

From La Coop fédérée to
Sollio Cooperative Group

Annual Report 2019



ANNUAL REPORT 2019

A NEW NAME, A NEW US

SOLLIO COOPERATIVE GROUP



Mission

Rooted in local communities and leveraging our collective strength, we contribute to feeding people by creating prosperity for farming families and building a sustainable future for the world.

Vision

Be recognized as a Canadian leader in the North American agriculture sector, the international agri-food industry and the retail sector in Canada.

Values

Honesty

Each of us acts with an ongoing commitment to transparency, whether it is within the enterprise or with regards to relations with member-cooperatives and other stakeholders. Each one of us must be able to recognize our mistakes, give credit where credit is due and seek to avoid any conflicts.

Equity

Everyone, including work groups, must treat their colleagues and partners in a fair and equitable manner. We believe that every individual deserves to find their place within the larger cooperative network, be acknowledged and have room to grow.

Responsibility

Each person is accountable for their duties within SOLLIO Cooperative Group, as they ensure the proper management of the members' assets. While fulfilling their individual, mutual and collective commitments, each person must answer for their own actions, while also adhering to the goals of sustainable development.

Solidarity

Driven by the desire to assist one another, we guide each other in the advancement of our common objectives and projects to achieve them together. Working together in an open and cohesive manner, we collectively support the decisions that affect the common good of the enterprise.

A NEW NAME!
A NEW
US.

US means members, producers,
associated companies and employees
stand together.

US means we're united, thriving and proud.

US means that each and every one of our voices
are tuned to the ideas of a brighter future.

US means we're bigger, more inclusive
and more engaging than ever.

Affiliated Cooperatives

La Coop Agrilait
Saint-Guillaume

La Coop Agriscar
Trois-Pistoles

La Coop Agrivoix
La Malbaie

Agro Co-operative Assoc Ltd
Charlottetown,
Prince Edward Island

La Coop Alliance
Lac-Mégantic

**Antigonish Farm &
Garden Co-op**
Antigonish, Nova Scotia

**Atlantic Co-operative
Country Stores**
Moncton, New Brunswick

Avantis Coopérative
Sainte-Marie

La Coop Chambord
Chambord

**Citadelle Maple Syrup
Producers' Cooperative**
Plessisville

La Coop Comax
Saint-Hyacinthe

La Coop Covilac
Baie-du-Febvre

**La Coop Dupuy et
Sainte-Jeanne d'Arc**
Dupuy

**Eastern Farmers
Co-op Society**
Mount Pearl, New Foundland

La Coop Fermes du Nord
Mont-Tremblant

**Filière porcine
coopérative**
Montréal

La Coop Gracefield
Gracefield

**Magasin Co-op de
Havre-aux-Maisons**
Havre-aux-Maisons

**Co-op Home &
Farm Supply**
Fredericton,
New Brunswick

**Kensington
Co-operative
Association Limited**
Kensington,
Prince Edward Island

La Coop La Patrie
La Patrie

**Société coopérative
de Lamèque Ltée**
Lamèque,
New Brunswick

**La Coop des
Montérégiennes**
Granby

Nutrinor coopérative
Saint-Bruno-Lac-Saint-Jean

Novago Coopérative
Joliette

**O'Leary Farmers
Co-op Assn.**
O'Leary,
Prince Edward Island

La Coop Parisville
Parisville

**Magasin CO-OP
de Plessisville**
Plessisville

La Coop Purdel
Rimouski

**Scotian Gold
Co-operative Limited**
Coldbrook, Nova Scotia

**South Eastern
Farmers Co-op**
Moncton, New Brunswick

La Coop Squatec
Squatec

**La Coop
Saint-Adrien-d'Irlande**
Saint-Adrien-d'Irlande

**La Fromagerie
coopérative
Saint-Albert inc.**
Saint-Albert, Ontario

**La Coop
Saint-Côme-Linière**
Saint-Côme-Linière

La Coop Sainte-Hélène
Sainte-Hélène-de-Bagot

La Coop Sainte-Justine
Sainte-Justine

La Coop Sainte-Marthe
Sainte-Marthe

**Magasin CO-OP de
Sainte-Perpétue**
Sainte-Perpétue-de-L'Islet

La Coop St-Fabien
Saint-Fabien

La Coop Saint-Hubert
Saint-Hubert-de-
Rivière-du-Loup

**La Coopérative
de Saint-Louis Ltée**
Saint-Louis-de-Kent,
New Brunswick

La Coop Saint-Méthode
Adstock

La Coop Saint-Pamphile
Saint-Pamphile

La Coop Saint-Patrice
Saint-Patrice-de-Beaurivage

**Coopérative de
Saint-Quentin Itée**
Saint-Quentin,
New Brunswick

La Coop Saint-Ubalde
Saint-Ubalde

**Magasin CO-OP
de Saint-Victor**
Saint-Victor

**Section of independant
BMR retailers**
Montréal

**Sussex & Studholm
Agricultural Society N°. 21**
Sussex, New Brunswick

La Coop Unifrontières
Napierville

**VIVACO
groupe coopératif**
Victoriaville

Auxiliary Members

**Coop de services
agricoles Le Partage**
Lotbinière

**Coopérative des
producteurs de pommes
de terre de Péribonka-
Ste-Marguerite-Marie**
Péribonka

**Coopérative d'utilisation
de machinerie agricole
des Basses-Laurentides**
Mirabel

Three Divisions



Coopérative d'utilisation de machinerie agricole de la Matapédia

Saint-Léon-le-Grand

Coopérative d'utilisation de machinerie agricole de la Rivière du Bic

Rimouski (Le Bic)

Coopérative d'utilisation de machinerie agricole de La Rocaille

Sainte-Hélène-de-Kamouraska

Coopérative d'utilisation de machinerie agricole de Laurierville

Laurierville

Coopérative d'utilisation de machinerie agricole de l'Érable

Plessisville

Coopérative d'utilisation de machinerie agricole de l'Érablière

Saint-Félix-de-Valois

Coopérative d'utilisation de machinerie agricole de l'Or Blanc

Saint-Georges-de-Windsor

Coopérative d'utilisation de machinerie agricole de Saint-Fabien

Saint-Fabien

Coopérative d'utilisation de machinerie agricole de St-Cyprien

Saint-Cyprien

Coopérative d'utilisation de machinerie agricole de Ste-Croix

Saint-Édouard-de-Lotbinière

Coopérative d'utilisation de machinerie agricole de St-Jean-de-Dieu

Saint-Jean-de-Dieu

Coopérative d'utilisation de machinerie agricole de Weedon

Weedon

Coopérative d'utilisation de machinerie agricole des Rivières

Sainte-Anne-de-la-Pérade

Coopérative d'utilisation de machinerie agricole du Coteau

Isle-Verte

Coopérative d'utilisation de machinerie agricole du Haut-Saint-Laurent

Saint-Anicet

Coopérative d'utilisation de machinerie agricole du Saguenay

Saguenay

Coopérative d'utilisation de machinerie agricole Estrie-Mont

Saint-Joachim-de-Shefford

Coopérative d'utilisation de machinerie agricole et forestière du Lac

Alma

Coopérative d'utilisation de machinerie agricole Franco-Agri

Sainte-Anne-de-Prescott, Ontario

Coopérative d'utilisation de machinerie agricole de Jeannoise

Saint-Gédéon

Coopérative d'utilisation de machinerie agricole l'Achigan

L'Épiphanie

Coopérative d'utilisation de machinerie agricole Lamy

Saint-Hubert

Coopérative d'utilisation de machinerie agricole Les Ressources

Yamachiche

Coopérative d'utilisation de machinerie agricole Petite Montagne

Saint-Joseph-de-Beauce

Coopérative d'utilisation de machinerie agricole Porte de la Beauce

Saint-Isidore

Coopérative d'utilisation de machinerie agricole Tournesol

Sainte-Marie

Coopérative d'utilisation de matériel agricole de Bellechasse

Saint-Gervais

Coopérative d'utilisation de matériel agricole de La Durantaye

La Durantaye

Coopérative d'utilisation de matériel agricole de la Montagne du diable

Mont-Saint-Michel

Coopérative d'utilisation de matériel agricole de la Petite-Nation et de la Lièvre

Plaisance

Coopérative d'utilisation de matériel agricole de la région de Coaticook

Coaticook

Coopérative d'utilisation de matériel agricole de Leclercville

Leclercville

Coopérative d'utilisation de matériel agricole de Matane

Saint-Luc

Coopérative d'utilisation de matériel agricole de St-Éloi

Saint-Éloi

Coopérative d'utilisation de matériel agricole de St-Sylvere

Deschailons

Coopérative d'utilisation de matériel agricole des Aulnaies

Saint-Jean-Port-Joli

Coopérative d'utilisation de matériel agricole du Haut du Lac

Normandin

Coopérative d'utilisation de matériel agricole Duncan

Saint-Nazaire-d'Acton

Coopérative d'utilisation de matériel agricole Kamouraska-Ouest

Rivière-Ouelle

Coopérative d'utilisation de matériel agricole l'Oie Blanche

Saint-Pierre

La Ferme R & H Blanchard Ltée
La Coop Establishment & Farm Transfer Award
2019-2020





Table of contents

Affiliated cooperatives and Auxiliary members	1
Highlights	4
President's message	6
Management discussion and analysis	12
Sollio Agriculture	20
Olymel L.P.	24
BMR Group	30
Financial position	36
Risks and uncertainties	38
Cooperative overview	42
Management's report	52
Independant auditor's report	53
Consolidated balance sheet	55
Consolidated statement of earnings	56
Consolidated statement of reserve	56
Consolidated statement of cash flows	57
Notes to consolidated financial statements	58
Financial review	82

Highlights

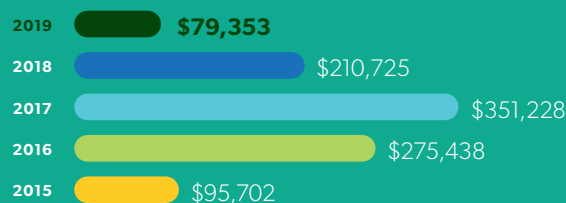
Revenues

(in thousands of dollars)



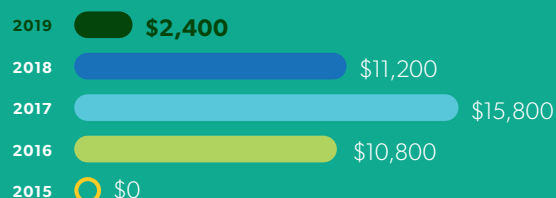
Earnings before patronage refunds and income taxes

(in thousands of dollars)



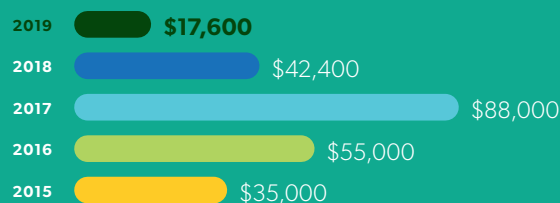
Dividends paid to the Cooperative Pork Chain

(in thousands of dollars)



Patronage refunds

(in thousands of dollars)



Working capital

(in thousands of dollars)



Preferred shares and La Coop's equity

(in thousands of dollars)



* The credit facility is included in working capital for ratio calculation purposes in 2015 to comply with the presentation adopted in the consolidated financial statement.

[IN THOUSANDS OF DOLLARS]

	2019 \$	2018 \$
Revenues	7,282,058	6,515,972
Operating earnings	48,085	146,896
Earnings before patronage refunds and income taxes	79,353	210,725
Patronage refunds	17,600	42,400
Net earnings	48,604	135,411
Accounts receivable and inventories	1,414,439	1,344,541
Current assets	1,545,083	1,445,230
Working capital	404,261	553,559
Property, plant and equipment, at cost	2,220,841	1,917,236
Property, plant and equipment, net carrying amount	1,215,381	1,020,130
Total assets	3,880,159	3,261,469
Long term debt and obligations under capital leases including current portion	845,774	642,414
Preferred shares and La Coop's equity	1,780,586	1,480,827
Number of employees	15,360	14,020



Ghislain Gervais
President

President's message — Ghislain Gervais

Over the past fiscal year, La Coop fédérée (“La Coop”) continued and to a large extent completed the ambitious growth strategy it launched a few years ago, and with that strategy as its springboard, La Coop is very well positioned for the future.

Several major projects which grew out of the strategic thinking exercise around the model for “La Coop fédérée of tomorrow” were completed during the past fiscal year — La Coop’s governance was strengthened, a new section of members created and the name of La Coop fédérée will be changed in march 2020.

The Vision 2020 project continues to move forward. The network spared no effort to pursue and integrate cooperative consolidation and prepare to implement regional and sectoral partnerships.

