowance for doubtful accounts is based on clients' specific credit risks and historical trends. Moreover, for certain clients, La Coop holds security in the event of default.

The Strength of Experience

*Michel LECLERC,
agricultural producer,
Sainte-Marthe-du-Cap*



Foreign Exchange Risk

La Coop often sells and buys outside Canada, mainly in U.S. dollars and Japanese yen. La Coop's policy is to preserve the purchase cost and selling price of its business transactions by hedging its positions via derivative financial instruments, as described under "Significant Accounting Policies" in the consolidated financial statements.

ACCOUNTING POLICY CHANGES

Asset Retirement Obligations

For the year beginning October 31, 2004, La Coop adopted the new standard of the Canadian Institute of Chartered Accountants (CICA) set out in *CICA Handbook* Section 3110 "Asset Retirement Obligations." Under this new standard, an asset retirement obligation liability and the related asset must be recognized at their fair value on the balance sheet during the period in which a legal obligation related to the retirement of a long-lived asset is contracted. The resulting asset is amortized and recognized in income, using a systematic and rational method, over the asset's useful life. The adoption of this standard had no significant impact on La Coop's consolidated financial statements.

Variable Interest Entities

In November 2004, La Coop adopted a new CICA Accounting Guideline (AcG-15), "Consolidation of Variable Interest Entities," which defines variable interest entities as entities whose total equity investment at risk is insufficient to permit them to finance their activities without external support, or whose investors lack certain essential characteristics of a controlling financial interest. This guideline provides guidance on determining whether an entity is a variable interest entity and, if so, on determining who should consolidate the entity. The adoption of this standard had no significant impact on La Coop's consolidated financial statements.

NEW CANADIAN STANDARDS

Financial Instruments

In April 2005, the Canadian Accounting Standards Board (CASB) issued three new standards for financial instruments. These standards include new requirements for recognizing and measuring financial instruments, including when an entity should recognize financial instruments on its balance sheet and how they should be measured after recognition.

"Financial Instruments – Recognition and Measurement" (Section 3855)

This section prescribes when a financial instrument must be recognized on the balance sheet and at what amount. It also specifies how financial instrument gains and losses must be presented.

Under this standard, all financial or non-financial derivative instruments must be classified as "held for trading," "held to maturity," "loans and receivables" or "available for sale."

Financial assets and liabilities classified as held for trading must be measured at fair value, with gains and losses recognized in the periods in which they arise. Financial assets classified as held to maturity, loans and receivables, and financial liabilities (other than those held for trading) must be measured at amortized cost. Gains and losses are recognized in income when the asset is derecognized, except for impairments and exchange gains and losses, which are recognized when they

The Strength of Service

*Mario DESAULNIERS,
petroleum product distribution agent*

*Martial LEMIRE,
agricultural producer,
Saint-Zéphirin*



arise. Financial assets available for sale are measured at fair value. Gains and losses are recognized in other comprehensive income until the underlying financial asset is derecognized or becomes impaired.

“Hedges” (Section 3865)

Under this optional standard, entities may elect to apply hedge accounting in certain circumstances. The accounting treatment and disclosure requirements for eligible hedging relationships are also set out. Under this standard, hedges must be designated as “fair value hedges,” “cash flow hedges” or “hedges of a net investment in a self-sustaining foreign operation.”

For a fair value hedge, the gain or loss on a derivative hedging item is recognized in net income in the period of change, together with the offsetting loss or gain attributable to the hedged risk. For a cash flow hedge or a hedge of a net investment in a self-sustaining foreign operation, the effective portion of the hedging item’s gain or loss is initially reported in other comprehensive income and subsequently reclassified to net income when the hedged item affects net income.

“Comprehensive Income” (Section 1530)

This section sets out new standards for certain gains and losses that must be temporarily reported outside net income. Comprehensive income and its components represent changes in equity during a period resulting from transactions and other events, other than those resulting from transactions with owners, such as patronage refunds and capital investments.

For La Coop, these new sections will come into effect in fiscal 2006-2007. La Coop is currently evaluating the impact of these standards.

“Non-Monetary Transactions”

In June 2005, the CICA issued Handbook Section 3831 “Non-Monetary Transactions.” This new standard requires all non-monetary transactions to be measured at fair value unless they meet four very specific criteria: if the transactions lack commercial substance; if they involve an exchange of property in the ordinary course of business to facilitate sales to third parties; if the fair value of the assets received or given up is not reliably measurable; or if the transactions involve non-monetary, non-reciprocal transfers to owners.

The new requirements apply to non-monetary transactions initiated in periods beginning on or after January 1, 2006. Earlier adoption is permitted as of periods beginning on or after July 1, 2005. La Coop is currently evaluating the impact of this standard.

“Business Combinations”

In August 2005, the CASB issued an exposure draft of new Handbook Section 1582 “Business Combinations,” including proposals to improve financial reporting quality by requiring the application of the purchase method for business combinations, even those involving cooperatives. The exposure draft also recommends that assets acquired and liabilities assumed (including non-controlling interests) be measured at fair value. In addition, the consideration transferred by the acquirer would be measured at fair value, while the transaction costs would be expensed. La Coop will evaluate the impact of this exposure draft upon adoption.

CONCLUSION

For the third consecutive year, La Coop recorded disappointing results in the meat sector, particularly the Québec hog market. It is our belief that Olymel's results will improve over the next few years thanks to the recovery measures we have taken, including employee-approved payroll reductions, plant rationalizations and efforts to increase hog weights, as well as investments at our Red Deer facility. All of La Coop's other sectors recorded robust growth in 2005.

In closing, I am very grateful to the network of affiliated cooperatives, particularly their officers and managers, for their loyalty and renewed support.

I would also like to acknowledge the hard work and devotion of all of our employees and of my colleagues at our subsidiary Olymel.

Finally, I would like to thank our President, Denis Richard, and the Board of Directors for their confidence in the face of challenges and for the trust they have shown in the management team.



Claude LAFLEUR
Chief Executive Officer



Claude LAFLEUR
Chief Executive Officer, La Coop fédérée

Denis RICHARD
President, La Coop fédérée and Chairman
of the Board, Olymel

Fiscal 2005 was the most significant year in Olymel's short history, amid industry-wide consolidation. Noteworthy events included the Supraliment merger, the integration of the Prince Foods joint venture, the acquisition of an ownership interest in Volaille Giannone, the introduction of a second shift at the Red Deer plant in Alberta, the reopening of the Princeville facility, the realignment of certain labour costs and the formation of a new partnership to build a new slaughterhouse in Winnipeg.

For the year ended October 29, 2005, Olymel recorded a slight net loss, compared with a profit last year. This loss included a non-recurring extraordinary item related to asset impairment and merger-related restructuring expenses.

Olymel's sales for the year totalled \$2.103 billion, up 8.5% from \$1.937 billion in fiscal 2004. This increase was primarily due to the consolidation of Supraliment (effective April 13, 2005) and Prince Foods, in addition to the acquisition of the ownership interest in Volaille Giannone (effective May 2005). However, Olymel's results were down nearly \$42 million because of lower selling prices in the hog and poultry sectors.

The hog sector accounted for 80% of total sales, with international exports accounting for more than 50%. Olymel serves more than 60 countries, including the U.S., Japan and South Korea, in addition to Australia, where a new sales office was opened in 2005.



Réjean NADEAU
Chief Executive Officer, Olymel

Paul NOISEUX,
Chief Financial Officer,
Olymel/La Coop fédérée

Although they showed a slight improvement over the 12-month period (on a consolidated basis), the fresh pork sector's results remained strongly negative in Eastern Canada for the third consecutive year. Contributing factors included the appreciation of the Canadian dollar, sharply higher plant labour costs (compared with our competitors) and volume losses due to reduced deliveries from Québec producers affected by the hog moratorium. Results were also affected by animal health problems, lower hog weights in Québec (compared with our North American competitors), higher inventories and the emergence of new competitors in the sector.

Although there was an operating loss, the fresh pork sector's results in Western Canada showed a vast improvement, compared with last year. The situation should continue to improve thanks to the renegotiation of certain contracts, the introduction of the second shift at the Red Deer facility and the opening of a new distribution centre, which is scheduled to begin operations in spring 2006.

After hitting record highs in 2004 due to the avian flu epidemic in British Columbia, selling prices in the fresh chicken market fell in fiscal 2005, hampering performance. Positive sector results overall, however, were not enough to offset losses in the fresh pork market this year. Moreover, the consolidation of our share in Volaille Giannone boosted poultry sector performance.

The fresh turkey sector's performance was highly satisfactory, with results having doubled since 2004. However, this sector remains fragile due to high inventory levels at the beginning of the year and 2006 production plans.

The hog processing sector's positive results were an improvement over last year's performance. In effect, fiscal 2005 was a transitional year: the main highlights of merger-related activities included the announced closure of redundant facilities (Laval, Magog and Granby), with large-scale investments (totalling \$13.8 million) earmarked increased production capacity at the other plants, including Saint-Henri (Bellechasse), Trois-Rivières and Anjou.

The merger and integration of Supraliment and Prince Foods is expected to deliver substantial cost savings, which should be realized gradually over the next few months. Their full effect will be seen in late fiscal 2006.

The poultry processing sector's results benefited from lower fresh poultry selling prices and higher sales volumes.

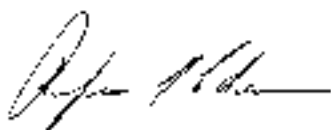
In late 2005, Olymel was pleased to announce a long-term agreement to supply Rôtisseries St-Hubert with fresh and processed products, thereby confirming Olymel's key role in the poultry sector.

Thanks to the recent signing of a partnership agreement to create OlyWest (including a new slaughterhouse in Winnipeg), Olymel continues to develop its strength nationwide. Indeed, Olymel and its various producer partners stand to reap the benefits of integration in the form of enhanced supply guarantees and shared market risks.

While 2005 was marked by numerous development and restructuring initiatives, integration is expected to be the dominant theme of 2006.

In closing, I would like to thank our employees for their sustained efforts and, in particular, my immediate colleagues for their ongoing support.

Finally, I am most grateful to the President, Denis Richard, and the Board of Directors for their judicious advice and continued confidence during difficult times.



Réjean NADEAU
President and Chief Executive Officer

The Strength of Know-How



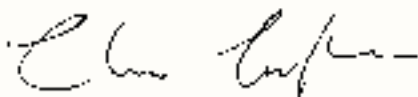
Sébastien **BILODEAU**,
day worker, Olymel

The consolidated financial statements and accompanying notes of La Coop fédérée for the year ended October 29, 2005 are management's responsibility and have been approved by the Board of Directors. This responsibility involves the selection of appropriate accounting methods as well as the use of sound judgment in the establishment of reasonable and fair estimates according to Canadian generally accepted accounting principles and the application regulations of the *Cooperatives Act*. Financial and operating information presented elsewhere in this Annual Report is consistent with that in the consolidated financial statements.

Management maintains accounting and internal control systems which ensure reliability of financial information and provide reasonable assurance that assets are properly accounted for and safeguarded. The Internal Audit Department evaluates accounting and internal control systems on an ongoing basis and regularly reports its findings and recommendations to management and the Audit Committee.

The Board of Directors carries out its responsibility for the consolidated financial statements, mainly through its Audit Committee consisting of outside directors. The Audit Committee holds regular meetings with the internal and external auditors and with management to discuss the application of internal controls and examine the consolidated financial statements and other matters of financial reporting. The Audit Committee reports and submits its recommendations to the Board of Directors.

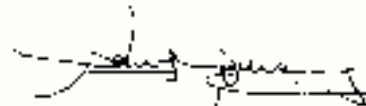
The auditors appointed by the members, Ernst & Young LLP, Chartered Accountants, have audited the consolidated financial statements and their report appearing hereinafter indicates the scope of their audit and their opinion.



Claude LAFLEUR

Chief Executive Officer

Montréal, January 19, 2006



Paul NOISEUX, CGA

Chief Financial Officer

To the members of
La Coop fédérée

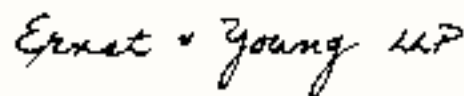
We have audited the consolidated balance sheet of La Coop fédérée ["La Coop"] as at October 29, 2005 and the consolidated statements of earnings and reserve and cash flows for the year then ended. These financial statements are the responsibility of La Coop's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

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In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of La Coop as at October 29, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Montréal, Canada
January 6, 2006
*[except notes 6, 7 and 14,
which are as of January 19, 2006]*



Ernst & Young LLP
Chartered Accountants

*[thousands of dollars]***2005****2004****ASSETS****Current assets**


| | | |
|--|---------------------|------------|
| Accounts receivable | \$ 242,176 | \$ 216,322 |
| Inventories | 242,095 | 196,960 |
| Prepaid expenses | 9,947 | 8,767 |
| Income taxes receivable | 2,546 | — |
| Investments – current portion <i>[note 8]</i> | 1,227 | 943 |
| | 497,991 | 422,992 |
| Investments <i>[note 8]</i> | 29,054 | 50,239 |
| Property, plant and equipment <i>[note 9]</i> | 451,177 | 305,328 |
| Employee future benefit asset <i>[note 13]</i> | 8,722 | 7,176 |
| Other assets <i>[note 10]</i> | 71,308 | 23,030 |
| | \$ 1,058,252 | \$ 808,765 |

LIABILITIES AND EQUITY**Current liabilities**

| | | |
|--|---------------------|------------|
| Bank overdrafts | \$ 10,853 | \$ 10,000 |
| Short-term borrowings <i>[note 11]</i> | 9,511 | 3,685 |
| Accounts payable and accrued liabilities | 267,388 | 242,031 |
| Income taxes payable | — | 6,601 |
| Future income taxes <i>[note 7]</i> | 129 | 418 |
| Patronage refunds payable <i>[note 6]</i> | 1,275 | 4,000 |
| Redeemable preferred shares – current portion <i>[note 14]</i> | 3,042 | 1,968 |
| Long-term debt – current portion <i>[note 12]</i> | 8,043 | 14,803 |
| | 300,241 | 283,506 |
| Long-term debt <i>[note 12]</i> | 269,989 | 163,356 |
| Employee future benefit liability <i>[note 13]</i> | 33,265 | 27,973 |
| Deferred gain | — | 891 |
| Future income taxes <i>[note 7]</i> | 20,631 | 7,090 |
| Non-controlling interests <i>[note 15]</i> | 115,240 | 43,206 |
| Preferred shares <i>[note 14]</i> | 4,079 | 7,121 |
| Equity | | |
| Share capital <i>[note 14]</i> | 83,626 | 76,853 |
| Reserve | 231,181 | 198,769 |
| | \$ 1,058,252 | \$ 808,765 |

Commitments and contingencies *[note 15]**The notes are an integral part of the consolidated financial statements.*

On behalf of the Board,


Denis **RICHARD**, Director

Ghislain **CLOUTIER**, Director

*[thousands of dollars]***2005****2004**

| | | |
|---|---------------------|---------------------|
| Revenues | \$ 3,141,860 | \$ 2,908,842 |
| Operating expenses <i>[note 3]</i> | | |
| Cost of sales and selling and administrative expenses | 3,108,916 | 2,865,841 |
| Financial expenses | 12,965 | 9,925 |
| | 3,121,881 | 2,875,766 |
| Operating earnings | 19,979 | 33,076 |
| Other income and expenses | | |
| Share of results of entities subject to significant influence | 1,280 | 1,213 |
| Gains on disposal of assets | 1,000 | 4,480 |
| Gain on dilution <i>[note 4]</i> | 23,526 | — |
| Restructuring costs <i>[note 5]</i> | (4,713) | — |
| | 21,093 | 5,693 |
| Earnings before non-controlling interest, patronage refunds and income taxes | 41,072 | 38,769 |
| Non-controlling interest | (1,391) | 3,313 |
| Earnings before patronage refunds and income taxes | 42,463 | 35,456 |
| Patronage refunds <i>[note 6]</i> | 8,500 | 12,000 |
| Income taxes <i>[note 7]</i> | 1,551 | 7,887 |
| Net earnings | 32,412 | 15,569 |
| Reserve, beginning of year | 198,769 | 183,200 |
| Reserve, end of year | \$ 231,181 | \$ 198,769 |

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The notes are an integral part of the consolidated financial statements.

[thousands of dollars]

| | 2005 | 2004 |
|---|--------------------|--------------------|
| OPERATING ACTIVITIES | | |
| Cash receipts from customers | \$ 3,149,032 | \$ 2,890,005 |
| Cash paid to suppliers and employees | (3,079,368) | (2,824,572) |
| Financial expenses paid | (14,148) | (12,201) |
| Dividends received from entities subject to significant influence | 1,351 | 1,119 |
| Interest received | 1,064 | 1,335 |
| Income taxes paid | (8,041) | (2,118) |
| Patronage refunds paid | (4,000) | (2,666) |
| Cash flows related to operating activities | 45,890 | 50,902 |
| INVESTING ACTIVITIES | | |
| Business acquisitions <i>[note 2]</i> | (8,694) | — |
| Acquisitions of investments | (2,228) | (3,470) |
| Proceeds on disposal of investments | 24,089 | 4,868 |
| Additions to property, plant and equipment | (72,083) | (32,435) |
| Proceeds from disposal of property, plant and equipment | 826 | 2,876 |
| Additions to other assets | (10,434) | (448) |
| Proceeds on disposal of other assets | 13 | 2,301 |
| Repurchase of non-controlling interests | — | (4,548) |
| Cash flows related to investing activities | (68,511) | (30,856) |
| FINANCING ACTIVITIES | | |
| Net change in short-term borrowings | 5,826 | (857) |
| Proceeds from issuance of long-term debt | 39,821 | 10,794 |
| Repayment of long-term debt | (21,459) | (24,926) |
| Payment to non-controlling interests | — | (546) |
| Proceeds from issuance of preferred shares | 3,501 | — |
| Redemption of preferred shares | (1,968) | (32) |
| Proceeds from issuance of common shares | 52 | 39 |
| Redemption of common shares | (4,005) | (28) |
| Cash flows related to financing activities | 21,768 | (15,556) |
| Decrease (increase) in bank overdrafts | (853) | 4,490 |
| Bank overdrafts, beginning of year | (10,000) | (14,490) |
| Bank overdrafts, end of year | \$ (10,853) | \$ (10,000) |

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The notes are an integral part of the consolidated financial statements.

[All tabular amounts are in thousands of dollars.]

BUSINESS DESCRIPTION

On June 1, 2005, the corporate name of Coopérative fédérée de Québec was changed to La Coop fédérée. La Coop fédérée ["La Coop"] was established by a special law of the Province of Québec. It is active mainly in marketing and supply operations. The marketing segment focuses on the processing and sale of pork and poultry products. The supply segment provides farmers with goods and services to support their farming operations and distributes and sells petroleum products and services.

SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of La Coop have been prepared by management in accordance with Canadian generally accepted accounting principles taking into consideration the regulations adopted under the *Cooperatives Act*. The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

Basis of consolidation

The consolidated financial statements include the accounts of La Coop, its wholly owned subsidiaries and its controlling interest in Olymel L.P. They also include La Coop's interest in its joint ventures, owned directly or via its subsidiary Olymel L.P., accounted for using the proportionate consolidation method.

Bank overdrafts

Bank overdrafts include cash on hand and bank balances available.

Inventories

Raw materials and supply inventories are stated at the lower of cost established in accordance with the first in, first out method and replacement cost. Goods in process and finished goods inventories are valued at the lower of net realizable value or of cost established in accordance with the first in, first out method, average cost method or retail inventory cost method, depending on the segment.

Investments

Interests in entities subject to significant influence are accounted for under the equity method and other long-term investments are carried at cost. La Coop regularly reviews the value of its investments for impairment. A decline in value that is other than temporary is recognized by writing down the investment.