Driven by its growth strategy, La Coop’s consolidated sales in 2019 exceeded \$7 billion for the first time in its history. Earnings before patronage refunds and income taxes totalled \$79 million, down from previous years.

This result stemmed mainly from a particularly difficult business environment in 2019. Geopolitical and trade tensions between the United States and China, which also caused turmoil in Canada, disrupted agricultural markets. Temporary closure of the Chinese market to Canadian meat products, our largest export market by volume, significantly affected our results.

Looking at growth for La Coop and its divisions, the Competition Bureau at the end of 2019 greenlighted acquisition of the assets of F. Ménard, a leading Québec pork sector business. Producing over 1 million hogs and employing 1,200, the business will enable Olymel to maintain its position as one of the largest pork processing companies in North America.

Additionally, completion of the work to upgrade the Yamachiche plant will

consolidate pork processing activities in Québec and enhance the efficiency of our operations in the sector.

In the retail sector, BMR Group set up partnerships with businesses in promising market segments and acquired shares in Lefebvre & Benoit, a distributor of construction materials for commercial buildings and multi-unit housing, a high-growth sector. BMR Group also acquired an interest in Équipements d’érablière CDL, a leader in the maple syrup industry, another growth sector.

Sollio Agriculture moved forward with construction and installation work on the grain terminal at the Port of Québec, a project that will provide agricultural producers access to the international grain export market. Sollio Agriculture also continued with the integration of its recent investments, Standard Nutrition

Sollio Cooperative Group, La Coop fédérée's new name, is a brand that reflects our core business and renews our identity.

Canada in the Prairies, and Maizex and Cargill in Ontario.

La Coop's growth would not have been possible without the support of its financial institutions. Again this year, our financial partners provided backing for us by investing in preferred shares, renewing our credit facility and granting term loans. We would like to thank our financial partners for their strong vote of confidence in our organization and the cooperative business model.

On behalf of the Board of Directors, I would like to extend my thanks to Gaétan Desroches, Réjean Nadeau, Sébastien Léveillé, Pascal Houle and their teams for successfully completing all of these projects. And I would like to thank our some 15,000 employees who helped deliver these results — We can't say it often enough, but the strength of an organization depends first and foremost on the quality of its human resources.

La Coop fédérée of tomorrow

During the past fiscal year, the Board of Directors launched a strategic thinking exercise to define the model for "La Coop fédérée of tomorrow." Planning focused on key areas such as our growth strategy, governance, financial model, patronage refunds, talent and brand image, and is far advanced if not completed on several of them.

Actions have been initiated or carried out to strengthen governance. At the last Annual General Meeting, delegates adopted regulations to promote La Coop's long-term sustainability, maintain the cooperative model's specific democratic process and ensure that La Coop remains under the control of Québec agriculture producers. Adopting these regulations limits demutualization risk and ensures that agricultural producers have a majority of votes on governance issues.

To promote continuous improvement, the Board of Directors also conducted a review of the functioning and current structure of the various Board committees and changes were made to maximize their value creation and operational efficiency. An IT committee was also formed as information technology is fundamental to developing La Coop's

operations, products and services and cybersecurity.

The past fiscal year saw succession planning for two members of the Board of Directors, Me. Jean-François Harel, General Secretary, and Mr. Paul Noiseux, Chief Financial Officer, who together have over 50 years' experience in the organization.

Over the years, Me. Harel and Mr. Noiseux have shown unwavering dedication to La Coop, to sound governance for the Board of Directors and to our organizational and cooperative values. On behalf of the Board of Directors and myself, I would like to express my warmest thanks for their invaluable contribution to La Coop's development.

I am pleased to welcome their successors, Me. Josée Létourneau, General Secretary, who will be the first woman



"Sollio" evokes words like "soil," "sun," "solidarity," "solicitude," which aptly represent what we are.

Board of Directors



GHISLAIN GERVAIS, ASC
President
Executive Committee Member



MURIEL DUBOIS, ASC
1st Vice-President
Executive Committee Member



MATHIEU COUTURE
2nd Vice-President
Executive Committee Member



RICHARD FERLAND
Executive Committee Member



MARC-ANDRÉ ROY
Executive Committee Member
Audit Committee Member



BENOIT MASSICOTTE



CATHY FRASER



FRANÇOIS DRAINVILLE



JEAN-FRANÇOIS PELLETIER
Audit Committee Member



ADRIEN PITRE



PATRICK SOUCY
Audit Committee President



RÉJEAN VERMETTE



DAVID MERCIER
Audit Committee Member



JEAN BISSONNETTE, ASC
Audit Committee Member



JEAN-PHILIPPE CÔTÉ



GAÉTAN BRASSARD



to serve as an officer of La Coop, and Alexandre St-Jacques, Chief Financial Officer, La Coop's youngest ever officer.

As regards branding, delegates authorized changing the organization's name at the last Annual General Meeting. Accordingly, La Coop fédérée will become Sollio Cooperative Group at its 98th Annual General Meeting. That will be its fourth change of name in its almost 100-year history.

Sollio Cooperative Group is a simple and modern brand with universal appeal – a brand that reflects our core business and renews our identity. "Sollio" evokes words like "soil," "sun," "solidarity," "solicitude," which aptly represent what we are.

The Sollio Cooperative Group name will secure us recognition as the leading brand in the Canadian agriculture and agri-food sector and as a great, world-class cooperative. And the network has already made the name its own over the past year, with Sollio Agriculture branded agricultural activities.

Finally, another element that emerged clearly from the strategic thinking exercise around "La Coop fédérée of tomorrow" was the need to create new sections of members. Acquisitions in recent years diluting sales represents an immense challenge to maintaining our cooperative identity. Our cooperative model has to evolve in certain areas as we expand into new regions and sectors.

Accordingly, we have the pleasure of welcoming some 60 independent BMR Group stores which became affiliated with La Coop this year and will now enjoy the benefits of the cooperative model.

Vision 2020

Work on transforming the network to align with Vision 2020 moved forward this year. A wide-ranging project, it will enable the network to adapt to new contemporary challenges and respond to the specific agricultural reality of each region. The two components of the transformation process are being rolled out simultaneously.

The first component of Vision 2020 aims to consolidate cooperatives in the regions into larger groups whose strength, investment capacity and value will drive growth for the consolidated cooperatives. And that goal in fact prompted the decision of four cooperatives in southern Québec in early 2020 to come together in a single entity, Agiska Coopérative (previously the Triomphe project). That decision ties in with the move to consolidate already well underway in other regions.

The second component of Vision 2020 aims to combine the strengths of the consolidated cooperatives and La Coop to offer agricultural producers even more efficient services. We have made progress on creating regional partnerships with cooperatives Avantis and

Unifrontières with a view to ensuring the success of their operations from day one.

The Sollio & Vivaco Agriculture cooperative partnership celebrated its first anniversary in style with results exceeding expectations and structural investments planned to better serve the region's agricultural producers.

Concurrently, work continued on forming a new grain marketing partnership. The mission of the new entity, Sollio & Grains Québec Agriculture coopérative, is to offer better marketing opportunities for Québec grain producers. The partnership aligns seamlessly with the Vision 2020 objectives of generating greater administrative and operational efficiency, leveraging high-level expertise, and ensuring better market access and risk management.

A world of potential, important challenges

The agri-food sector has high potential with stable growth expected for the coming decades. But the challenges are many.

Agri-food sector consolidation has created robust international competition, a concentration of influential players and ongoing modernization of business models. The uncertain geopolitical climate can lead to a sudden loss of lucrative markets. Health crises, such as African swine fever, can create unprecedented market imbalances.

La Coop fédérée had the pleasure of welcoming some 60 independent BMR stores which became affiliated with La Coop this year and will now enjoy the benefits of the cooperative model.

The challenges are not only economic but environmental and social as well.

The last decade was the planet's warmest since temperatures began to be measured, and it's difficult to avoid making a connection with the last growing season's disappointing harvest. The agricultural sector will have to identify solutions to adapt quickly to the vagaries of climate change and help to mitigate its effects.

Our production models are also being challenged. The parliamentary commission on pesticides, in which La Coop participated, clearly showed that our sector is polarized around our agricultural models, just as society is increasingly divided on a widening range of issues.

Beyond this sometimes highly emotional debate, we cannot ignore that consumers' expectations and concerns are very real and many, and that they must be addressed.

We must also give thought to young people, our next generation, who will take up the torch of cooperation. Many young people are taking a stand on social issues that concern them – the environment, climate change, animal welfare, pesticides, etc.

We cannot ignore their concerns. We must demonstrate transparency and integrity, and inspire trust. We must continue to seek solutions to the different environmental and social challenges. Sollio Cooperative Group is firmly resolved to move forward on that path.

Sollio Cooperative Group has formally adhered to the United Nations' sustainable development goals and an action plan is being developed to follow up on that commitment. The year also saw the launch of a structured approach to corporate responsibility.

Our cooperative model addresses another fundamental need. We play a role in regional prosperity and drive local development and economic vitality. This unique feature is highly valued by our members, who wish above all to prosper where they live.

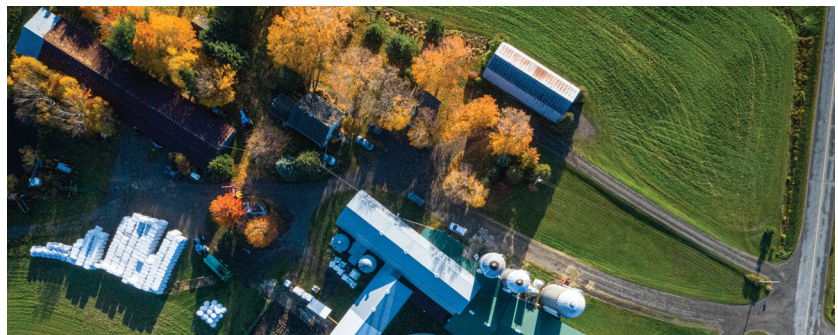
To better reflect all of these realities, the Board of Directors has decided to update the mission of Sollio Cooperative Group: "Rooted in local communities and leveraging their collective strength, we contribute to feeding people by creating

prosperity for farming families and building a sustainable future for the world."

To conclude, I would like to extend my thanks to my colleagues on the Board of Directors for their vision and energy, and their trust in me. And I applaud all of the directors across the network. It is your commitment and determination that give real meaning to our collective action!



Ghislain Gervais
President



The last decade was the planet's warmest since temperatures began to be measured. That's why our organization has formally adhered to the United Nations' sustainable development goals.



Gaétan Desroches, agr., MBA
Chief Executive Officer

Management discussion and analysis —

Gaétan Desroches, agr., MBA
Chief Executive Officer

La Coop fédérée (now Sollio Cooperative Group) topped the \$7 billion level in sales in fiscal 2019. This is more than just a symbolic milestone; we are now part of a select group of large national organizations in Québec and Canada.

La Coop fédérée (“La Coop”) generated \$7.282 billion in sales and \$79.4 million in earnings before patronage refunds and income taxes for the fiscal year ended October 26, 2019, compared with \$6.516 billion and \$210.7 million, respectively, for fiscal 2018. Several non-recurring items impacted current year results.

Meat Division results were negatively affected by several important events. Olymel’s earnings before income taxes attributable to members amounted to \$67.1 million, down \$100.8 million from \$167.9 million in fiscal 2018. The suspension of Canadian meat exports to China from late June to early November 2019 had a drastic impact on performance. The start-up of a plant to increase slaughtering capacity and added value, as well as the new hog marketing agreement, weighed on results. The poultry sector also posted lower results due to unfavourable market conditions, putting pressure on prices. Integration of the acquired poultry business also proved to be difficult initially. Meat Division sales

were up \$297.9 million, driven mainly by the recognition of over 11 months’ sales of an acquired poultry slaughtering and processing business. The higher sales also stemmed from the recognition of a full year’s sales generated by a business specializing in the marketing of processed pork acquired in fiscal 2018.

The Agri-business Division reported earnings attributable to members of \$36.4 million, up \$3 million from \$33.4 million. Businesses acquired in 2018 and 2019 drove earnings growth in fiscal 2019, offset by the costs of projects and commissioning of the new Québec City maritime terminal, integration expenses, launch of the Sollio Agriculture brand and IT project amortization. Discontinuation of the urea plant project also reined in earnings. Agri-business Division’s external sales were up \$451.7 million, stemming essentially from multiple acquisitions carried out during fiscal 2018 and 2019, particularly in the grain and crop production sectors. Input prices also increased in spring following floods in Midwestern United

States. Inclement weather was also reflected in grain prices while higher volumes from acquired businesses helped drive sales growth.

The Retail Division, excluding corporate expenses, generated earnings before income taxes attributable to members of \$16.7 million, down marginally by \$0.2 million from \$16.9 million in fiscal 2018. The margin improved following tighter controls and better marketing agreements. However, earnings were reined in by increases in certain operational costs such as for transportation resulting from the labour shortage, and for warehousing to meet the need for extra space.