Property, plant and equipment

Property, plant and equipment are stated at cost. They are depreciated over their useful life on a straight-line basis at the following rates.

| | |
|-------------------------|-------------------|
| Pavement | 4% to 20% |
| Buildings | 3 1/3% to 10% |
| Machinery and equipment | 5% to 33 1/3% |
| Automotive equipment | 6 2/3% to 33 1/3% |
| Leasehold improvements | Lease term |

Other assets

Goodwill

Goodwill represents the excess of the purchase price over the fair value of net assets acquired.

Goodwill is accounted for at cost and amortized on a straight-line basis over a period generally not exceeding 20 years. At each balance sheet date, La Coop evaluates whether there has been a permanent impairment in value of the carrying amount of goodwill. In doing so, La Coop determines the recoverability of goodwill based on an estimate of the undiscounted future cash flows over the remaining period of amortization of each business to which the goodwill relates.

SIGNIFICANT ACCOUNTING POLICIES [cont'd]**Other assets [cont'd]*****Goodwill* [cont'd]**

The goodwill of the subsidiary Olymel L.P. is tested for impairment annually or more frequently if events or changes in circumstances indicate a possible impairment. The impairment test compares the fair value of the reporting unit to which goodwill is assigned with its carrying amount. The impairment test consists in comparing the fair value of goodwill with its carrying amount. Any impairment of the carrying amount in relation to the fair value is charged to consolidated earnings in the year in which the loss is incurred.

Trademarks

Trademarks are accounted for at cost and amortized on a straight-line basis over a 15-year period.

Customer lists

Customer lists are accounted for at cost and amortized on a straight-line basis over a 7-year period.

Rights

Rights consist of production rights and exclusive supply rights. They are accounted for at cost. They are amortized on a straight-line basis over a 10-year period for production rights and over a 20-year period for exclusive supply rights.

Deferred charges

Deferred charges include financing expenses related to long-term debt, start-up costs related to increasing production capacity and the costs related to a client supply contract. They are amortized on a straight-line basis over periods ranging from three to four years.

Deferred gain

The deferred gain was realized in the course of an investment in a joint venture and represented half of the value of the customer base disposed of by La Coop upon closing of the transaction. It was amortized on a straight-line basis over a 15-year period.

Impairment of long-lived assets

Long-lived assets held for use are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment is assessed by comparing the carrying amount of an asset with its expected future net undiscounted cash flows from use together with its residual value. If such assets are considered to be impaired, the impairment charge is measured by the amount by which the carrying amount of the assets exceeds its fair value. An impairment loss is recognized and presented in the consolidated statement of earnings and the carrying amount of the asset is adjusted to its fair value.

Research and development

Research and development costs are expensed in the consolidated statements of earnings in the year in which they are incurred.

Long-lived asset retirement obligations

The fair values of estimated asset retirement obligations are recorded as liabilities when the obligations are incurred pursuant to a legal obligation related to a long-lived asset retirement. The associated cost is capitalized as part of the cost of the related asset. Over time, the liabilities are accreted for the change in their present value and the initial capitalized costs are depreciated over the useful lives of the related assets. The related accretion is recorded in cost of sales and selling and administrative expenses, and the depreciation charge is included in depreciation of property, plant and equipment.

Revenue recognition

Revenues are recognized when the finished products are shipped to customers and collection is reasonably assured.

SIGNIFICANT ACCOUNTING POLICIES [cont'd]**Foreign currencies**

Transactions in foreign currencies are translated into Canadian dollars using the temporal method. Under this method, monetary items in the consolidated balance sheet are translated at the rates of exchange prevailing at year-end while non-monetary items are translated at the rates prevailing on the transaction dates. Revenue and expense items are translated at the rates of exchange prevailing on the transaction dates. Gains and losses on translation of foreign currencies are accounted for in consolidated earnings.

Employee future benefits

La Coop has a number of defined benefit and defined contribution plans providing pension and post-retirement benefits to most of its employees. Defined benefit pension plans are based on either average career earnings or average final earnings. Certain pension benefits are indexed according to economic conditions.

Post-retirement benefits offered by La Coop to its retired employees include health care benefits and life insurance.

The cost of pension and post-retirement benefits earned by employees is determined using actuarial calculations under the projected benefit method prorated on services based on management's best long-term assumptions of salary escalation, the retirement and termination ages of employees and estimated health care costs.

For the calculation of the expected long-term rate of return on plan assets, these assets are measured at fair value. Accrued benefit obligations are discounted based on current market interest rates.

Past service costs arising from plan amendments are deferred and amortized on a straight-line basis over the average remaining service period of employees active at the amendment date.

Actuarial gains or losses arise from the difference between the actual long-term rate of return on plan assets for a period and the expected long-term rate of return on plan assets for that period or from changes in the actuarial assumptions used to determine the accrued benefit obligation. The excess net actuarial gains and losses over 10% of the greater of accrued benefit obligations and the fair value of plan assets is recorded in consolidated earnings over the average remaining service period of active employees. The average remaining service period of the active employees covered by the four pension plans ranges from nine years to fifteen years. The average remaining service period of the active employees covered by the other post-retirement benefit plan is sixteen years.

Patronage refunds

The amount and terms of payment of patronage refunds are determined by the Board of Directors after year-end. Patronage refunds are calculated based on members' purchased volumes and are accounted for in the year to which they relate. In the case of patronage refunds paid in the form of shares, such shares are considered to be issued at the year-end preceding the Board of Directors' resolution.

Derivative financial instruments

Derivatives that are not eligible for hedge accounting are recognized at their fair value in the consolidated balance sheet and any subsequent variations in fair value are recognized in the consolidated statement of earnings.

La Coop often buys and sells grains. Consequently, La Coop is committed to a number of forward contracts on the price of several grains in order to cover certain identifiable future risks on the price of these commodities. Gains and losses on these contracts, realized or not, are presented in cost of sales, selling and administrative expenses. La Coop has also entered into forward contracts on the price of pork in order to cover certain identifiable future risks related to these prices for a portion of its purchases. Gains and losses on these contracts are presented in cost of sales, selling and administrative expenses.

Where La Coop documents its hedging relationships and demonstrates that the hedges are sufficiently effective, hedge accounting is used. Gains and losses related to derivatives designated as eligible for hedge accounting are recorded in the consolidated statement of earnings in the same period as the hedged item.

La Coop often sells and buys outside Canada, mainly in U.S. dollars and Japanese yen. To manage exchange-rate risks, La Coop uses foreign exchange contracts. Gains and losses on foreign exchange contracts entered into to hedge future transactions are deferred and accounted for when these transactions occur.

Moreover, La Coop has other derivative financial instruments to manage interest-rate risks. Payments and receipts under derivative financial instruments are recognized as financial expenses at the same time as interest expense on the liabilities being hedged.

SIGNIFICANT ACCOUNTING POLICIES [cont'd]**Environmental obligations**

Environmental costs related to current operations are expensed or capitalized according to their nature. Current costs caused by past events that do not generate future revenues are charged to consolidated earnings in the current year. Liabilities are recorded when costs are likely to be incurred and may be reasonably estimated.

Income taxes

La Coop follows the liability method of accounting for income taxes. Future income tax assets and liabilities are recognized for the future tax consequences of temporary differences between the carrying value and tax bases of assets and liabilities and measured using substantively enacted tax rates expected to be in effect when the differences reverse. A valuation allowance is recorded to reduce the carrying amount of income tax assets, when it is more likely than not that such assets will not be realized.

Year-end

La Coop's year-end is the last Saturday of October. The years ended October 29, 2005 and October 30, 2004 included 52 weeks.

1) CHANGES IN ACCOUNTING POLICIES**Long-lived asset retirement obligations**

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On October 31, 2004, La Coop retroactively adopted the new standard of the Canadian Institute of Chartered Accounts (CICA) set out in *CICA Handbook* Section 3110, "Asset Retirement Obligations." This standard addresses financial accounting and reporting for obligations associated with asset retirement costs. Under the new standard, La Coop is required to recognize asset retirement obligations as liabilities recorded at fair value in the balance sheet, as well as a corresponding asset during the period in which La Coop incurs the long-lived asset retirement legal obligation. The liability is accreted at the end of each period through charges to operating expenses and the resulting asset is depreciated over the asset's useful life. The adoption of this standard had no significant impact on the consolidated financial statements of La Coop.

Consolidation of variable interest entities

On October 31, 2004, La Coop adopted the new accounting standards of the CICA set out in Accounting Guideline 15, "Consolidation of Variable Interest Entities" (AcG-15). This Guideline defines variable interest entities as entities whose total equity investment at risk is insufficient to permit the entity to finance its activities or whose investors lack certain essential characteristics of a controlling financial interest. AcG-15 provides guidance for determining whether or not an entity is a variable interest entity and, if so, who should consolidate the entity. The adoption of this Guideline had no significant impact on the consolidated financial statements of La Coop.

2) BUSINESS ACQUISITIONS

On April 13, 2005, La Coop, via its subsidiary Olymel L.P., merged with Supraliment L.P., which includes the pork processing and marketing operations of the Supraliment Inc. companies.

On May 9, 2005, via its subsidiary Olymel L.P., La Coop made an indirect acquisition through a holding company of 50% of the poultry processing operations of Volaille Giannone Inc.

Moreover, on September 23, 2005, La Coop acquired Irving Oil Inc.'s diesel customer base, as well as some of Irving Oil Inc.'s corporate and agricultural diesel customers.

2) BUSINESS ACQUISITIONS [cont'd]

These acquisitions were accounted for using the purchase method and consolidated from the acquisition dates. Net assets acquired and their considerations were as follows:

| | Supraliment L.P. | Other | Total |
|----------------------------------|---------------------|-----------------|-------------------|
| Net assets acquired | | | |
| Current assets | \$ 60,156 | \$ 2,877 | \$ 63,033 |
| Property, plant and equipment | 109,853 | 6,325 | 116,178 |
| Trademarks | 3,905 | — | 3,905 |
| Customer list | — | 1,195 | 1,195 |
| Goodwill | 32,750 | 4,858 | 37,608 |
| Other long-term assets | 164 | — | 164 |
| Total assets acquired | <u>206,828</u> | <u>15,255</u> | <u>222,083</u> |
| Current liabilities | 46,499 | 3,468 | 49,967 |
| Long-term debt | 50,748 | 2,465 | 53,213 |
| Future income taxes | 9,581 | 628 | 10,209 |
| Total liabilities assumed | <u>106,828</u> | <u>6,561</u> | <u>113,389</u> |
| | \$ 100,000 | \$ 8,694 | \$ 108,694 |
| Considerations | | | |
| Shares of subsidiary Olymel L.P. | \$ 100,000 | \$ — | \$ 100,000 |
| Cash | — | 8,694 | 8,694 |
| | <u>\$ 100,000</u> | <u>\$ 8,694</u> | <u>\$ 108,694</u> |

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3) OPERATING EXPENSES

Operating expenses include the following:

| | 2005 | 2004 |
|---|-----------|-----------|
| Depreciation of property, plant and equipment | \$ 38,643 | \$ 33,220 |
| Amortization of goodwill | 984 | 750 |
| Amortization of trademarks | 198 | 26 |
| Amortization of customer lists | 247 | 206 |
| Amortization of rights | 894 | 1,311 |
| Amortization of deferred charges | 1,003 | 652 |
| Research and development | 9,116 | 7,354 |
| Interest on short-term borrowings | 675 | 288 |
| Interest on long-term debt | 13,036 | 10,684 |
| Interest on preferred shares | 398 | 400 |
| Interest income | (1,144) | (1,447) |

4) GAIN ON DILUTION

On April 13, 2005, La Coop's subsidiary Olymel L.P. issued additional shares to a partner for the acquisition of the meat processing and marketing activities of Supraliment Inc. This transaction resulted in a gain on dilution of \$23,526,000 for La Coop. The shares of this new minority partner represent a 22% interest in the subsidiary Olymel L.P.

5) RESTRUCTURING COSTS

On May 6, 2005, the Board of Directors approved a plan to integrate the operations of Olymel L.P. and Supraliment L.P. As part of this restructuring initiative, La Coop consolidated its processed meat segment. The fair value of the buildings involved was determined via a third-party independent assessment. The costs related to the Olymel L.P. restructuring initiative are as follows:

| | |
|---|-----------------|
| Severance and other termination costs | \$ 1,813 |
| Impairment of property, plant and equipment | 2,900 |
| | <u>\$ 4,713</u> |

6) PATRONAGE REFUNDS

In accordance with the provisions of the legislation governing La Coop, the directors, at their meeting held on January 19, 2006, declared patronage refunds of \$8,500,000 [\$12,000,000 in 2004] out of the year's earnings. They resolved that these refunds be paid as follows:

| | 2005 | | 2004 |
|---|-----------------|----|---------------|
| Cash | \$ 1,275 | \$ | 4,000 |
| Class B-1 common shares (class B in 2004) | 2,405 | | 4,000 |
| Class D-1 common shares (class D in 2004) | 4,820 | | 4,000 |
| | \$ 8,500 | \$ | 12,000 |

These consolidated financial statements reflect this resolution.

7) INCOME TAXES

The significant components of the income tax expense are as follows:

| | 2005 | | 2004 |
|---------------------------|-----------------|----|--------------|
| Current | \$ 2,620 | \$ | 8,285 |
| Future | (1,069) | | (398) |
| Income tax expense | \$ 1,551 | \$ | 7,887 |

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The reconciliation of income tax expense with the amount resulting from the multiplication of the earnings after patronage refunds by the statutory income tax rates is summarized as follows:

| | 2005 | | 2004 |
|---|------------------|----|---------------|
| Earnings before patronage refunds and income taxes | \$ 42,463 | \$ | 35,456 |
| Patronage refunds | (8,500) | | (12,000) |
| Earnings for income tax purposes | \$ 33,963 | \$ | 23,456 |
| Income taxes at combined federal and provincial rates of 31.50% [33.75% in 2004] | \$ 10,698 | \$ | 7,447 |
| Gain on dilution | (9,789) | | — |
| Recovery of income taxes arising from the use of prior period losses | (78) | | (53) |
| Effect of non-deductible expenses for tax purposes | 870 | | 1,069 |
| Other items | (150) | | (576) |
| Income tax expense | \$ 1,551 | \$ | 7,887 |

The significant components of future income tax liabilities are as follows:

| | 2005 | | 2004 |
|---|------------------|----|--------------|
| Non-deductible provisions and reserves for tax purposes | \$ (2,856) | \$ | (3,067) |
| Inventories | 2,801 | | 3,244 |
| Other items – net | 184 | | 241 |
| Current future income tax liabilities | \$ 129 | \$ | 418 |
| | 2005 | | 2004 |
| Excess of carrying value over their tax basis: | | | |
| Property, plant and equipment | \$ 26,049 | \$ | 16,477 |
| Investments | 874 | | 901 |
| Other assets | 1,174 | | 421 |
| Employee future benefits | (5,868) | | (5,486) |
| Patronage refunds carried forward | (1,278) | | (5,112) |
| Other items – net | (320) | | (111) |
| Long-term future income tax liabilities | \$ 20,631 | \$ | 7,090 |

8) INVESTMENTS

| | 2005 | 2004 |
|---|------------------|-----------|
| Investments in entities subject to significant influence | \$ 10,308 | \$ 10,473 |
| Investments in cooperatives | | |
| Agropur Cooperative preferred shares | 12,917 | 16,785 |
| Shares and other securities of supply cooperatives | 797 | 18,034 |
| Shares and other securities of affiliated cooperatives | 1,076 | 1,198 |
| | 14,790 | 36,017 |
| Mortgage loans and notes receivable | 5,183 | 4,692 |
| | 30,281 | 51,182 |
| Investments – current portion | 1,227 | 943 |
| | \$ 29,054 | \$ 50,239 |

9) PROPERTY, PLANT AND EQUIPMENT

| | Cost | Accumulated depreciation | Net book value |
|-------------------------|-------------------|--------------------------|-------------------|
| 2005 | | | |
| Land | \$ 15,061 | \$ — | \$ 15,061 |
| Pavement | 8,402 | 5,695 | 2,707 |
| Buildings | 275,377 | 87,371 | 188,006 |
| Machinery and equipment | 520,050 | 283,382 | 236,668 |
| Automotive equipment | 22,273 | 15,888 | 6,385 |
| Leasehold improvements | 6,373 | 4,023 | 2,350 |
| | \$ 847,536 | \$ 396,359 | \$ 451,177 |
| 2004 | | | |
| Land | \$ 12,365 | \$ — | \$ 12,365 |
| Pavement | 8,053 | 5,434 | 2,619 |
| Buildings | 227,903 | 76,473 | 151,430 |
| Machinery and equipment | 398,487 | 266,062 | 132,425 |
| Automotive equipment | 20,227 | 15,521 | 4,706 |
| Leasehold improvements | 5,468 | 3,685 | 1,783 |
| | \$ 672,503 | \$ 367,175 | \$ 305,328 |

Assets under construction amounted to \$9,465,000 as at October 29, 2005 (nil in 2004).

10) OTHER ASSETS

Other assets are disclosed at unamortized balance, as follows:

| | 2005 | 2004 |
|------------------|------------------|-----------|
| Goodwill | \$ 46,480 | \$ 12,169 |
| Trademarks | 4,446 | 739 |
| Customer lists | 2,078 | 1,098 |
| Rights | 9,968 | 8,748 |
| Deferred charges | 8,336 | 276 |
| | \$ 71,308 | \$ 23,030 |

11) SHORT-TERM BORROWINGS

Short-term borrowings stem from a subsidiary's demand credit facility and a joint venture's credit facility.

The subsidiary's available operating credit facility, drawn under bank overdrafts, letters of credit and standby letters of credit, totals \$12,000,000 and bears interest at the prime rate, i.e., 4.75% as at October 29, 2005 [4.50% as at October 30, 2004].

For the joint venture, the share of the credit facility, drawn under lines of credit, totals \$1,500,000 and bears interest at the prime rate plus 0.25%, i.e., 5.00% as at October 29, 2005. The credit facility is secured by the universality of the current and future inventories, accounts receivable and equipment of the joint venture with a carrying amount of \$5,357,000 as at October 29, 2005.

12) LONG-TERM DEBT

| | 2005 | 2004 |
|---|-------------------|-------------------|
| Credit facility ¹ drawn under margin loans at prime rate and under bankers' acceptances at rates ranging from 4.58% to 4.76%, renewable in June 2008 [note 17(a)] | \$ 184,055 | \$ — |
| Term credit, at a fixed rate of 6.285%, repayable in an annual principal instalment of \$3,600,000, one of \$4,800,000 and three instalments of \$7,200,000, from August 2011 through August 2015 | 30,000 | — |
| Debenture, at a fixed rate of 6.72%, repayable in an annual principal instalment of \$5,000,000, one of \$6,000,000 and two instalments of \$7,000,000, from August 2012 through August 2015 | 25,000 | — |
| Term note, at a fixed rate of 7.75%, repayable in blended monthly instalments of \$263,621, maturing on December 20, 2017 | 24,969 | 26,146 |
| Share of mortgage loans of a real estate joint venture, secured by movable and immovable hypothecs, at rates ranging from 4.74% to 5.80% [3.69% to 5.80% in 2004], repayable in blended monthly instalments of \$52,458, maturing on October 31, 2006 | 7,614 | 7,890 |
| Share of notes payable of a joint venture, secured by movable and immovable hypothecs, at rates ranging from 4.75% to 8.30%, maturing between November 2005 and February 2015 | 2,616 | — |
| Mortgage loans and other debts, at rates ranging from 4.75% to 9.00% [2.50% to 9.00% in 2004], maturing between November 2005 and December 2015 [between November 2004 and November 2014 in 2004] | 3,013 | 3,396 |
| Line of credit, drawn under margin loans at prime rate and under bankers' acceptances, refinanced with a new credit facility agreement [in 2004, line of credit, drawn under margin loans at prime rate of 4.25%, and under bankers' acceptances at rates varying from 3.40% to 3.91%, for the portion not subject to interest rate swaps] [note 17(a)] | — | 121,277 |
| Term notes, at a fixed rate of 8.53% [US\$7,500,000 in 2004], repayable in annual principal instalments of US\$7,500,000, matured in November 2004 [including a credit cross-currency interest rate swap position of \$1,346,250 in 2004 [note 17(a)]] | — | 10,481 |
| Term note, at a fixed rate of 10.36%, repayable in annual principal instalments of \$666,667, matured in November 2004 | — | 667 |
| Share of a joint venture's revolving term financing, bearing interest at a fixed rate of 3.41%, matured during the year | — | 7,498 |
| | 277,267 | 177,355 |
| Obligations under capital leases, at rates ranging from 4.20% to 6.05%, maturing between November 2005 and September 2010 | 765 | 804 |
| | 278,032 | 178,159 |
| Long-term debt – current portion | 8,043 | 14,803 |
| | \$ 269,989 | \$ 163,356 |

1. La Coop has an overall credit facility of \$350,000,000, which consists of a \$100,000,000 non-revolving facility and a \$250,000,000 revolving credit facility. La Coop can use these credits under the following methods: US- and Canadian-dollar margin loans, bankers' acceptances, LIBOR advances and standby letters of credit specifically for the revolving credit facility. The interest rate is determined based on a rate schedule that varies based on the level of a financial ratio calculated quarterly on a consolidated basis. The non-revolving credit facility is repayable, as of July 2006, in principal instalments of \$2,500,000, \$3,750,000 for quarters ended in 2007 and \$5,000,000 for the first and second quarters of fiscal 2008.