The Retail Division’s external sales were up \$7.6 million from fiscal 2018, driven by the recognition of sales of a business acquired as of September 1, 2019, offset by lower building material sales stemming from the fall in commodity prices.

Corporate expenses, which are charged expenses, amounted to \$18.4 million compared with \$17.4 million for fiscal 2018.

While our previous years' reforms and acquisitions were falling into place and yielding results, tensions suddenly flared, with negative impacts for the pork sector in particular.

Because of a 50% interest held via a subsidiary, energy sector results are reported as a share of results of a joint arrangement. The share of results, net of administrative expenses, attributable to members was \$7.7 million compared with \$7.3 million in fiscal 2018. In 2019, La Coop remeasured the note receivable recorded during La Coop's business combination transaction in the energy sector and recognized an impairment loss of \$30.8 million to reflect the note's collectibility.

Cost of sales and selling and administrative expenses totalled \$7.183 billion compared with \$6.346 billion for the previous year. The increase resulted mainly from sales growth, higher prices for certain raw materials, the integration of the businesses acquired during the year and direct costs related to higher sales stemming from this growth.

Financial expenses for fiscal 2019 increased to \$51.5 million from \$22.6 million for the previous fiscal year, owing to the combination of increases in average debt and interest rates.

Including the results of its divisions, La Coop reported consolidated operating income of \$48.1 million, compared with \$146.9 million in fiscal 2018.

The other contributions to earnings included the share of results of joint

arrangements, namely businesses in which La Coop has joint control. This share decreased to \$34.9 million from \$47.2 million for the previous fiscal year, stemming mainly from the recording of the share of losses of a meat processing business.

The share of results of entities subject to significant influence, entities in which we have less than a 50% interest, amounted to a \$2.5 million loss compared with a loss of \$0.1 million in fiscal 2018. This deterioration is attributable to the decision to discontinue the construction project for an integrated urea and methanol plant.

Income from other investments, which represent interest and dividend income from other investments, totalled \$2.2 million compared with \$1.7 million for the prior fiscal year.

Net gains (losses) on disposal and remeasurement of assets amounted to a loss of \$3.3 million in fiscal 2019 compared with a \$9.6 million gain in fiscal 2018. The loss resulted from the remeasurement of a note receivable in the energy sector, partly offset by gains on the disposal of property, plant and equipment, particularly a gain from the sale of the building housing the head office and a gain on the acquisition of assets of an agriculture sector business.

In fiscal 2018, the gain was essentially generated by the remeasurement of an investment held as a result of acquisition of control.

The recovery arising from an insurance benefit, related to an insurance recovery at a Meat Division facility, totalled \$5.5 million in fiscal 2018.

Earnings before patronage refunds and income taxes totalled \$79.4 million compared with \$210.7 million for fiscal 2018.

For the year ended October 26, 2019, after deducting \$17.6 million in declared patronage refunds and \$13.1 million in income taxes, La Coop reported net earnings of \$48.6 million compared with \$135.4 million in fiscal 2018. Net earnings attributable to members of La Coop and included in the reserve amounted to \$38.4 million, compared with \$115.6 million in fiscal 2018, while net earnings attributable to non-controlling interests totalled \$10.2 million, compared with \$19.8 million in fiscal 2018.

In light of fiscal 2019 results, the Board of Directors resolved on January 15, 2020, to pay a \$2.4 million dividend to holders of shares in the Cooperative Pork Chain.

Management Committee



GAÉTAN DESROCHES, agr., MBA
Chief Executive Officer



PAUL NOISEUX
Chief Financial Officer



JEAN-FRANÇOIS HAREL, ASC
General Secretary, Sustainable
Development and Cooperative Affairs



SÉBASTIEN LÉVEILLÉ, MBA
Executive Vice-President and Chief
Executive Officer of Sollio Agriculture



PASCAL HOULE
Executive Vice-President and Chief
Executive Officer of BMR Group



ISABELLE LECLERC, MBA
Senior Vice-President,
Human Resources



JOSÉE LÉTOURNEAU
Senior Vice-President,
Legal Affairs



BEN MARC DIENDÉRÉ
Senior Vice-President, Communications,
Public Affairs and Brand Management



BERNARD MARQUIS
Senior Vice-President,
Strategic Projects

La Ferme Tourigny inc.
La Coop Establishment & Farm Transfer Award finalist
2019-2020



The year was filled with political upheaval, culminating in the eleventh hour signature of a new trade agreement between Canada and the United States, the Canada-United States-Mexico Agreement (CUSMA).

Parent company

The parent company's net expenses decreased to \$9.0 million from \$27.4 million for the previous fiscal year, stemming from the recording of a gain on disposal and the very favourable return on actuarial assets.

Human resources

Human resources play a key role in La Coop's successes and fiscal 2019 was no exception.

Talent and Culture project

Amid labour scarcity, generational transition and technology revolution, talent management is undoubtedly a critical competitiveness issue. That's why the Talent and Culture project, which grew out of the Board of Director's strategic thinking exercise last year, was launched

to support actions in three areas: succession planning, implementing a culture of mobility between divisions and developing executive capacity through a leadership path.

Pension fund

A key milestone was reached this year with the inclusion of BMR Group in the pension fund master trust which now has over \$600 million in assets. Leveraging this network strength, we now have access to more competitive fees and innovative investments.

Overall health

Overall health is a genuine concern for our employees. Having a financially, physically and psychologically healthy workforce provides remarkable benefits, in terms of both productivity and mobilization. In the area of health, the cooperative prevention mutual has

experienced renewed growth while several other initiatives have been carried out, including the implementation of a wellness account with our insurer, and telemedicine.

Visibility

For the third consecutive year, La Coop won the Women in Governance Parity Certification, gold certification this time. As integration of women is an important objective, an equity awareness workshop gender was held during the semi-annual meeting. We are continuing our involvement in l'Effet A, an organization which aims to advance engagement professional women with a fourth cohort from various divisions.

Once again, La Coop made the prestigious Montreal's Top Employers list which recognizes employers offering exceptional places to work.

A year of growth and tensions

The year was filled with political upheaval, culminating in the eleventh hour signature of a new trade agreement between Canada and the United States, the Canada-United States-Mexico Agreement (CUSMA), replacing the former North American Free Trade Agreement (NAFTA). The new agreement affects numerous practices in our industry, particularly supply management, and impacts the gains made by our agricultural entrepreneurs. We will be monitoring this issue.



La Ferme Hardlook inc.
La Coop Establishment & Farm Transfer Award finalist
2019-2020



The year that began with a robust economic recovery and the announcement of high growth quickly turned into one of geopolitical tensions. While our previous years' reforms and acquisitions were falling into place and yielding results, tensions suddenly flared, with negative impacts for the pork sector in particular.

These tensions were compounded by citizen consumers' environmental concerns, not to mention technological changes, and in some cases, early warning signs of agribashing.

Demographers have long told us that the aging population and retirements will put pressure on the workforce. That's where we are at now and everyone is affected. With our reforms and transformations over the last decade in all our operating sectors, we have been able to face these difficult times.

We will also remember 2019 as the year of a cold and late spring, a dry summer and a difficult fall for crop production. Let us also keep in mind the difficulties experienced by our members of the dairy industry.

Some fiscal 2019 highlights:

- Implementation of our 2020 Vision. The first agricultural partnership was formed.
- 93% approval vote at the General Meeting for our branding strategy and new identity, Sollio Cooperative Group.

- Launch of the Sollio Agriculture brand name for our Agri-business Division, which has been strengthening its position in the market since then.
- Vote at the General Meeting of a regulation to reduce demutualization risk for our organization.

La Coop submitted a brief to the Commission nationale de l'agriculture, des pêcheries et des ressources naturelles (CAPERN) which has a mandate from the Québec government to study the impacts of pesticides on public health and the environment as well as the available innovative alternative practices. La Coop subscribes to sustainable agriculture principles by incorporating technological advances and by respecting the know-how of the organization and its members.

This year, following the Board of Directors' strategic thinking exercise, we also created the section of independent BMR retailers, which allows us to position our business model in the market and capitalize on market opportunities. The planned creation of the Western pork chain resulted from the same thinking exercise.

Name recognition of our organization is growing rapidly. Our communication and advertising initiatives, our media relations, mindful use of social media combined with our communications with governments bring us recognition as a key player in our field. Our culture, our values and our working conditions are recognized everywhere.

We also honoured our values, namely our community and social commitments. With the creation of a foundation, our philanthropic activity will have a stronger organizational basis. It will focus on niche areas of interest to our organization and our owners.

The management committee and I would like to extend a thank you to all the members of the Board of Directors and the President Ghislain Gervais for their support and advice during the past year. We are grateful for the commitment and dedication you showed during the past fiscal year.

We also wish to thank all the presidents and general managers of the affiliated cooperatives for their excellent collaboration.

I would like to express my deep appreciation for all the personnel of our organization and my colleagues on the management committee.

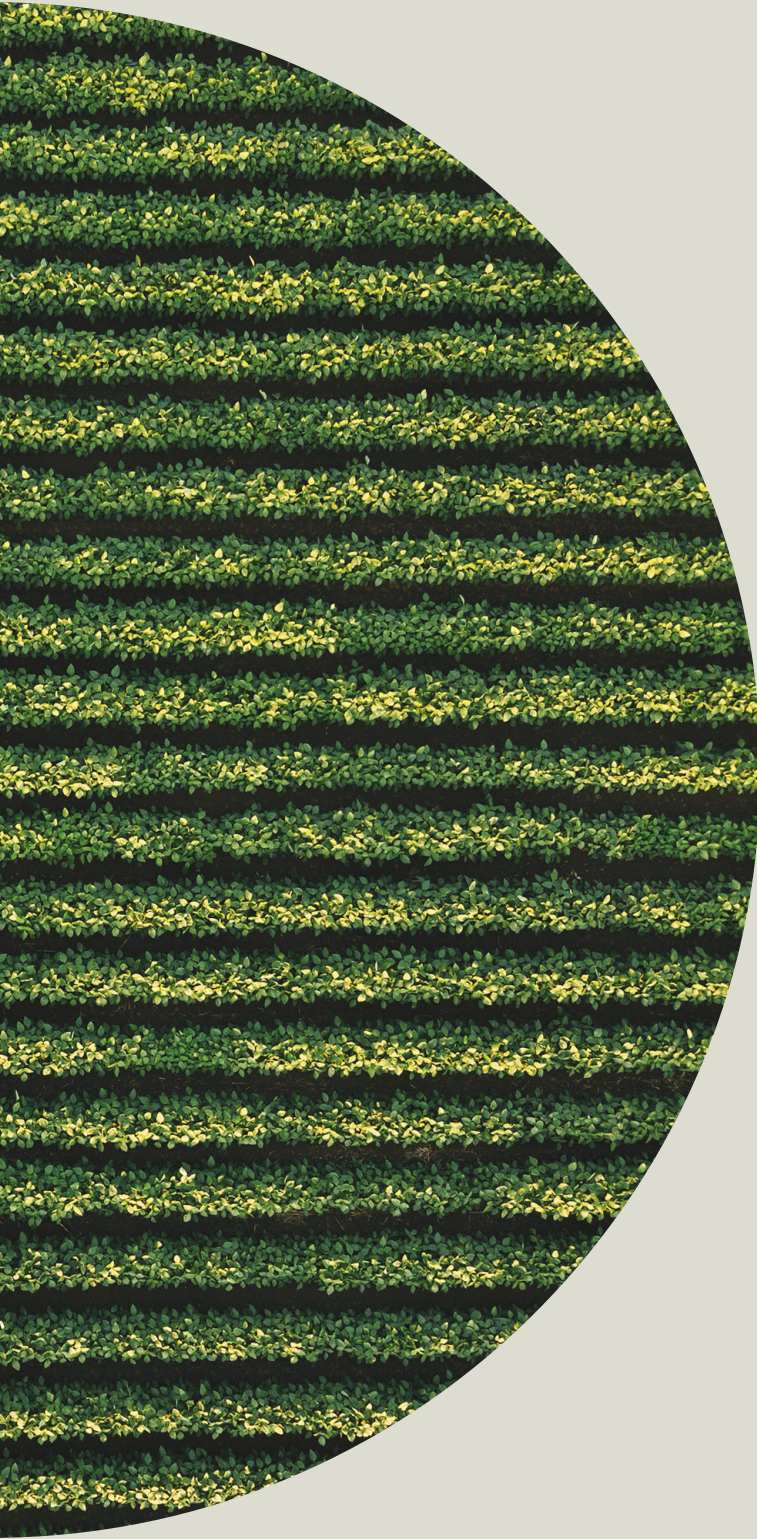
To conclude, I thank our divisions and management teams as well as all the employees in Québec and Canada, for their loyalty and their commitment.