The credit facility, the term credit and the term note, which total \$239,024,000 as at October 29, 2005, are collateralized by a first-rank hypothec over a majority of the tangible and intangible assets, both present and future, of the subsidiary Olymel L.P. and its subsidiaries.

The principal repayments required over the next five years would be as follows:

2006 – \$8,043,000; 2007 – \$25,573,000; 2008 – \$166,323,000; 2009 – \$2,245,000; 2010 – \$2,209,000.

13) EMPLOYEE FUTURE BENEFITS

Total cash payments for employee future benefits, consisting of cash contributed by La Coop to its funded pension plans, cash payments directly to beneficiaries for its other unfunded benefit plans and cash contributed to its defined contribution plans were \$12,127,000 [\$9,795,000 in 2004].

La Coop measures its accrued benefit obligations and the fair value of plan assets at each year-end. The most recent actuarial valuation of the pension plans for funding purposes was as at December 31, 2004 and the actuarial at valuation of the post-retirement benefit plans was carried out as at October 29, 2005. The next required actuarial valuation will be on December 31, 2007 for the pension plans and November 1, 2008 for the post-retirement benefit plans.

The total cost for La Coop's defined contribution plans was \$7,700,000 [\$7,696,000 in 2004].

Information on La Coop's pension plans and other retirement benefits is as follows:

| 2005 | Pension plans | Post-retirement benefits | Total |
|--|----------------------|---------------------------------|--------------------|
| Accrued benefit obligations | | | |
| Balance, beginning of year | \$ 104,871 | \$ 21,172 | \$ 126,043 |
| Current service cost for the year | 3,646 | 1,497 | 5,143 |
| Interest cost | 6,474 | 1,405 | 7,879 |
| Benefits paid | (5,633) | (381) | (6,014) |
| Actuarial losses | 19,521 | 2,816 | 22,337 |
| Plan amendments | (105) | (559) | (664) |
| Balance, end of year | 128,774 | 25,950 | 154,724 |
| Plan assets | | | |
| Fair value, beginning of year | 89,756 | — | 89,756 |
| Actual return on plan assets | 13,955 | — | 13,955 |
| Employer contributions | 4,046 | 381 | 4,427 |
| Employee contributions | 453 | — | 453 |
| Benefits paid | (5,565) | (381) | (5,946) |
| Fair value, end of year | 102,645 | — | 102,645 |
| Funded status – plan deficit | (26,129) | (25,950) | (52,079) |
| Unamortized net actuarial loss | 16,685 | 7,207 | 23,892 |
| Unamortized past service cost | 5,957 | (2,313) | 3,644 |
| Accrued benefit asset (liability) | \$ (3,487) | \$ (21,056) | \$ (24,543) |

Accrued benefit asset (liability) in La Coop's consolidated balance sheet is presented as follows:

| | Pension plans | Post-retirement benefits | Total |
|---|----------------------|---------------------------------|--------------------|
| Employee future benefit asset | \$ 8,722 | \$ — | \$ 8,722 |
| Employee future benefit liability | (12,209) | (21,056) | (33,265) |
| Employee future benefit asset (liability) | \$ (3,487) | \$ (21,056) | \$ (24,543) |

13) EMPLOYEE FUTURE BENEFITS [cont'd]

| 2004 | Pension plans | Post-retirement benefits | Total |
|--|---------------|--------------------------|-------------|
| Accrued benefit obligations | | | |
| Balance, beginning of year | \$ 89,687 | \$ 21,527 | \$ 111,214 |
| Current service cost for the year | 2,966 | 1,353 | 4,319 |
| Interest cost | 6,249 | 1,282 | 7,531 |
| Benefits paid | (5,689) | (328) | (6,017) |
| Actuarial losses | 5,294 | 837 | 6,131 |
| Plan amendments | 6,364 | (3,499) | 2,865 |
| Balance, end of year | 104,871 | 21,172 | 126,043 |
| Plan assets | | | |
| Fair value, beginning of year | 82,149 | — | 82,149 |
| Actual return on plan assets | 11,077 | — | 11,077 |
| Employer contributions | 1,771 | 328 | 2,099 |
| Employee contributions | 389 | — | 389 |
| Benefits paid | (5,630) | (328) | (5,958) |
| Fair value, end of year | 89,756 | — | 89,756 |
| Funded status – plan deficit | (15,115) | (21,172) | (36,287) |
| Unamortized net actuarial loss | 5,348 | 4,580 | 9,928 |
| Unamortized past service cost | 7,482 | (1,920) | 5,562 |
| Employee future benefit asset (liability) | \$ (2,285) | \$ (18,512) | \$ (20,797) |

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The employee future benefit asset (liability) in La Coop's consolidated balance sheet is presented as follows:

| | Pension plans | Post-retirement benefits | Total |
|--|---------------|--------------------------|-------------|
| Employee future benefit asset | \$ 7,176 | \$ — | \$ 7,176 |
| Employee future benefit liability | (9,461) | (18,512) | (27,973) |
| Employee future benefit asset (liability) | \$ (2,285) | \$ (18,512) | \$ (20,797) |

The asset allocation of La Coop's pension plan is as follows:

| | 2005 | 2004 |
|-------------------|-------------|------|
| Equity securities | 63% | 64% |
| Debt securities | 37 | 36 |
| | 100% | 100% |

Post-retirement benefit plans are unfunded. The accrued benefit obligations and fair value of defined benefit plan assets that are not fully funded amount to \$65,841,000 and \$37,056,000 respectively [\$48,726,000 and \$28,711,000 in 2004].

The significant actuarial assumptions used to assess La Coop's employee future benefit obligations and plan assets are as follows as at October 29, 2005 and October 30, 2004:

| | Pension plans | | Post-retirement benefits | |
|--|---------------|-------|--------------------------|-------|
| | 2005 | 2004 | 2005 | 2004 |
| Discount rate | 5.50% | 6.25% | 5.50% | 6.25% |
| Expected long-term rate of return on plan assets | 6.50% | 6.50% | N/A | N/A |
| Rate of compensation increase | 4.00% | 4.00% | 4.00% | 4.00% |

13) EMPLOYEE FUTURE BENEFITS [cont'd]

For valuation purposes, a 14% annual growth rate in the cost of covered prescription drugs was assumed for the first year in 2005, decreasing by 0.5% annually over the next ten years to remain at 8.5% thereafter, as of 2015. The growth rate in prescription drug costs is 14% as at October 29, 2005 [13% in 2004]. Also, a 7% growth rate in other health care costs was assumed for the first year in 2005, decreasing by 0.5% annually for the next six years to remain at 3.5% thereafter, as of 2011. The growth rate in the cost of other health care benefits is 7% as at October 29, 2005 [6% in 2004].

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects for:

| | Increase | | Decrease | |
|------------------------------------|----------|----------|------------|------------|
| | 2005 | 2004 | 2005 | 2004 |
| Total of service and interest cost | \$ 570 | \$ 508 | \$ (434) | \$ (387) |
| Accrued benefit obligation | \$ 3,289 | \$ 2,854 | \$ (2,507) | \$ (2,177) |

La Coop's net employee future benefit plan cost for the year is as follows:

| 2005 | Pension plans | Post-retirement benefits | Total |
|--|-----------------|--------------------------|-----------------|
| Current service cost for the year, net of employee contributions | \$ 3,193 | \$ 1,497 | \$ 4,690 |
| Interest cost | 6,474 | 1,405 | 7,879 |
| Actual return on plan assets | (13,955) | — | (13,955) |
| Actuarial losses for the year | 19,521 | 2,816 | 22,337 |
| Curtailment loss | 472 | 33 | 505 |
| Elements of employee future benefit costs before adjustments to recognize the long-term nature thereof | 15,705 | 5,751 | 21,456 |
| Adjustments to recognize the long-term nature of employee future benefit costs: | | | |
| Difference between expected return and actual return on plan assets for the year | 8,156 | — | 8,156 |
| Difference between actuarial loss recognized for the year and actual actuarial loss on accrued benefit obligation for the year | (19,492) | (2,666) | (22,158) |
| Difference between amortization of past service costs for the year and actual plan amendments for the year | 947 | (161) | 786 |
| Employee future benefit costs | \$ 5,316 | \$ 2,924 | \$ 8,240 |

13) EMPLOYEE FUTURE BENEFITS [cont'd]

| 2004 | Pension plans | Post-retirement benefits | Total |
|--|-----------------|--------------------------|-----------------|
| Current service cost for the year, net of employee contributions | \$ 2,577 | \$ 1,353 | \$ 3,930 |
| Interest cost | 6,249 | 1,282 | 7,531 |
| Actual return on plan assets | (11,077) | — | (11,077) |
| Actuarial losses for the year | 3,234 | 837 | 4,071 |
| Curtailement gain | — | (419) | (419) |
| Past service costs for the year | 8,429 | (3,118) | 5,311 |
| Elements of employee future benefit costs before adjustments to recognize the long-term nature thereof | 9,412 | (65) | 9,347 |
| Adjustments to recognize the long-term nature of employee future benefit costs: | | | |
| Difference between expected return and actual return on plan assets for the year | 5,850 | — | 5,850 |
| Difference between actuarial loss recognized for the year and actual actuarial loss on accrued benefit obligation for the year | (3,205) | (731) | (3,936) |
| Difference between amortization of past service costs for the year and actual plan amendments for the year | (7,357) | 2,953 | (4,404) |
| | (4,712) | 2,222 | (2,490) |
| Employee future benefit costs | \$ 4,700 | \$ 2,157 | \$ 6,857 |

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14) SHARE CAPITAL

La Coop's share capital is variable and unlimited with regard to the number of shares issuable. The rights, restrictions and conditions relating to each type of share are determined by the Board of Directors. The share capital consists of:

Preferred shares

Preferred shares with a par value of \$10, issued to members and employees of La Coop in accordance with the Québec Cooperative Investment Plan, bearing interest at a rate determined by the Board of Directors. These shares are redeemable at their par value upon a decision of the Board of Directors. The series issued from 2000 to 2002 are redeemable at the option of La Coop or the holder, provided that certain conditions are met. For new issues on or after November 30, 2004, the series are redeemable by La Coop only as of the fifth year following issuance.