Gaétan Desroches, agr., MBA
Chief Executive officer



A division of Sollio Cooperative Group



Management Team

DAVID ARSENEAU

General Manager, Livestock Production

CASPER KAASTRA

General Manager, Crop Production

GINO BECERRA

General Manager, Grains

SIMON BAILLARGEON

Vice-President, Business Development

ALEXANDRE ST-JACQUES

Vice-President, Finances

MARIE-HÉLÈNE DAIGLE

Vice-President, Human Resources

SAAD CHAFKI

Vice-President, Digital, Information Technology and Projects

BENOÎT BESSETTE

Vice-President, Marketing, Communications and Strategy



SÉBASTIEN LÉVEILLÉ, agr., MBA
Chief Executive Officer

For Sollio Agriculture, fiscal 2019 saw the completion of the strategic plan launched in 2016 when the Agri-business Division was created. This plan yielded numerous achievements, including growth to extend the value chain.

In fiscal 2019, Sollio Agriculture's sales amounted to \$2.577 billion, compared with \$2.125 billion for the previous year. This near \$450 million increase stemmed mainly from multiple acquisitions carried out in fiscal 2018 and 2019, particularly in the Grain and Crop Production sectors.

The Livestock Production Sector generated growth in sales driven by Standard Nutrition Canada's first full year of operations of since its acquisition in 2018. Sales prices were comparable to the previous fiscal year, in spite of greater volatility. Declining dairy supply volumes had a negative impact on sales and profitability.

Crop Production Sector sales have known an increase of more than 15%. Fertilizer sales volumes grew in Québec and Western Canada. Difficult weather conditions in Ontario reined in volume growth, despite the acquisition of Cargill's crop production

assets. The price of inputs rose sharply in the spring, contributing to increased revenues. Favourable investments generated additional margins.

The Grain Sector saw its sales grow by more than 30% after our deployment in Ontario, following the acquisition of Cargill's grain assets. Corn and wheat volumes more than offset the lower transactions in the soybean market caused by geopolitical conflicts.

Sollio Agriculture saw the completion of the strategic plan launched when the Agri-business Division was created in 2016 and our achievements speak for themselves: growth to extend the value chain, support for our network of retailers to meet the needs of tomorrow's farmers, strong organizational performance and the digital shift.

La Ferme Belflamme inc.
La Coop Establishment & Farm Transfer Award finalist
2019-2020



We need to listen more closely to consumers and more deeply embed the principles of sustainable development in our practices.

As part of Vision 2020, we worked with the cooperative network, particularly with Avantis and Unifrontières, to put in place our one-step business model and the new Sollio & Grains Québec Agriculture coopérative partnership to consolidate the grain marketing business and offer farmers the best possible conditions.

Our trademark was rolled out at a number of our sites across Canada, replacing Standard Nutrition Canada (SNC) in Western Canada and Atlantic Farm Services in the Maritimes. It was also adopted by the Grain Sector in Ontario and the Agronomy Company of Canada team.

Phase 1 of our grain export maritime terminal at the Port of Québec City has been completed, opening up new markets for farmers from Québec and the rest of Canada.

As for Livestock Production, we announced the acquisition of two mills and a grain centre from F. Ménard, to be operated independently. This transaction will enable Sollio Agriculture to serve clients from a variety of market segments, thereby strengthening its footprint in Québec.

A number of technological projects supported Sollio Agriculture's strategic objectives. The new ERP was delivered to SNC and Finance for all Sollio Agriculture sectors. AgConnexion currently has 35 retail partners and over 13,000 connected farms benefiting from the platform's various new features and enhancements.

While Sollio Agriculture has started its strategic planning for 2025, our orientations are driven by the business context which dictates that we develop our knowledge as we optimize our operations.

The social context is also clear: we need to listen more closely to consumers and more deeply embed the principles of sustainable development in our practices. This will ensure that our agricultural expertise becomes an asset to be showcased.

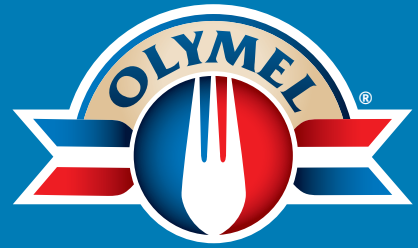
As a caring organization, Sollio Agriculture will be kept busy by the challenge of positioning itself in the coming years as a partner to farmers to promote agricultural outputs as well as supply them with inputs, thereby contributing to the prosperity of farming families.



Sébastien Léveillé, agr., MBA
Chief Executive Officer

Our Distribution Network





Feeding the world

A division of Sollio Cooperative Group



Management Team

PAUL BEAUCHAMP
First Vice-President

YANICK GERVAIS
Senior Vice-President, Operations, Pork and Poultry

RICHARD DAVIES
Executive Vice-President, Sales and Marketing

YVAN BRODEUR
Vice-President, Pork and Poultry Procurement

ROBERT BRUNET
Vice-President, Swine Production, Eastern Canada

CASEY SMIT
Vice-President, Swine Production, Western Canada

MAICO RODRIGUE
Vice-President, Operations Fresh Pork

NORMAND VALLIÈRE
Vice-President, Operations Processed Pork

MARTIN RONDEAU
Vice-President, Poultry Operations

ALAIN HÉROUX
Vice-President, Sales, Processed Meat

DANIEL RIVEST
Vice-President, Sales, Fresh Meat

LISE GAGNON
Vice-President, Marketing and R & D

SYLVAIN FOURNAISE
Vice-President, Food Safety and Technical Services

LOUIS BANVILLE
Vice-President, Human Resources

MARTIN JUNEAU
Vice-President, Finance

ALEXANDRE TARINI
Vice-President, Logistics

MARCO DUFRESNE
Vice-President, Engineering and Project Management

ANTHONY SPITERI
Vice-President, Marketing, Pinty's

LUC MÉNARD
Vice-President, OlyM, Division of Olymel



RÉJEAN NADEAU
President and Chief Executive Officer

While several operating sectors performed well, overall results for the fiscal year were down sharply from last year.

In fiscal 2019, Olymel's sales grew \$298 million from \$3.439 billion to \$3.737 billion.

Several major events beyond our control significantly impacted some of our operations, particularly in the fresh pork sector, causing a sharp decline in results for the fiscal year. One such event was China's ban on Canadian meat imports that lasted for over four months and the ongoing suspension of the Red Deer plant's export licence.

Despite these lower-than-expected results, 2019 was a year of consolidation. The integration of the operations of Pinty's (poultry) in Ontario and of Aliments Triomphe (specialty pork products) in Québec, the sustained growth in exports of refrigerated fresh pork products and the July 2019 announcement of the agreement to acquire the assets of F. Ménard, in the pork sector, represent progress that strengthens Olymel's leadership in its markets.

Hog production

The Eastern hog production sector reported a loss, although lower than in the previous fiscal year. Our subsidiary AlphaGene, which specializes in the development and performance of swine genetics, continued its insemination activities in the West, significantly increasing its sales volume in the Ontario market. Fiscal 2019 also saw the start up of a fourth breeding facility as part of the Fermes boréales project in Témiscamingue. When this project is completed next year, the five breeding facilities will have a total of 11,800 sows with a capacity of producing approximately 360,000 piglets annually.

The Western hog production sector recorded a loss in 2019 almost equal to that of the previous year despite the favourable impact of a weaker Canadian dollar. The loss stemmed primarily from lower livestock prices and higher grain costs.

Olymel has long demonstrated its ability to meet challenges and adapt to change, and fiscal 2019 is yet another example.

With a herd of 55,000 sows, this sector's production increased slightly with more than 1.1 million hogs delivered to the Red Deer plant, meeting 61.8% of its procurement needs. We also continued to install open gestation stalls in our hog breeding facilities in the Western sector.

Fresh pork

The Eastern fresh pork sector reported positive results for the fourth consecutive year in 2019, although down sharply from the last fiscal year. The main factors underlying the significant decline were the suspension of exports to China, and the launch of the new facilities at the Yamachiche plant which proved to be more complex than expected, leading to a significant decrease in our slaughtering capacity. The plunge in the meat margin, the increase in supply costs resulting from the application of the new pork marketing agreement and lower sales volumes also impacted results. However, 2019 saw a significant growth in refrigerated fresh pork volumes for export, particularly to Japan and South Korea, produced at the Vallée-Jonction and St-Esprit plants.

As regards to the dispute between Les Éleveurs de porcs du Québec and buyers with respect to the hog purchasing prices and the related provisions in the marketing agreement, Olymel is awaiting a decision of the Régie des marchés agricoles et alimentaires du Québec.

La Coop fédérée and its Olymel and Sollio Agriculture divisions announced in July 2019 the acquisition of F. Ménard, a hog business in Ange-Gardien. Sollio Agriculture acquired the assets of the animal feed unit while Olymel took over all the assets of the hog operations. This transaction, green-lighted by the Competition Bureau in November 2019, mainly covers a slaughtering and butchering plant, two processing plants and production facilities accounting for 15% of total hog production in Québec. In 2020, Olymel will be proud to welcome the 1,200 employees of this reputed family business.

In 2019, the Western fresh pork sector recorded improved results for the fifth successive year despite the suspension of the Red Deer plant's export licence for China. This solid performance was driven primarily by a higher meat margin stemming from the increase in slaughtering volume and a greater share of value-added products.

In 2020, China's pork needs are expected to greatly influence world demand owing to a significant drop in Chinese production capacity following the ravages of the African swine fever in that country. This situation could create volatility and upward pressure on prices. The market should continue to account for the lion's share of Olymel's exports.

Processed pork

The processed pork sector generated better-than-expected positive results. The lower volume was offset by the higher meat margin driven by a favourable client mix and an increase in the selling price that outweighed the higher raw material costs. Given the scarcity of labour, the sector had to overcome a significant challenge in workforce management to maintain facilities at maximum production capacity.

For 2019, the bacon sector reported positive results but lower than in the prior fiscal year despite higher volumes. The underperformance was attributable to a lower meat margin stemming from an unfavourable client mix and higher labour costs. The fresh sausage sector also generated positive results, up from last fiscal year. The restructuring of Aliments Triomphe's operations required the closure of the Vanier plant in Québec City in February 2019 and the transfer of the manufacturing of Bilopage products to the Blainville plant in the Montréal region.





Olymel listens to its customers and consumers, and is committed to continuously improve its processes and performance.



Labour scarcity remains a central challenge for Olymel and requires priority actions in 2020 including simplifying recruitment lead times, promoting employment in regions and reviewing our models for recruiting and retaining personnel.

Fresh and processed poultry

The primary poultry processing sector generated positive results, although down sharply from fiscal 2019 performance, despite higher volumes. This underperformance was attributable to a lower meat margin resulting from higher supply costs. Following sustained annual growth in Canadian poultry production over the past five years, fiscal 2019 saw a downturn in the market, causing an imbalance between supply and demand which put downward pressure on prices.

In 2019, the processed poultry sector showed a loss higher than in the prior fiscal year. The lower meat margin owing to higher raw material costs was compounded by a significant writedown of the DSI trimmings. The integration of Pinty's Delicious Foods operations also contributed to this loss following the measures taken to manage a *listeria* episode in the summer of 2018. The sector will need to focus on improving meat performance, supporting selling prices, developing national and private brands and continuing with Pinty's integration.

Despite an improved meat margin, the turkey sector posted a loss slightly higher than in the previous fiscal year. Declining sales volumes recorded in previous fiscal years persisted in 2019 as consumption trends for entire turkeys plunged again. On the upside, demand for further processed turkeys, boned cuts and boneless cuts for the retail market is growing, but processors' profitability is declining. Significant reductions in turkey production are expected in Canada in 2020.

Growth and consolidation

Olymel has long demonstrated its ability to meet challenges and adapt to change, and fiscal 2019 is yet another example. In 2020, Olymel will continue to operate in an unpredictable global environment with frequent volatile market conditions, the presence of threats such as African swine fever, and intense competition, particularly from the United States. However, the partnerships, investments, acquisitions and the restructuring of the past few years allow us to look to the future with confidence and focus on our strategic targets. If Canada remains free of swine fever, the resumption of pork exports to China bodes well for 2020.

Accelerating our pace of growth and managing the various challenges posed by the markets is mobilizing the energy of all our employees, those with greater seniority as well as our more recent hires. I cannot thank them enough for their commitment, without which our success would be compromised.

Olymel listens to its customers and consumers, and is committed to continuously improve its processes and performance. In 2019, we carried out more R&D to reduce the list of ingredients and offer products without artificial preservatives. Our products can then be integrated into a healthy and balanced diet. Our efforts to remain a leader in our field also apply to environmental protection, and consists in investing significant sums to reduce greenhouse gas emissions from our plants. Olymel's leadership is also working on improving the effectiveness of quality control in our facilities by implementing

Our Brands







Brands have further committed to Olymel’s mission to feed the world by supporting organizations that help alleviate hunger across the country.