Common shares

Class A common shares, mainly with a par value of \$25. Holding such shares is an essential condition to qualify as a member and obtain voting rights. They are redeemable at their par value upon a decision of the Board of Directors.

Class B common shares, with a par value of \$1, non-voting and redeemable at their par value upon a decision of the Board of Directors. However, the Board of Directors cannot redeem Class B common shares if there are shares outstanding other than Class B common shares or Class A common shares. They were issued to members as partial payment of patronage refunds.

Class B-1 common shares, with a par value of \$1, non-voting and redeemable at their par value upon a decision of the Board of Directors. However, the Board of Directors may not redeem Class B-1 common shares if there are any outstanding Class B, D and D-1 shares. These shares were issued to members as partial payment of patronage refunds. This new share class was authorized in January 2006.

Class D common shares, with a par value of \$1, non-voting and redeemable at their par value upon a decision of the Board of Directors. They were issued to members as partial payment of patronage refunds.

14) SHARE CAPITAL [cont'd]**Common shares [cont'd]**

Class D-1 common shares, with a par value of \$1, non-voting and redeemable at their par value upon a decision of the Board of Directors. However, the Board of Directors may not redeem Class D-1 common shares if there are any outstanding Class B and D shares. These shares were issued to members as partial payment of patronage refunds. This new share class was authorized in January 2006.

Class AUXILIARY MEMBERS common shares, with a par value of \$25, non-voting and redeemable at their par value upon a decision of the Board of Directors.

At year-end, the issued and fully paid shares were as follows:

| | Number | | Amount | |
|--|-------------------|------------|------------------|-----------|
| | 2005 | 2004 | 2005 | 2004 |
| PREFERRED SHARES | | | | |
| Québec Cooperative Investment Plan, \$10 par value: | | | | |
| 2000 series, redeemed in 2005, 5% | — | 196,742 | \$ — | \$ 1,968 |
| 2001 series, redeemable as of 2006, 4.5% | 304,241 | 304,241 | 3,042 | 3,042 |
| 2002 series, redeemable as of 2007, 4% | 407,836 | 407,941 | 4,079 | 4,079 |
| 2004 series, redeemable as of 2010, 4.5% | 350,140 | — | 3,501 | — |
| | 1,062,217 | 908,924 | 10,622 | 9,089 |
| Redemption of preferred shares – current portion | (304,241) | (196,742) | (3,042) | (1,968) |
| | 757,976 | 712,182 | \$ 7,580 | \$ 7,121 |
| COMMON SHARES | | | | |
| Class A | 36,457 | 34,401 | \$ 912 | \$ 861 |
| Class B | 40,823,115 | 40,843,388 | 40,823 | 40,843 |
| Class B-1 | 2,405,500 | — | 2,405 | — |
| Class D | 31,164,008 | 35,149,526 | 31,164 | 35,149 |
| Class D-1 | 4,819,500 | — | 4,820 | — |
| AUXILIARY MEMBERS | 40 | — | 1 | — |
| | 79,248,620 | 76,027,315 | \$ 80,125 | \$ 76,853 |

Preferred shares, 2004 series, were presented in equity since they are redeemable exclusively by La Coop.

14) SHARE CAPITAL [cont'd]

This year's transactions related to share capital were carried out for cash considerations with the exception of patronage refunds paid in the form of shares. These transactions were as follows:

| | Number | | Amount | |
|---|--------------------|------------|------------------|-----------|
| | 2005 | 2004 | 2005 | 2004 |
| PREFERRED SHARES | | | | |
| Balance, beginning of year | 908,924 | 912,094 | \$ 9,089 | \$ 9,121 |
| Issued: | | | | |
| Preferred shares, \$10 par value | 350,140 | — | 3,501 | — |
| Redeemed: | | | | |
| Preferred shares, \$10 par value | (196,847) | (3,170) | (1,968) | (32) |
| | 1,062,217 | 908,924 | 10,622 | 9,089 |
| Redemption of preferred shares – current portion, 2001 series (2000 series in 2004) | (304,241) | (196,742) | (3,042) | (1,968) |
| Balance, end of year | 757,976 | 712,182 | \$ 7,580 | \$ 7,121 |
| COMMON SHARES | | | | |
| Balance, beginning of year | 76,027,315 | 68,548,834 | \$ 76,853 | \$ 69,368 |
| Issued: | | | | |
| Class A common shares | 2,056 | 1,541 | 51 | 39 |
| Patronage refunds in Class B-1 common shares (Class B in 2004) | 2,405,500 | 4,000,000 | 2,405 | 4,000 |
| Patronage refunds in Class D-1 common shares (Class D in 2004) | 4,819,500 | 4,000,000 | 4,820 | 4,000 |
| Class AUXILIARY MEMBERS common shares | 40 | — | 1 | — |
| | 7,227,096 | 8,001,541 | 7,277 | 8,039 |
| Redeemed: | | | | |
| Class A common shares | — | (1,265) | — | (32) |
| Class B common shares | (20,273) | (16,719) | (20) | (17) |
| Class D common shares | (3,985,518) | (505,076) | (3,985) | (505) |
| | (4,005,791) | (523,060) | (4,005) | (554) |
| Balance, end of year | 79,248,620 | 76,027,315 | \$ 80,125 | \$ 76,853 |

On September 2, 2005, the Board of Directors authorized the redemption of 304,241 preferred shares issued under the Québec Cooperative Investment Plan, 2001 series, for a cash consideration of \$3,042,410 as of November 30, 2005. On September 2, 2005, the directors also authorized a preferred share issue pursuant to the Québec Cooperative Investment Plan, 2005 series, as of November 30, 2005, under which 395,537 preferred shares were issued, for a cash consideration of \$3,955,370. On January 19, 2006, they decided to redeem 6,578,840 Class D common shares issued in 1990 and 1991 for a cash consideration of \$6,578,840.

15) COMMITMENTS AND CONTINGENCIES**(a) Operating leases**

La Coop has entered into long-term operating leases for buildings, machinery and automotive equipment. The future minimum lease payments of La Coop and its joint ventures under these leases total \$61,139,000 and are as follows for the coming years: 2006 – \$10,109,000; 2007 – \$7,787,000; 2008 – \$6,364,000; 2009 – \$5,145,000; 2010 – \$3,745,000 and 2011 and thereafter – \$27,989,000.

15) COMMITMENTS AND CONTINGENCIES [cont'd]**(b) Repurchase of the shares of non-controlling shareholders**

A group of non-controlling shareholders of one of La Coop's subsidiaries owning 17.6% of the shares of this subsidiary benefits, commencing on May 1, 2010, from a put option to priority sell all its shares to another group of non-controlling shareholders. Should this group not exercise its option, La Coop is required to buy back these shares. The disposal of the shares as well as their payment may be completed in four annual instalments, equal and consecutive, or sooner at the option of La Coop. This group of non-controlling shareholders will retain all of its rights until the transfer of the last portion of its shares. The purchase price of the shares will be equivalent to a value based on a formula established between the parties.

In addition, this other group of non-controlling shareholders of a subsidiary of La Coop, holding 22% of the shares of said subsidiary, benefits as of October 31, 2012, from an option to sell all of its shares to La Coop, which has the obligation to repurchase them. The sale of the shares as well as the payment of their sale price may be made in ten annual instalments according to a predetermined repurchase agreement whose terms and conditions are defined in the partnership agreement of the subsidiary, or sooner, at La Coop's discretion. This same group of non-controlling shareholders will retain all of its rights until the transfer of the last portion of its shares.

(c) Claims and lawsuits

In the normal course of business, various claims and lawsuits are brought against La Coop. Legal proceedings are often subject to numerous uncertainties and it is not possible to predict the outcome of individual cases. In management's opinion, La Coop has made adequate provision for or has adequate insurance to cover all claims and lawsuits, and their settlement should not have a significant negative impact on La Coop's financial position.

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16) GUARANTEES

In the normal course of business, La Coop has entered into agreements that contain features which meet the definition of a guarantee. These agreements provide for indemnification and guarantees to counterparties in transactions such as operating leases and security contracts.

These agreements may require La Coop to compensate the counterparties for costs and losses incurred as a result of various events including breaches of representations and warranties, loss of or damages to property, and claims that may arise while providing services.

Notes 11, 12 and 15 to the financial statements provide information relating to some of these agreements. The following constitutes additional disclosure.

Operating leases

La Coop and its subsidiaries have general indemnity clauses in many of their movable and immovable property leases whereby they, as lessee, indemnify the lessor against liabilities related to the use of the leased property. These leases mature at various dates through February 2023. The nature of the agreements varies based on the contracts and therefore prevents La Coop from estimating the total potential amount it would have to pay to lessors. Historically, La Coop has not made any significant payments under such agreements. Furthermore, La Coop and its subsidiaries have insurance protecting them against potential situations.

Security contracts

La Coop is committed under standby letters of credit with financial institutions and insurance companies amounting to \$37,075,000 as at October 29, 2005. La Coop is also committed under comfort letters to financial institutions with regard to lines of credit for entities subject to significant influence for a maximum amount of \$21,998,000. The balance of these lines of credit payable to financial institutions as at October 29, 2005 amounted to \$9,989,000. La Coop's commitment under these lines of credit is to buy back the accounts receivable and the inventories up to the balance due; the balance amounted to \$13,177,000 as at October 29, 2005.

As at October 29, 2005 and October 30, 2004, no amounts had accrued with respect to the above-mentioned agreements.

17) FINANCIAL INSTRUMENTS**(a) Derivative financial instruments**

In the normal course of business, La Coop uses a number of derivative financial instruments, such as foreign exchange contracts, swaps and forward contracts on commodities to reduce its exposure to foreign-exchange, interest-rate and price fluctuations. These instruments are used exclusively for risk-management purposes.

Foreign exchange contracts

The following table sets out the notional amounts at the reporting dates with respect to foreign exchange contracts with maturities of less than one year:

| Type | Currency [thousands] | Average exchange rate | |
|-----------------|--|-----------------------|----------|
| | | 2005 | 2004 |
| Sale | US\$13,300 [US\$9,154 in 2004] | 1.1763 | 1.2436 |
| Purchase – swap | US\$19,114 [US\$10,922 in 2004] | 1.1758 | 1.2523 |
| Sale | ¥3,277,858 [¥4,645,082 in 2004] | 0.010544 | 0.011624 |
| Purchase – swap | ¥130,000 [nil in 2004] | 0.010189 | — |
| Sale | A\$4,613 [A\$10,338 in 2004] | 0.8847 | 0.9093 |
| Purchase – swap | A\$900 [nil in 2004] | 0.8854 | — |

Forward contracts on the price of pork

La Coop had no forward contracts on the price of pork in order to reduce its exposure to fluctuations in the price of pork as at October 29, 2005 [sale agreement of 508,000 kg representing \$779,000 in 2004].

Forward contracts on the price of grain

La Coop also entered into forward contracts on the price of various grains with current maturities, in order to reduce its exposure to fluctuations in grain prices. As at October 29, 2005, La Coop was committed to sell 11,580 metric tons of grain [to purchase 38,622 metric tons in 2004] in the amount of \$693,000 [\$7,793,000 in 2004].

Cross-currency interest rate swap

In 2004, La Coop entered into a cross-currency interest rate swap which resulted in the capital conversion of term notes, with a value of US\$7,500,000 into a capital of C\$10,481,000 and at a fixed rate of 9.75% in order to determine the blended payments in Canadian dollars until maturity as described in note 12.

Interest rate swaps

Used lines of credit for a total of \$12,000,000 are subject to interest rate swaps at a rate of 3.30%, maturing on October 31, 2005 [in 2004, total amount of \$22,000,000 subject to interest rate swaps at rates ranging from 3.30% to 4.70%, maturing between May 2005 and October 2005].

(b) Credit risk

Credit risk related to derivative financial instruments is limited to unrealized gains, if any. La Coop is likely to incur losses if parties fail to meet their commitments related to these instruments. However, La Coop views this risk as minimal or non-existent since it deals only with highly-rated financial institutions.

In the normal course of business, La Coop evaluates the financial position of its clients on a regular basis and examines the credit history of new clients. The allowance for doubtful accounts is based on the client's specific credit risk and historical trends. Moreover, La Coop holds security on the assets and investments of certain clients in the event of default. La Coop believes the credit risk regarding receivables to be minimal due to the diversification of its clients and their industry segments.

(c) Fair value of financial instruments

The fair value of accounts receivable, short-term borrowings, accounts payable and accrued liabilities, patronage refunds payable and redeemable preferred shares – current portion approximates their carrying amounts due to the short-term nature of these items.

The fair value of investments in cooperatives was not established since the timing of these inflows cannot be readily determined. The fair value of mortgage loans and notes receivable approximates their carrying amounts.

17) FINANCIAL INSTRUMENTS [cont'd]**(c) Fair value of financial instruments [cont'd]**

The fair value of long-term debt is estimated at \$279,086,000 [\$177,974,000 in 2004] using a discounted future cash flow analysis based on corresponding borrowing rates as at the balance sheet date for similar types and maturities of borrowing arrangements.

The fair value of the preferred shares cannot be established since the timing of these outflows cannot be readily determined.

The fair value of the derivative financial instruments reflects the estimated amounts La Coop would receive (or pay) to terminate open contracts at year-end, thereby taking into account the current unrealized gains and losses on these contracts. Only realized gains and losses on the price of pork and grains are accounted for in consolidated earnings. Gains (losses) on derivative financial instruments, realized or unrealized, are estimated as follows:

| | 2005 | 2004 |
|--|-----------------|---------|
| Foreign exchange contracts | \$ 1,169 | \$ 105 |
| Forward contracts on the price of pork | — | (133) |
| Forward contracts on the price of grains | 245 | (126) |
| Cross-currency interest rate swap | — | (1,442) |
| Interest rate swaps | — | (250) |

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18) INTEREST IN JOINT VENTURES

La Coop's consolidated financial statements include its share of the results, financial position and cash flows of its joint ventures, as follows:

| | 2005 | 2004 |
|---|------------------|------------|
| Consolidated Statement of Earnings | | |
| Revenues | \$ 43,336 | \$ 185,516 |
| Operating expenses | 41,870 | 180,579 |
| Net earnings | 1,466 | 4,937 |
| Consolidated Balance Sheet | | |
| Current assets | 6,917 | 23,122 |
| Long-term assets | 22,133 | 39,909 |
| Current liabilities | 4,900 | 17,642 |
| Long-term liabilities | 19,930 | 15,179 |
| Consolidated Statement of Cash Flows | | |
| Cash flows related to: | | |
| Operating activities | 2,935 | 8,617 |
| Investing activities | (628) | (1,748) |
| Financing activities | (1,431) | (4,626) |

In 2004, La Coop held a 50% interest in the joint venture Prince L.P., which was accounted for using the proportionate consolidation method. As of April 13, 2005, in connection with the business combination with Supraliment L.P., La Coop indirectly acquired the balance of the shares of this joint venture.

19) SEGMENTED INFORMATION

La Coop has two reportable segments: marketing and supply operations. Other segments and common costs are combined under Other segments. All of La Coop's assets are located in Canada.

The various segments' accounting policies are the same as those described in the significant accounting policies. La Coop evaluates performance based on earnings. It accounts for its interdivisional revenues and transfers at the exchange amount.

19) SEGMENTED INFORMATION [cont'd]

| 2005 | Marketing | Supply | Other segments | Consolidated |
|--|--------------|--------------|----------------|--------------|
| REPORTABLE SEGMENTS | | | | |
| Third-party revenues | \$ 2,101,324 | \$ 1,040,536 | \$ — | \$ 3,141,860 |
| Interdivisional revenues | 2,078 | 18,910 | — | 20,988 |
| Total revenues | 2,103,402 | 1,059,446 | — | 3,162,848 |
| Financial expenses | 12,459 | 987 | (481) | 12,965 |
| Depreciation of property, plant and equipment and amortization of other assets | 31,850 | 8,844 | 1,275 | 41,969 |
| Share of results of entities subject to significant influence | — | 1,280 | — | 1,280 |
| Gain on dilution | — | — | 23,526 | 23,526 |
| Restructuring costs | 4,713 | — | — | 4,713 |
| Earnings before patronage refunds and income taxes | 19,339 | 35,421 | (12,297) | 42,463 |
| Segment assets | 686,321 | 323,505 | 48,426 | 1,058,252 |
| Goodwill | 30,962 | 1,047 | 14,471 | 46,480 |
| Investments in entities subject to significant influence | — | 10,308 | — | 10,308 |
| Additions to property, plant and equipment | 55,647 | 14,059 | 2,377 | 72,083 |

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| 2004 | Marketing | Supply | Other segments | Consolidated |
|--|--------------|------------|----------------|--------------|
| REPORTABLE SEGMENTS | | | | |
| Third-party revenues | \$ 1,937,848 | \$ 970,994 | \$ — | \$ 2,908,842 |
| Interdivisional revenues | — | 4,019 | — | 4,019 |
| Total revenues | 1,937,848 | 975,013 | — | 2,912,861 |
| Financial expenses | 8,962 | 1,746 | (783) | 9,925 |
| Depreciation of property, plant and equipment and amortization of other assets | 26,091 | 8,786 | 1,288 | 36,165 |
| Share of results of entities subject to significant influence | — | 1,213 | — | 1,213 |
| Earnings before patronage refunds and income taxes | 12,236 | 33,305 | (10,085) | 35,456 |
| Segment assets | 466,537 | 304,306 | 37,922 | 808,765 |
| Goodwill | 3,724 | 1,272 | 7,173 | 12,169 |
| Investments in entities subject to significant influence | — | 10,473 | — | 10,473 |
| Additions to property, plant and equipment | 19,114 | 12,681 | 640 | 32,435 |

| | 2005 | 2004 |
|---|---------------------|---------------------|
| REVENUES BY GEOGRAPHICAL AREA | | |
| Revenues to third parties in Canada | \$ 2,349,546 | \$ 2,132,379 |
| Revenues to third parties outside Canada: | | |
| United States | 311,603 | 323,211 |
| Japan | 272,663 | 289,668 |
| Other | 208,048 | 163,584 |
| | 792,314 | 776,463 |
| Total revenues to third parties | \$ 3,141,860 | \$ 2,908,842 |

20) SUBSEQUENT EVENTS

On November 14, 2005, the subsidiary Olymel L.P. announced its association with two Western Canadian pork producing groups through the investment of a non-controlling interest in the setting up of a company to build and operate a hog slaughterhouse and processing plant in Manitoba. These new partners will also acquire a non-controlling interest in a plant of the subsidiary Olymel L.P.