In 2019, we carried out more R&D to reduce the list of ingredients and offer products without artificial preservatives.

a state-of-the-art, paperless sanitation control system. We also demonstrated our leadership in the area of animal welfare by installing CO₂ stunning systems in all of our slaughtering plants and fitting open stalls in our swine breeding facilities.

In the past fiscal year, Olymel received the Prix Mercure Employeur de l’année 2019 Manuvie at the Mercuriades awards gala and won the Grand Prix Créateur d’emplois et de prospérité du Québec award, for the second consecutive year. These recognitions remind us of the current challenge of labour scarcity creating labour market competition. This challenge remains a central issue for our rapidly growing business. Simplifying recruitment lead times, promoting employment in regions and completing the review that began this year, of our models for attracting, recruiting, training and retaining personnel will remain priority actions for 2020.



In conclusion, I would like to extend my thanks to all of my colleagues, members of Olymel’s Corporate Governance Committee for their dedication and commitment to our success. I’m also grateful to our President Ghislain Gervais and all the members of the Board of Directors for their support and advice so invaluable to our development.

Réjean Nadeau
President and Chief Executive Officer



Management Team

MARY CHRONOPOULOS

Vice-President, Finance and Operations

BRUNO BALDESSARI

Vice-President, LBM Purchases and Sales

MARTIN MÉNARD

Vice-President, Hardware and Imports

SYLVIE TARDIF

Vice-President, Operations and Logistics

MARTIN LECOMTE

Vice-President, Retail

MARC GAUTHIER

Vice-President, Human Resources

PIERRE NOLET

Vice-President, Business Development

JONATHAN GENDREAU

Vice-President, Marketing and Digital Strategy

JEAN LAGACÉ

Vice-President, Information Technology

STÉPHANIE COUTURIER

Vice-President, Communications and Corporate Social Responsibility



PASCAL HOULE, CPA, CMA
Chief Executive Officer

Fiscal 2019 was highlighted by BMR Group's intention to establish itself as a forward-looking brand unafraid to explore new business practices and set itself apart.

The retail division sales reached \$947.5 million compared with \$939.9 million in the prior fiscal year, a slight but very satisfying increase in a year marked by a sharp fall in lumber and building material prices, a late spring and the sale of corporate stores to affiliated dealers.

Additional revenues, generated by our entry into new markets following the acquisitions made combined with higher same store sales enable us to paint a positive picture for fiscal 2019.

Forging a new path... our way!

In February, our group took the bold step of acquiring a minority interest in Équipements d'érablière CDL, a Québec business, which has recorded high growth in both Québec and Canada. It manufactures and distributes equipment used in processing maple products.

BMR made another bold acquisition. During the summer, it announced it had acquired units in Lefebvre & Benoit, a Québec business and a leader in the distribution of building materials to contractors for commercial buildings and

multi-unit housing in Québec and Ontario. This new alliance, unprecedented in our industry, allows BMR to position itself strategically in high growth market segments that accounted for approximately 75% of housing starts this year.

Operating in a highly competitive market that continues to consolidate, BMR Group remains on the lookout for business opportunities to differentiate itself in the eyes of independent dealers. It's in this context that the Section of independent BMR dealers of La Coop fédérée was created this year – a major advantage that allows all of our stores to integrate themselves concretely into La Coop network and enjoy the resulting benefits. This unique feature serves as a tool for retaining our current members while also giving us a competitive advantage over other brands.

Fiscal 2019 was also highlighted by the completion of numerous large-scale projects announced in 2018. Noteworthy are the construction of the first BMR Pro in Trois-Rivières, which perfectly embodies the strength of our brand segmentation concept, and the opening of a second La Shop BMR in Town of Mont Royal, which also signalled the launch of our omni-channel offer in both urban hardware stores.



The acquisition of units in Lefebvre & Benoit, a Québec business and a leader in the distribution of construction materials to contractors for commercial buildings and multi-unit housing in Québec and Ontario, positions BMR strongly in this high growth market segment.

Another year of major projects to drive growth

After taking a constructive step back, our project to implement a new information system (ERP) gathered steam again and is now entering its final phase before going live at BMR Group at the end of the next fiscal year. This critical first phase will subsequently pave the way for the transformation of in-store systems that will greatly benefit retailers and consumers.

In addition, we have a host of other projects to enhance our offering, such as our ongoing digital shift which we hope will drive online sales growth, the introduction of new omni-channel counters in our stores and the sale of building materials via our Website. We also launched a merchandising program to standardize and optimize our store offering, as well as an employer brand to promote the hiring and retention of quality employees in all BMR establishments across the country.

BMR Group will continue to bank on the growth of its network, in Québec, needless to say, but also in Ontario, a preferred market because of its large number of independent dealers. We intend to keep building on our efforts to bring more dealers into our fold which started well with the number of BMR stores in Ontario increasing to ten this year. We will also work together with our new business partners, CDL and Lefebvre & Benoit, to generate synergies and leverage our alliances.



A second urban hardware store under the La Shop BMR banner opened in spring 2019 in Town of Mont Royal.

Finally, we will undertake a new strategic planning exercise in the coming year which will set out the path for achieving BMR's new objectives for the next five years.

In conclusion, I would like to thank the BMR Group team without whom the completion of all these projects would have been impossible. Many thanks also to La Coop fédérée, the loyal partner of our ambitions. And finally, a special thank you to BMR network dealers, the ultimate source of motivation, that pushes us to surpass ourselves on a daily basis.

Pascal Houle
Chief Executive Officer

Our Brands



Sollio Cooperative Group, focused on the future.

Sollio Cooperative Group prides itself on its forward-thinking business model that has been praised for its member-focused approach, unrivalled resilience, impressive longevity and ability to build wealth all while growing stronger each and every day.







Financial position

PAUL NOISEUX, CPA, CGA
Chief Financial Officer

As at October 26, 2019, the consolidated balance sheet of La Coop fédérée showed assets totalling more than \$3.8 billion compared with \$3.2 billion as at the end of the previous fiscal year.

This growth in total assets resulted primarily from business acquisitions made in the three divisions, and significant capital investments in the Meat Division.

La Coop reported a consolidated debt/equity ratio of 33:67 at the end of fiscal 2019 compared with 31:69 at the end of the previous fiscal year.

Preferred shares, share capital, contributed surplus and reserve totalled \$1.781 billion as at fiscal year-end compared with \$1.481 billion as at the end of fiscal 2018. These items represented 45.9% of total assets in fiscal 2019 compared with 45.4% as at the previous fiscal year-end. La Coop's reserve and contributed surplus as at October 26, 2019 amounted to \$783.1 million, representing 44% of preferred shares and equity.

Liquidity and capital resources

As at October 26, 2019, La Coop fédérée had access to the capital resources it needed through agreements with Canadian financial institutions. The agreement with a syndicate of financial institutions consists of a \$1 billion overall credit facility that could increase to \$1.350 billion following the major business acquisition in progress. Also, an additional \$250 million was made available under an accordion feature. The maturity date was set for June 2023 following an amendment to the agreement with the banking syndicate entered into in August

2019. Drawdowns amounted to \$433.2 million at the end of fiscal 2019 compared with \$466.8 million in fiscal 2018.

La Coop has other borrowing arrangements and mortgages payable, including a balance of purchase price, repayable in annual instalments of \$20 million. In addition, La Coop has term credits: a fixed-rate \$100 million credit repayable in seven annual instalments starting in November 2023; a 6.5% fixed-rate \$25 million credit, repayable in December 2019; a variable-interest rate \$200 million credit, repayable in June 2020 and several credits of subsidiaries for a total amount of \$30.3 million at fixed and variable interest rates and repayable in monthly instalments maturing between 2032 and 2039. Lastly, La Coop has the option of drawing on a variable-rate \$200 million temporary loan, for a maximum term of one year, to finance a major business acquisition in progress.

The credit facility and the term credits are not encumbered by any hypothec or other guarantee except for the \$20 million balance of purchase price payable and \$30.3 million term credits.

To reduce its borrowing requirements, La Coop manages working capital prudently and determines its capital investment capacity based on cash flows from each of its divisions. For each quarter of fiscal 2019, La Coop met its financial obligations and complied with the financial covenants set out in its financing agreements.



Risks and uncertainties

La Coop's management and its divisions are responsible for rigorous risk management by identifying risks and determining the appropriate mitigating actions.

In the course of business, La Coop fédérée and its divisions (La Coop) are exposed to risks that could adversely affect the achievement of its objectives, reputation and financial position.

Competition and competitiveness risks

La Coop operates in the agricultural, agri-food and retail industries with a presence in dynamic and competitive regional, national and international markets. Industry consolidation in recent years and the entry of new players have heightened competition for La Coop. Market trends, changes in consumer habits and new technologies all have an impact on its financial performance and market shares. La Coop must keep pace with market developments and innovate in developing new products and services. Agile operations, optimized costs and an extended value chain are key assets in meeting this challenge.

Human resources risks

La Coop's success is built on the hard work and skills of its employees. It must attract, engage, train and retain talent with the required skills, while providing fair and competitive compensation and employee benefits. Training and professional development programs are offered at all levels.

La Coop makes every effort to maintain positive labour relations. La Coop develops succession management plans for better human resource planning. Preventive measures are implemented to ensure employee health and safety.

Growth risks

To be a leader in its business segments, La Coop continues to drive growth through acquisitions and strategic partnerships. The success of this strategy is dependent on La Coop's capacity to identify strategic acquisitions, determine fair value, deploy the resources required

to integrate acquisitions and achieve the expected synergies, improvements and benefits to generate target returns. The divisions make every effort to successfully integrate the acquired businesses' operations to preserve their wealth generation capacity and extend the value chain.

Financial strategy risks

La Coop has increased its debt level over the past year to complete acquisitions, forge strategic partnerships and make capital investments. La Coop periodically assesses its debt level and future needs and closely monitors the terms and requirements of these lenders.

Supply risks

Supplier consolidation in recent years has limited supply sources. La Coop focuses on maintaining solid and long-lasting relationships with its suppliers to secure



its supply chain, preserve volumes and meet quality standards and supply lead times. La Coop invests in and strives toward greater integration and building a network of partners to achieve strategic objectives.

Market and international trade risks

La Coop does business with clients and suppliers in many countries and faces risks inherent in the international nature of its business. Macroeconomic conditions are volatile and cyclical; regulatory or policy changes that affect access to certain markets may hamper the achievement of the organization's objectives.

Diversifying its business reduces its exposure to market fluctuations. Financial risk management policies have been adopted to limit exposure to the risk of significant losses and ensure effective financial asset management. The impact of supply prices and costs is offset by market intelligence gathering and production cost controls.

Product risks

La Coop is exposed to food safety risks and defective raw materials and finished goods in the meat and agricultural sectors. La Coop complies with government requirements by applying strict procedures and controls, while maintaining accreditations to ensure food safety.

Livestock health and well-being risks

Livestock contamination and epidemics are significant risk factors. Epidemics can jeopardize livestock production and the meat processing plant supply chain. Canada is still free of African swine fever, which, while not a risk to humans, did spread dramatically in 2019. La Coop is working closely with industry and governments to protect livestock operations from this virus. Animal well-being has always been a priority; livestock must not be subject to abuse or ill treatment that could be detrimental to their health.

Legal, regulatory and compliance risks

La Coop is subject to laws, regulations and standards pertaining, in particular, to the environment, workplace health and safety, intellectual property, privacy and taxation. As a responsible corporate citizen, La Coop takes the necessary actions to comply with laws, regulations and standards. La Coop is also bound by international trade agreements governing its business. It closely monitors the adoption of new rules to anticipate any impacts.

Information technology risks

La Coop depends on various IT systems that are key to its operations. It is exposed

to IT security risks, including cyber attacks, which could compromise system availability and integrity, and data privacy. La Coop deploys resources to improve and increase the efficiency of its systems, tools and methods. An information security employee awareness and training program is in place.

Environmental and climate change risks

Climate change is impacting the supply chain and affecting agriculture and agri food operations. La Coop implements measures to reduce its environmental footprint and risks arising from its operations. Its environmental policy ensures compliance with government regulatory requirements and best practices. La Coop monitors legislative and regulatory developments, while demonstrating social responsibility through its actions to protect the environment and its commitment to sustainable development.