21) COMPARATIVE FIGURES

The 2004 figures have been reclassified to conform to the presentation adopted in 2005.

| UNAUDITED | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 | 1999 | 1998 | 1997 | 1996 |
|--|--------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Operations <i>(thousands of dollars)</i> | | | | | | | | | | |
| Revenues | \$3,141,860 | \$2,908,842 | \$2,755,096 | \$2,480,291 | \$2,431,329 | \$2,003,739 | \$1,778,156 | \$1,807,275 | \$1,815,554 | \$1,747,512 |
| Financial expenses | 12,965 | 9,925 | 12,714 | 11,364 | 15,504 | 11,855 | 12,667 | 14,890 | 16,047 | 16,449 |
| Depreciation and amortization | 41,969 | 36,165 | 38,100 | 34,521 | 29,768 | 26,148 | 26,238 | 25,115 | 23,073 | 24,217 |
| Earnings from continuing operations | 42,463 | 35,456 | 26,136 | 42,481 | 62,690 | 25,786 | 42,085 | 29,446 | 18,404 | 16,728 |
| Patronage refunds | 8,500 | 12,000 | 8,203 | 17,200 | 16,200 | 7,000 | 15,250 | 12,750 | 7,500 | 5,100 |
| Income taxes | 1,551 | 7,887 | 4,348 | 8,222 | 8,617 | 5,848 | 8,890 | 7,076 | 6,191 | 6,819 |
| Discontinued operations | — | — | — | — | (161) | (6,593) | (1,089) | 2,811 | 2,005 | 2,476 |
| Net earnings | 32,412 | 15,569 | 13,585 | 17,059 | 37,712 | 6,345 | 16,856 | 12,431 | 6,718 | 7,285 |
| Financial position <i>(thousands of dollars)</i> | | | | | | | | | | |
| Working capital | \$ 197,750 | \$ 139,486 | \$ 127,981 | \$ 123,742 | \$ 122,390 | \$ 91,967 | \$ 77,256 | \$ 99,290 | \$ 105,646 | \$ 100,280 |
| Property, plant and equipment, net book value | 451,177 | 305,328 | 309,145 | 309,477 | 287,269 | 194,220 | 190,560 | 178,966 | 187,099 | 177,590 |
| Total assets | 1,058,252 | 808,765 | 762,288 | 769,788 | 721,081 | 590,981 | 539,222 | 524,166 | 539,459 | 515,709 |
| Convertible debentures, preferred shares and equity | 321,928 | 284,711 | 261,689 | 283,163 | 258,461 | 213,885 | 209,705 | 186,079 | 169,647 | 160,085 |
| Financial ratios | | | | | | | | | | |
| Working capital ratio | 1.7 | 1.5 | 1.5 | 1.5 | 1.5 | 1.4 | 1.4 | 1.6 | 1.6 | 1.6 |
| Interest coverage | 4.3 | 4.6 | 3.1 | 4.7 | 5.0 | 2.4 | 4.2 | 3.2 | 2.3 | 2.2 |
| Debt/Equity ratio* | 47:53 | 40:60 | 45:55 | 50:50 | 51:49 | 55:45 | 47:53 | 55:45 | 64:36 | 64:36 |
| Earnings before patronage refunds and income taxes/Revenues | 1.4% | 1.2% | 0.9% | 1.7% | 2.6% | 0.9% | 2.3% | 1.8% | 1.1% | 1.1% |
| Reserve/Convertible debentures, preferred shares and equity | 71.8% | 69.8% | 70.0% | 59.9% | 59.0% | 53.7% | 53.7% | 51.4% | 50.5% | 49.3% |
| Convertible debentures, preferred shares and equity/Total assets | 30.4% | 35.2% | 34.3% | 36.8% | 35.8% | 36.2% | 38.9% | 35.5% | 31.4% | 31.0% |
| Number of employees | 12,287 | 9,587 | 9,644 | 10,096 | 9,340 | 8,041 | 7,996 | 7,448 | 6,838 | 6,185 |

* The debt figure in the Debt/Equity ratio includes the convertible debentures and the equity figure includes the preferred shares.

Agrilait, coopérative agricole, Saint-Guillaume Agriscar, coopérative agricole, Trois-Pistoles Agrivert, coopérative agricole régionale, Saint-Barthélemy Agrodor, coopérative agroalimentaire des vallées Outaouais-Laurentides, Thurso Citadelle, coopérative de producteurs de sirop d'érable, Plessisville Comax, coopérative agricole, Saint-Hyacinthe Coop des Cantons, coopérative agricole, Coaticook Coopérative acéricole régionale des Appalaches, Saint-Pamphile Coopérative agricole de la Baie des Chaleurs, Caplan Coopérative agricole de St-Bernard, Saint-Bernard-de-Dorchester Coopérative agricole du Témiscouata, Notre-Dame-du-Lac Coopérative agricole Grains D'Or, Métabetchouan–Lac-à-la-Croix Coopérative de consommation de St-Alexis, Saint-Alexis-de-Matapédia Coopérative de Saint-Quentin Ltée, Saint-Quentin (New Brunswick) CoopPlus, coopérative agricole Champlain-Laviolette, Saint-Narcisse Covilac, coopérative agricole, Baie-du-Febvre Groupe Dynaco, coopérative agroalimentaire, La Pocatière La Coop Agrivoix, La Malbaie La Coop Albanel, Albanel La Coop Alliance, Saint-Éphrem-de-Beauce La Coop Amos, Amos La Coop Chambord, Chambord La Coop Compton, Compton La Coop d'Abitibi-Ouest, La Sarre La Coop de l'Assomption, L'Assomption La Coop des Appalaches, Laurierville La Coop des deux rives, Normandin La Coop des Frontières, Sainte-Martine La Coop Dupuy et Ste-Jeanne d'Arc, Dupuy La Coop Excel, Granby La Coop Fermes du Nord, Mont-Tremblant La Coop Frampton, Frampton La Coop Gracefield, Gracefield La Coop Haute Côte-Nord, Sacré-Coeur La Coop Jonquière, Jonquière La Coop La Patrie, La Patrie La Coop Lac-Mégantic–Lambton, Lac-Mégantic La Coop Langevin, Sainte-Justine La Coop Montmagny, Montmagny La Coop Parisville, Parisville La Coop Pont-Rouge, Pont-Rouge La Coop Pré-Vert, Tingwick La Coop Profid'Or, Joliette La Coop Rivière-du-Sud, Saint-François-de-la-Rivière-du-Sud La Coop Saint-Alexandre-de-Kamouraska, Saint-Alexandre-de-Kamouraska La Coop Saint-Damase, Saint-Damase La Coop Sainte-Hélène, Sainte-Hélène-de-Bagot La Coop Sainte-Julie, Sainte-Julie La Coop Saint-Hubert, Saint-Hubert-de-Rivière-du-Loup La Coop Saint-Ubalde, Saint-Ubalde La Coop Seigneurie, Saint-Narcisse-de-Beaurivage La Coop Squatec, Squatec La Coop St-Casimir, Saint-Casimir La Coop St-Denis-sur-Richelieu, Saint-Denis-sur-Richelieu La Coop Ste-Justine, Sainte-Justine La Coop St-Fabien, Saint-Fabien La Coop St-Georges, Saint-Georges La Coop St-Méthode, Adstock La Coop St-Pamphile, Saint-Pamphile La Coop St-Patrice, Saint-Patrice-de-Beaurivage La Coop Verchères, Verchères La Coop Ville-Marie, Ville-Marie La Coop Weedon, Weedon La Coopérative Cartier Ltée, Richibucto (New Brunswick) La Coopérative de Baie Ste-Anne Ltée, Baie Sainte-Anne (New Brunswick) La Coopérative de Caraquet Ltée, Caraquet (New Brunswick) La Coopérative de Rogersville Ltée, Rogersville (New Brunswick) La Coopérative de St-Louis Ltée, St-Louis-de-Kent (New Brunswick) La Fromagerie coopérative St-Albert inc., St.Albert (Ontario) La Matapédienne coopérative agricole, Amqui Magasin CO-OP de Ste-Perpétue, Sainte-Perpétue de l'Islet Magasin CO-OP de St-Ludger, Saint-Ludger Magasin CO-OP de St-Samuel, Lac-Drolet Magasin CO-OP de St-Victor, Saint-Victor Magasin CO-OP La Riveraine de Rivière-Ouelle, Rivière-Ouelle Magasin CO-OP St-Gédéon, Saint-Gédéon-de-Beauce Nutrinor, coopérative agro-alimentaire du Saguenay Lac St-Jean, Saint-Bruno Purdel, coopérative agro-alimentaire, Le Bic Quincaillerie CO-OP de Nominuingue, Lac-Nominuingue Quincaillerie CO-OP Ste-Catherine, Sainte-Catherine-de-la-Jacques-Cartier Société coopérative agricole de Disraeli, Disraeli Société coopérative agricole de Ham Nord, Ham-Nord Société coopérative de Lamèque Ltée, Lamèque (New Brunswick) Société coopérative agricole de l'Île aux Grues, L'Isle-aux-Grues Société coopérative agricole de Princeville, Princeville Société coopérative agricole de St-Adrien-d'Irlande, Saint-Adrien-d'Irlande Société coopérative agricole de St-André d'Acton, Acton Vale Société coopérative agricole de St-Côme, Saint-Côme–Linière Société coopérative agricole de Ste-Marthe, Sainte-Marthe Société coopérative agricole de St-Jacques de Leeds, Saint-Jacques-de-Leeds Société coopérative agricole des apiculteurs du Québec, Plessisville Société coopérative agricole des Bois-Francis, Victoriaville Société coopérative agricole du Sud de Montréal, Napierville Société coopérative agricole St-Isidore d'Auckland, Saint-Isidore-de-Clifton Unicoop, coopérative agricole, Sainte-Hénédine **Auxiliary Members Coopérative d'utilisation de machinerie agricole de Saint-Fabien, Saint-Fabien Coopérative d'utilisation de machinerie agricole des Rivières, Sainte-Thècle Coopérative d'utilisation de machinerie agricole et forestière du Lac, Alma Coopérative d'utilisation de matériel agricole de Leclercville, Leclercville Coopérative d'utilisation de matériel agricole des Aulnaies, Saint-Jean-Port-Joli Coopérative d'utilisation de matériel agricole L'Oie blanche, Saint-François-de-la-Rivière-du-Sud**