Our cooperative heritage

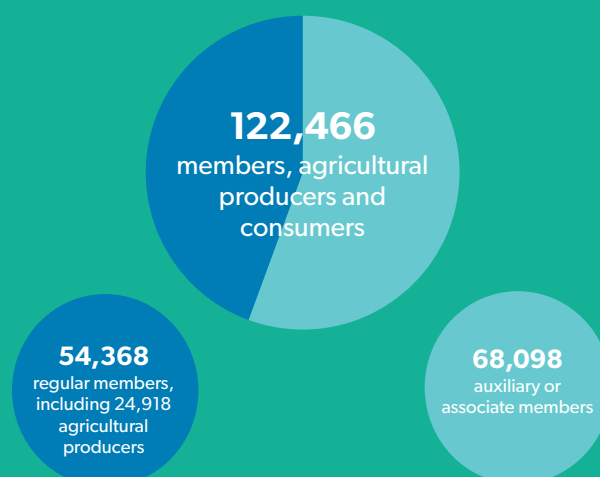
La Coop fédérée (“La Coop”) is proud of its cooperative origins. Deeply rooted across Canada, La Coop has evolved seamlessly with a focus on member services and helping to build community. Its approach is straightforward and based on the seven internationally recognized cooperative principles.

PRINCIPLE No.1 — Voluntary and open membership

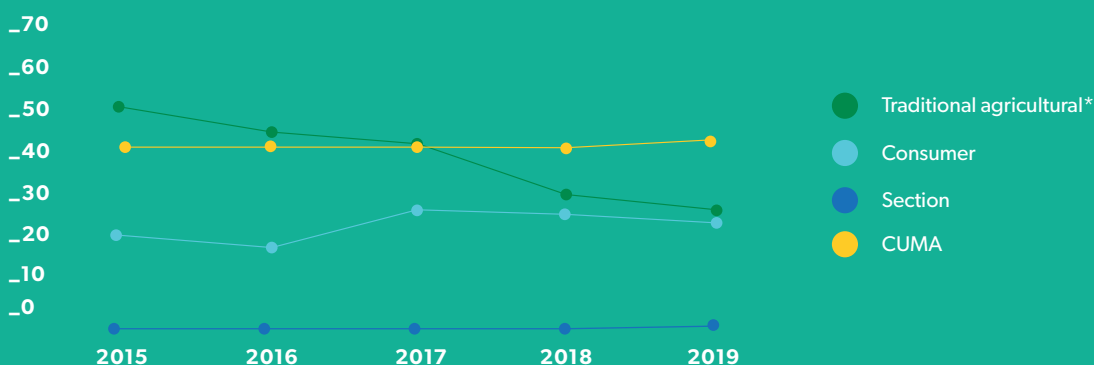
Cooperatives become members of La Coop on a voluntary basis and work with it to form the greater La Coop network.

At year-end, La Coop members included 26 traditional agricultural cooperatives, 24 consumer cooperatives and 2 sections as regular members, and 43 agricultural equipment cooperatives (“CUMA”) as auxiliary members. One new section was created to include 61 independent BMR Group hardware stores.

Network cooperatives comprised some 120,000 voluntary members.



Changes in the number of member cooperatives



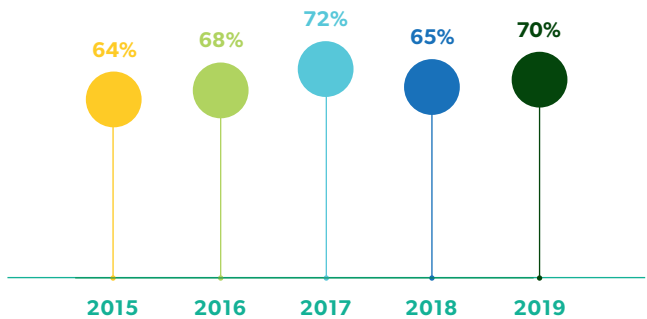
* The number of traditional agricultural cooperatives is decreasing owing to mergers carried out to implement Vision 2020.

PRINCIPLE No. 2 — Demographic member control

The agricultural members of the La Coop network take part in the deliberations of the Annual General Meeting of La Coop fédérée by delegation. The number of delegates attributed to each cooperative is based on a calculation that factors in the number of its members and its sales volume with La Coop during the year.

In 2019, 212 delegates out of a potential total of 302 exercised their rights, for a participation rate of 70%.

Delegate attendance at La Coop's Annual General meeting



At La Coop fédérée...

16 directors make up the Board of Directors of La Coop fédérée.

1 seat is reserved for a female representative.

1 seat is reserved for a special purpose or consumer cooperative.

Across the La Coop fédérée network...

439 directors serve on boards of directors:

89 women

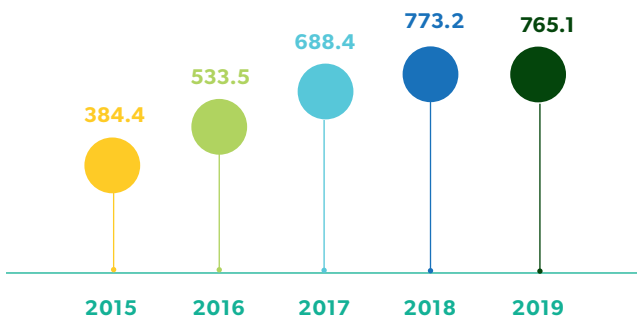
61 young people (under 35)

PRINCIPLE No. 3 — Member economic participation

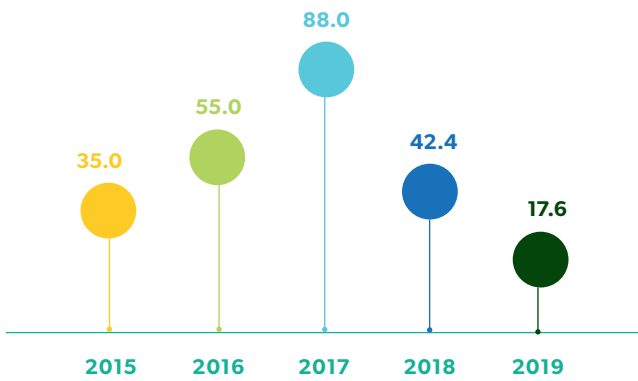
The cooperatives contribute equitably to La Coop fédérée’s capital, holding \$314.8 million in La Coop fédérée shares and \$765.1 million in a collective reserve.

During the year, La Coop fédérée distributed \$17.6 million in patronage refunds to cooperatives and paid a \$2.4 million dividend to the Cooperative Pork Chain.

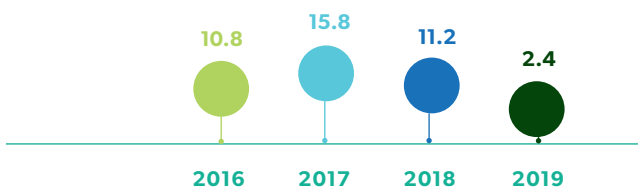
Statement of collective reserve - \$M



Patronage refunds distributed to member cooperatives - \$M



Dividends paid to the Cooperative Pork Chain - \$M



PRINCIPLE No. 4 — Autonomy and independence

La Coop fédérée is an autonomous organization, under the control of member cooperatives.

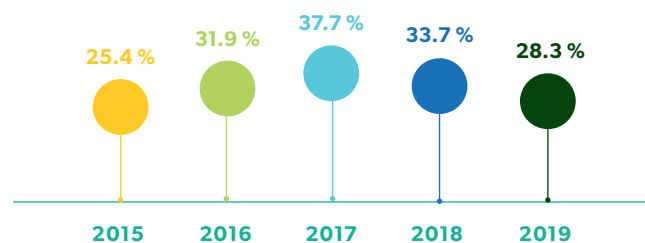
La Coop fédérée ensures its independence from lenders by maintaining conservative financial ratios.

La Coop fédérée promotes sound governance practices, most notably by separating the positions of President and General Manager, fostering directors' independence from management and pursuing sustainable results.

La Coop fédérée also recognizes the autonomy and independence of its member cooperatives.

\$1.775 M: equity of La Coop fédérée.

Ratio of members' equity to assets



\$38,4 M: earnings attributable to members transferred to La Coop fédérée's collective reserve in 2019.

PRINCIPLE No. 5 — Education, training and information

Personal and collective development is a key component of the *Working Alliance* which sets a range of reciprocal commitments between employees, directors and the organization. Accordingly, La Coop fédérée and its subsidiaries contribute to talent development through annual investments of nearly \$11 million. More specifically, La Coop fédérée's investments in training represent 1.63% of the payroll of the parent company and Sollio Agriculture, 2.46% of the payroll of Olymel L.P. and 1.30% of the payroll of BMR Group.

In addition, a host of training courses are offered to aspiring agricultural producers to help prepare the network's leaders of tomorrow.

La Coop fédérée also strives to educate the larger public on the nature and relevance of its organization. With this aim, La Coop fédérée supports national cooperative initiatives such as Co-operative Week and Co-operative Succession Week.

210 directors of La Coop network are taking part in the training program for elected members.

20 directors of the La Coop network have earned the 3rd level Commander designation by accumulating over 100 training credits.

38 young people received support from the Fonds coopératif d'aide à la relève agricole during the year, raising total beneficiaries to 699, and gaining access to a number of free-of-charge training courses.

PRINCIPLE No. 6 — Cooperation among cooperatives

La Coop fédérée promotes inter-cooperation among its member cooperatives and is also associated with some twenty other cooperative organizations dedicated to promoting cooperation and sustainability. These groups include the Conseil québécois de la coopération et de la mutualité (CQCM), Cooperatives and Mutuals Canada (CMC), the Fondation québécoise pour l'éducation à la coopération et à la mutualité, the Société de coopération pour le développement international (SOCODEVI), Coop Carbone, the Chair in management and governance of cooperatives and mutual organizations of the Institut de recherche sur les coopératives et les mutuelles de l'Université de Sherbrooke (IRECUS) and the Centre interdisciplinaire de recherche et d'information sur les entreprises collectives (CIRIEC-Canada).



Maryse Lalonde, Director, Strategic purchasing and Administrative Services, sharing her experience during a SOCODEVI mission in Vietnam.

Since 2003, La Coop and its network have collaborated with SOCODEVI to support the development of cooperatives in underdeveloped regions.

16 countries supported

168 technical assistance missions

2 011 person-days offered

PRINCIPLE No. 7 — Concern for community

La Coop fédérée promotes sustainable development in the communities where it operates. It encourages precision farming, which maintains healthy soils by minimizing the use of synthetic products, and fosters dynamic communities by supporting organizations and events it considers worthy.

La Coop fédérée also supports its employees' contribution to community involvement by promoting and hosting the Défi Vélo La Coop. Held in the Lanaudière region in August 2019, the event was a success once again owing to the participation of 160 cyclists, 90 volunteers and some 30 valued partners. The record sum of \$305,000 was raised and distributed to local and provincial organizations.

During fiscal 2019, La Coop fédérée and its subsidiaries awarded communities \$4.4 million in donations and sponsorships.

Donations with a value of \$2.6 million were largely contributed by Olymel, which donated food products worth a total \$2.0 million, primarily to Moisson organizations.

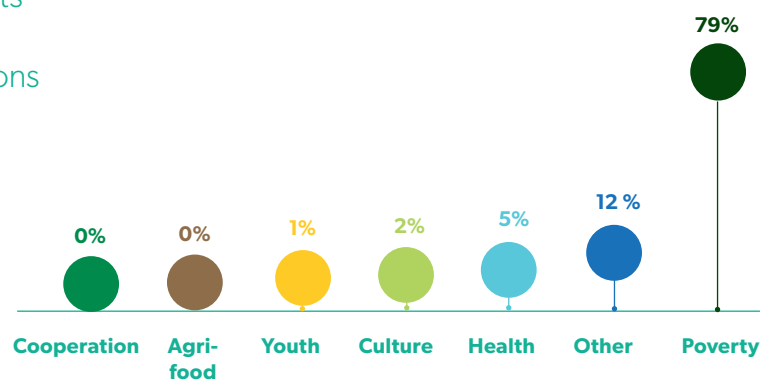
Sponsorships with a value of \$1.8 million were allocated primarily to organizations or events promoting agri-food (\$714,248), culture (\$271,648) and health (\$204,343).

\$1.5 million worth of food products was generously donated by Olymel in fiscal 2019 to Moisson organizations in Québec.

\$81 900 was donated by BMR Group to Children's Wish.

\$100 000 was donated by La Coop fédérée to the Institut Pacifique, which develops programs and services to prevent violence and psychosocial problems.

Donation destinations 2018-2019

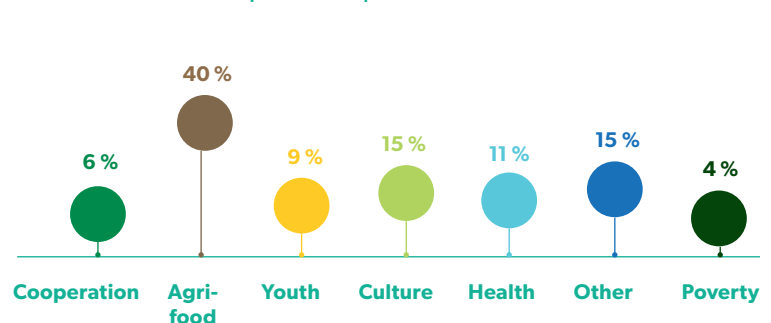


\$700 000 in sponsorships was awarded by La Coop fédérée for events promoting the agri-food industry.

\$75 000 in sponsorships was awarded by BMR Group to the Jeux du Québec.

\$75 000 in sponsorships was awarded by Sollio Agriculture to encourage aspiring producers.

Sponsorship destinations 2018-2019



An aerial photograph of a rural landscape during autumn. The foreground shows a mix of green and brown fields, with a large white barn and a smaller house visible. The middle ground is dominated by a dense forest of trees with vibrant yellow and orange foliage. In the background, more fields and a line of trees are visible under a clear sky. The overall scene is peaceful and scenic.

Sollio Cooperative Group, a united vision.

Today, Sollio Cooperative Group is Canada's largest agri-business group, with well-set roots in Québec. It is an influential agent of change in the development of sustainable food sources.



Tomorrow will be **inspiring.**

Tomorrow will be **inclusive.**

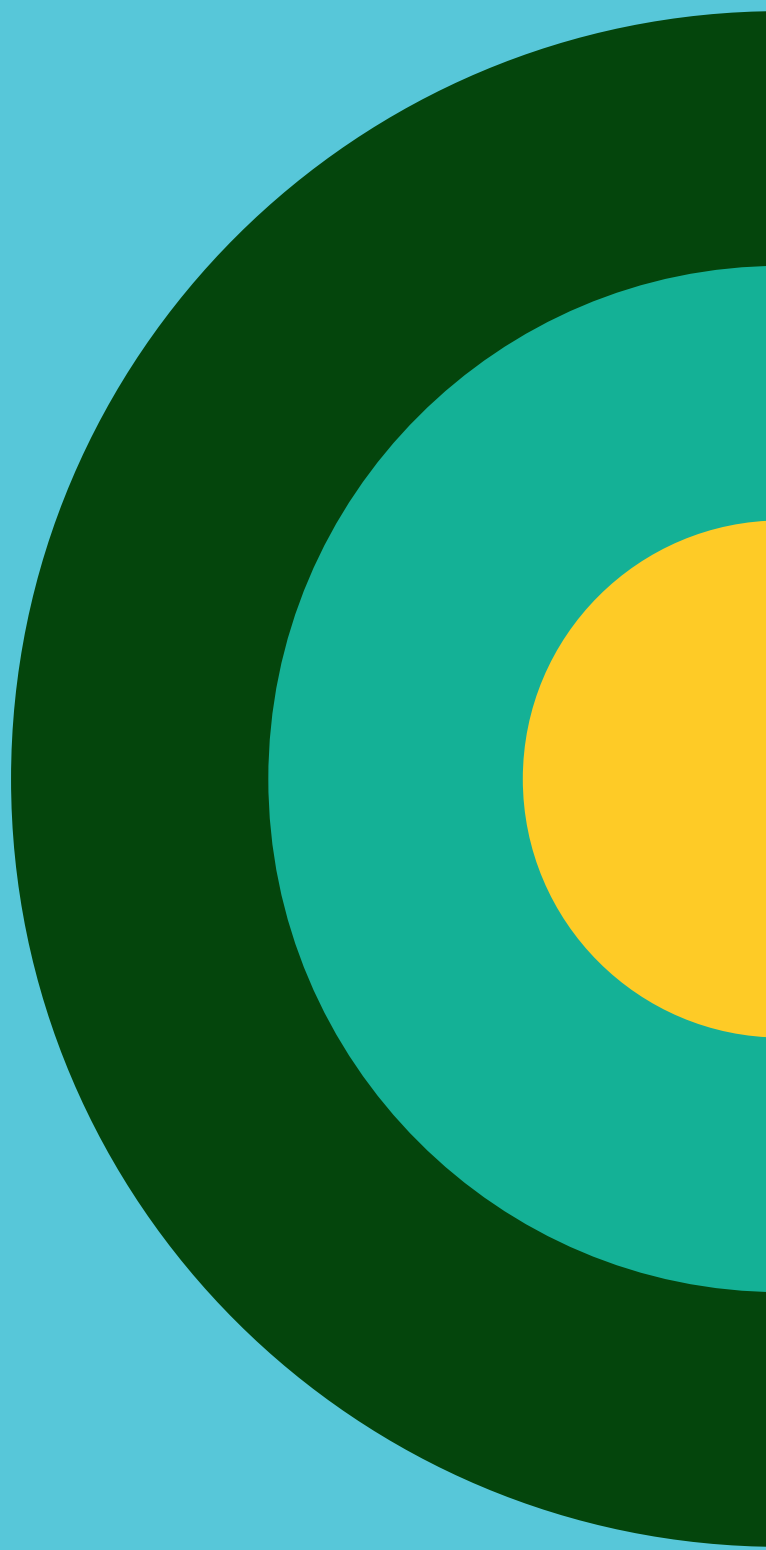
Tomorrow will be **united.**

Tomorrow will be **sustainable.**

Tomorrow will be **Sollio Cooperative Group.**

Consolidated financial statements of La Coop fédérée

As at October 26, 2019

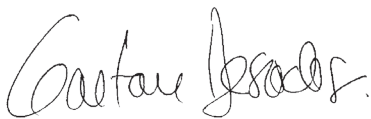


Management report

The consolidated financial statements and other financial information included in the Annual Report of La Coop fédérée [“La Coop”] for the year ended October 26, 2019 are management’s responsibility and have been approved by the Board of Directors. This responsibility involves the selection of appropriate accounting policies as well as the use of sound judgment in the establishment of reasonable and fair estimates in accordance with Canadian Accounting Standards for Private Enterprises.

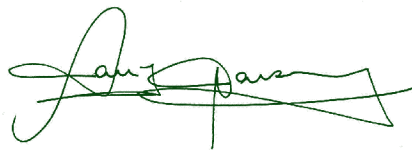
Management maintains accounting and administrative control systems designed to provide reasonable assurance regarding the accuracy, relevance and reliability of financial information, as well as the efficient and orderly conduct of La Coop’s affairs. The Internal Audit Department evaluates all its systems on an ongoing basis and regularly reports its findings and recommendations to management and the Audit Committee.

The Board of Directors ensures that management assumes its responsibilities with respect to financial reporting and the review of the consolidated financial statements and Annual Report, mainly through its Audit Committee consisting of outside directors. The Audit Committee holds regular meetings with the internal and external auditors and with management representatives to discuss the application of internal controls and reviews the consolidated financial statements and other matters related to financial reporting. The Audit Committee reports and submits its recommendations to the Board of Directors. Ernst & Young LLP, the auditors appointed by the members, have audited the consolidated financial statements and their report appearing hereinafter indicates the scope of their audit and their opinion thereon.



Gaétan DESROCHES, Agr., MBA
Chief Executive Officer

Montréal, January 15, 2020



Paul NOISEUX, CPA, CGA
Chief Financial Officer

Independent auditors' report

To the members of
La Coop fédérée

Opinion

We have audited the consolidated financial statements of **La Coop fédérée** and its subsidiaries ["La Coop"], which comprise the consolidated balance sheet as at October 26, 2019, and the consolidated statement of earnings, consolidated statement of reserve and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of La Coop as at October 26, 2019, and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of La Coop in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Canadian accounting standards for private enterprises, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing La Coop's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate La Coop or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing La Coop's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements



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Independent auditors' report

can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of La Coop's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on La Coop's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause La Coop to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within La Coop to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young S.R.L./S.E.N.C.R.L.¹

Montréal, Canada
January 15, 2020

¹ CPA auditor, CA, public accountancy permit no. A120803



A member firm of Ernst & Young Global Limited

Consolidated balance sheet

As at October 26, 2019 and October 27, 2018

<i>[in thousands of dollars]</i>	Notes	2019 \$	2018 \$
ASSETS			
Current assets			
Accounts receivable	8, 26	616,897	602,596
Inventories	9	797,542	741,945
Income taxes receivable		36,481	27,444
Prepaid expenses		21,004	20,777
Derivative financial instruments	25	36,398	29,036
Future income tax assets	7	8,762	3,617
Investments – current portion	12, 26	27,999	19,815
		1,545,083	1,445,230
Non-current assets			
Interests in joint arrangements	10	233,495	226,165
Investments in entities subject to significant influence	11	35,921	19,112
Investments	12, 26	45,373	73,023
Property, plant and equipment	13	1,211,692	998,432
Property, plant and equipment held for sale	13	3,689	21,698
Defined benefit asset	20	72,542	43,339
Goodwill		341,397	207,281
Intangible assets	14	390,967	227,189
		2,335,076	1,816,239
		3,880,159	3,261,469
LIABILITIES AND EQUITY			
Current liabilities			
Bank overdrafts		18,275	13,549
Bank borrowings	15	13,525	8,000
Accounts payable and accrued liabilities	16, 26	714,284	712,528
Deferred revenues	26	109,658	89,718
Derivative financial instruments	25	18,264	18,912
Patronage refunds payable	6	5,280	12,720
Redeemable preferred shares – current portion	21	5,436	4,495
Obligations under capital leases – current portion	17	400	423
Long-term debt – current portion	18	255,700	31,326
		1,140,822	891,671
Non-current liabilities			
Obligations under capital leases	17	1,428	1,828
Long-term debt	18	588,246	608,837
Deferred credit	19	13,194	11,721
Defined benefit liability	20	70,904	67,585
Future income tax liabilities	7	116,019	61,721
		789,791	751,692
Total liabilities		1,930,613	1,643,363
EQUITY			
Share capital	21	992,058	685,113
Contributed surplus		18,000	18,000
Reserve		765,092	773,219
Equity of La Coop		1,775,150	1,476,332
Non-controlling interests	23	174,396	141,774
Total equity		1,949,546	1,618,106
		3,880,159	3,261,469

Commitments and contingencies [note 23]
Subsequent events [note 27]

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

On behalf of the Board,


Ghislain GERVAIS, Director


Muriel DUBOIS, Director

Consolidated statement of earnings

Years ended October 26, 2019 and October 27, 2018

<i>[in thousands of dollars]</i>	Notes	2019 \$	2018 \$
Revenues	26	7,282,058	6,515,972
Operating expenses	5		
Cost of sales and selling and administrative expenses	26	7,182,500	6,346,475
Net financial expenses		51,473	22,601
		7,233,973	6,369,076
Operating income		48,085	146,896
Other income and expenses			
Share of results of joint arrangements		34,885	47,211
Share of results of entities subject to significant influence		(2,533)	(138)
Other investments	26	2,168	1,719
Net gains (losses) on disposal and remeasurement of assets	3,12,13	(3,252)	9,551
Gain arising from an insurance benefit		–	5,486
		31,268	63,829
Earnings before patronage refunds and income taxes		79,353	210,725
Patronage refunds	6	17,600	42,400
Income taxes	7	13,149	32,914
Net earnings		48,604	135,411
Attributable to:			
Members of La Coop		38,447	115,614
Non-controlling interests		10,157	19,797
		48,604	135,411

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

Consolidated statement of reserve

Years ended October 26, 2019 and October 27, 2018

<i>[in thousands of dollars]</i>	Notes	2019 \$	2018 \$
Reserve, beginning of year		773,219	688,402
Premium on redemption of non-controlling interest	4	(16,455)	–
Dividends on common shares		(10,732)	(15,313)
Dividends on preferred investment shares		(19,387)	(15,484)
Net earnings attributable to members of La Coop		38,447	115,614
Reserve, end of year		765,092	773,219

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

Consolidated statement of cash flows

Years ended October 26, 2019 and October 27, 2018

<i>[in thousands of dollars]</i>	Notes	2019 \$	2018 \$
OPERATING ACTIVITIES			
Net earnings		48,604	135,411
Non-cash items:			
Amortization	5	130,622	94,346
Net losses (gains) on disposal and remeasurement of assets		3,252	(9,551)
Future income taxes		165	11,757
Unrealized gains on derivative financial instruments		(8,010)	(5,933)
Change in defined benefits		(25,884)	14,018
Share of results of joint arrangements		(34,885)	(47,211)
Share of results of entities subject to significant influence		2,533	138
Other investment income		–	53
Patronage refunds paid in common shares		12,320	29,680
		128,717	222,708
Net change in non-cash working capital items	22	52,317	(115,914)
Increase in deferred credit	19	2,673	–
Cash flows related to operating activities		183,707	106,794
INVESTING ACTIVITIES			
Business acquisitions	3	(308,795)	(176,863)
Acquisitions of units from a subsidiary's non-controlling interest	4	(38,729)	–
Acquisitions of investments		(5,252)	(6,957)
Acquisitions of interests in joint arrangements		(1,796)	(9,145)
Acquisitions of investments in entities subject to significant influence		(18,680)	(5,676)
Proceeds from disposal of investments		12,531	1,368
Proceeds from disposal of interests in joint arrangements		227	152
Proceeds from disposal of investments in entities subject to significant influence		–	100
Dividends received from joint arrangements		31,786	29,924
Dividends received from entities subject to significant influence		674	757
Additions to property, plant and equipment		(220,725)	(217,065)
Proceeds from disposal of property, plant and equipment		45,703	4,232
Refund of deposits in trust		3,815	–
Additions to intangible assets		(14,106)	(9,790)
Cash flows related to investing activities		(513,347)	(388,963)
FINANCING ACTIVITIES			
Net change in bank borrowings		5,525	(6,559)
Repayment of obligations under capital leases		(423)	(6,244)
Proceeds from issuance of long-term debt		162,390	278,660
Repayment of long-term debt		(104,749)	(16,723)
Proceeds from issuance of preferred shares		305,025	107,070
Redemption of preferred shares		(4,558)	(5,363)
Dividends on preferred investment shares		(19,387)	(15,484)
Proceeds from issuance of common shares		132	13
Redemption of common shares		(10,399)	(33,785)
Dividends on common shares		(5,366)	(2,297)
Proceeds from issuance of units of a subsidiary to third parties		7,769	2,497
Dividends paid to non-controlling interests		(11,045)	(12,473)
Cash flows related to financing activities		324,914	289,312
Decrease (increase) in bank overdrafts		(4,726)	7,143
Bank overdrafts, beginning of year		(13,549)	(20,692)
Bank overdrafts, end of year		(18,275)	(13,549)

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

Notes to consolidated financial statements

Years ended October 26, 2019 and October 27, 2018

[All tabular amounts are in thousands of dollars.]

1. Business description

La Coop fédérée [“La Coop”] was established under a special act of the Province of Québec. It operates through three divisions: Meat, Agri-business and Retail. The Meat Division focuses on pork production and the processing and marketing of pork and poultry products. The Agri-business Division provides farmers with goods and services to support their farming operations. The Retail Division brings together distribution and marketing operations for hardware products, materials, as well as services related to these product lines.

2. Significant accounting policies

These consolidated financial statements have been prepared in accordance with Part II of the *CPA Canada Handbook – Accounting*, “Accounting Standards for Private Enterprises,” which sets out the generally accepted accounting principles [“GAAP”] for Canadian non-publicly accountable entities, and include the significant accounting policies described below.

Principles of consolidation

La Coop consolidates all the subsidiaries for which it has the continuing power to determine the strategic operating, investing and financing policies without the co-operation of others. The consolidated financial statements comprise the financial statements of La Coop fédérée and its subsidiaries, the most significant of which are as follows:

Consolidated subsidiaries

Name	Description	Interest
Agrico Canada Limited	Distribution and marketing of agricultural inputs	100%
Agrico Canada L.P.	Distribution and marketing of agricultural inputs	100%
Agronomy Company of Canada Ltd.	Distribution and marketing of agricultural inputs	100%
Sollio Agriculture L.P.	Supply of agriculture-related goods and services	100%
Standard Nutrition Inc.	Distribution and marketing of animal nutrition products	100%
Maizex Seeds Inc.	Production and marketing of seeds	75%
OntarioGrain.AG L.P.	Marketing of grains and supply of services	77.5%
Gestion BMR Inc.	Distribution and marketing of hardware products and materials	100%
Olymel L.P.	Production, processing and marketing of pork and poultry products	92.2%
Énergies RC, s.e.c	Ownership of an interest in a joint arrangement for the distribution and marketing of petroleum products	88.9%
Volailles Acadia s.e.c.	Poultry products	52.5%

Inventories

Raw materials and supply inventories are valued at the lower of cost established in accordance with the first in, first out or average cost method and net realizable value, except for grain inventories held for resale, which are measured at fair value.

Goods in process and finished goods inventories are valued at the lower of cost under the first in, first out or average cost method and net realizable value.

Live hog inventories are valued at the lower of production cost and net realizable value.

La Coop recognizes amounts received under agreements with suppliers as a reduction in the price of the suppliers’ products and presents them as a reduction of cost of sales in the consolidated statement of earnings and of related inventories in the consolidated balance sheet when it is probable that such discounts will be received.

Interests in joint arrangements

La Coop uses the equity method to account for its interests in jointly controlled enterprises. La Coop has interests in joint arrangements whose share of results exceeds 10% of earnings before the share of results of joint arrangements and income taxes.

Investments in entities subject to significant influence

La Coop uses the equity method to account for all entities in which it exercises significant influence over the strategic operating, investing and financing policies. None of La Coop’s entities subject to significant influence has a share of results that exceeds 10% of earnings before the share of results of entities subject to significant influence and income taxes.

Investments

Investments include shares and other securities of cooperatives that are measured at cost since they have no quoted market price in an active market. Notes receivable are initially recognized at fair value and subsequently at amortized cost using the effective interest method.

Property, plant and equipment

Property, building and equipment

Property, plant and equipment are initially recognized at cost or at fair value, if acquired as part of a business combination. Assets under capital leases are capitalized when substantially all the benefits and risks incident to ownership of the leased property have been transferred to La Coop. The cost of assets under capital leases represents the lower of the present value of minimum lease payments and the fair value of the leased asset.

Property, plant and equipment held for sale are measured at the lower of their carrying amount and fair value less costs to sell and are not amortized.

Notes to consolidated financial statements

Years ended October 26, 2019 and October 27, 2018

2. Significant accounting policies

Property, plant and equipment [cont'd]

Property, building and equipment [cont'd]

Property, plant and equipment are amortized on a straight-line basis over their estimated useful life or the lease term:

Pavement	6 ² / ₃ % to 10%
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
Assets under capital leases	Lease term

Breeding livestock

Breeding livestock, namely sows, are recognized at cost and amortized, if disposal value is below cost, on a straight-line basis over their estimated useful life, which is evaluated at six litters.

Intangible assets

Intangible assets subject to amortization are initially recognized at cost, or at fair value if acquired as part of a business combination, and amortized on a straight-line basis over their estimated useful life.

Trademarks

Trademarks with finite lives are amortized over periods of two to 20 years. La Coop also has trademarks with indefinite lives, which are not amortized.

Client lists

Client lists are amortized over periods of five to 21 years.

Financial support

The different types of financial support are amortized over the terms of the related agreements, which varies from five to 10 years.

Rights

Rights consist of production rights and exclusive supply rights. Production rights are not amortized since they have indefinite useful lives while exclusive supply rights are amortized over periods of five to 20 years.

Software and information technology development projects

Software and information technology development project costs are capitalized and amortized on a straight-line basis over periods of three to five years. The amortization of information technology development projects begins at project completion.

Certain software and information technology development projects are developed internally. The related costs are recognized under intangible assets and are capitalized when the asset is in the condition necessary for it to be capable of operating in the manner intended by management.

Impairment of assets

Accounts receivable and notes receivable

Accounts receivable and notes receivable are subject to continuous impairment review and are classified as impaired when, in the opinion of La Coop, there is reasonable doubt that credit-related losses have occurred taking into consideration all circumstances known at the review date, or there is reasonable doubt as to the ultimate collectibility of a portion of principal and interest. Reversals are permitted but the adjusted carrying amount of the financial asset shall be no greater than the amount that would have been reported at the date of the reversal had the impairment not been recognized previously.

Investments, interests in joint arrangements and investments in entities subject to significant influence

Investments in cooperatives, interests in joint arrangements and investments in entities subject to significant influence are written down if analyses of entities' financial reports indicate that they are experiencing financial difficulties. At the end of each period, La Coop assesses each investment for any indications of impairment. Reversals are permitted but the adjusted carrying amount of the financial asset shall be no greater than the amount that would have been reported at the date of the reversal had the impairment not been recognized previously.

Long-lived assets subject to amortization

Property, plant and equipment and intangible assets subject to amortization 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 to be held and used with its future net undiscounted cash flows expected from use together with its residual value. If the asset is considered to be impaired, the impairment charge is measured by the amount by which the carrying amount of the asset exceeds its fair value generally determined on a discounted cash flow basis. 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. An impairment loss may not be reversed if the fair value of the long-lived asset in question subsequently increases.

Intangible assets with indefinite lives

Production rights and certain trademarks must be reviewed for impairment if events or changes in circumstances indicate that their carrying amount may not be recoverable. The impairment charge is calculated by comparing the carrying amount of the intangible asset with its fair value generally determined on a discounted cash flow basis. When the carrying amount of an intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to such excess. An impairment loss may not be reversed if the fair value of the intangible asset in question subsequently increases.

Notes to consolidated financial statements

Years ended October 26, 2019 and October 27, 2018

2. Significant accounting policies

Impairment of assets [cont'd]

Goodwill

Goodwill represents the excess of the purchase price over the fair value of net assets acquired as part of a business combination. Goodwill is not amortized but is tested for impairment if events or changes in circumstances indicate a possible impairment. The impairment test consists in comparing the carrying amount of the reporting unit to which goodwill is assigned with its fair value. When the carrying amount of a reporting unit exceeds its fair value, a goodwill impairment loss is recognized in an amount that may not exceed the carrying amount of goodwill related to the reporting unit. 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. Impairment losses on goodwill may not be reversed.

Deferred revenues

Deferred revenues are amounts invoiced for goods whose ownership has not yet been transferred to the buyer.

Revenue recognition

Revenues are recognized when the significant risks and rewards of ownership of the goods sold are transferred to the buyer, revenue can be reasonably estimated and collection is reasonably assured. This usually coincides with the time of receipt of goods by the buyer. Revenues correspond to the amount of consideration received net of discounts and returns.

Research and development

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

Foreign currency translation

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 of exchange 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 recognized in consolidated earnings.

Employee future benefits

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

The cost of pension and other post-retirement benefits earned by employees is determined using actuarial calculations based on the most recent funding valuations. The calculations are based on long-term assumptions relating to salary escalation, retirement and termination ages of employees and estimated health care cost growth.

Remeasurements of the net defined benefit asset or liability are recognized immediately in the consolidated statement of earnings. Remeasurements comprise the difference between the actual return on plan assets and the return calculated using the discount rate used to determine the interest cost of the plans, actuarial gains and losses and gains and losses arising from settlements and curtailments.

Plan assets are measured at fair value. Plan obligations are discounted using the long-term return on plan assets determined on an actuarial basis.

La Coop also offers other post-retirement benefits to certain retired employees. Other post-retirement benefits offered by La Coop to its retired employees include health care benefits and life insurance. The cost of other post-retirement benefits is calculated using the same accounting policies as used for defined benefit pension plans. The related expenses are settled by La Coop as they become due.

The cost of defined benefit pension plans and the cost of other post-retirement benefits are recognized in the consolidated statement of earnings under cost of sales and selling and administrative expenses.

Patronage refunds

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

Notes to consolidated financial statements

Years ended October 26, 2019 and October 27, 2018

2. Significant accounting policies

Financial instruments

La Coop initially measures its financial assets and liabilities at fair value, except for related party transactions, which are accounted for at the carrying amount or at the exchange amount depending on the circumstances.

Subsequently, La Coop measures its financial instruments as follows:

Accounts receivable and notes receivable are measured at amortized cost using the effective interest method. Bank overdrafts, bank borrowings, accounts payable and accrued liabilities and patronage refunds payable are measured at amortized cost.

Shares and other securities of cooperatives included under investments are measured at cost since they have no quoted price in an active market.

Preferred shares and long-term debt are measured at amortized cost using the effective interest method.

Interest income and expense from financial assets and liabilities are recognized under financial expenses in the consolidated statement of earnings. Gains and losses related to financial assets and liabilities are recognized under cost of sales and selling and administrative expenses. When related to disposals, these gains and losses are recognized under net gains (losses) on disposal and remeasurement of assets.

Derivative financial instruments

In accordance with its risk management strategy, La Coop uses derivative financial instruments to manage foreign exchange risk, and risks related to purchase and selling prices for certain commodities, as well as debt-related foreign exchange risk. Derivative financial instruments consist of foreign exchange contracts, currency swaps and commodity forward contracts, swaps and options. La Coop does not use derivative financial instruments for speculative purposes.

Hedge accounting is used where La Coop documents its cash flow hedging relationships and risk management objectives and strategy, and demonstrates that they are highly effective at hedge inception and throughout the hedge period.

The derivative financial instruments that La Coop chose to designate as cash flow hedging items are not recognized before their maturity. Gains and losses arising from the hedging item are recognized when the hedged item affects consolidated earnings. The gain or loss portion of a hedging

item is recorded as an adjustment to the revenues or to the expenses of the related hedged item. Realized gains and losses on these contracts are presented in cost of sales and selling and administrative expenses.

Foreign exchange contracts

La Coop often sells and buys commodities outside Canada, mainly in US dollars, Japanese yen, Australian dollars and euros. To protect these transactions against foreign exchange fluctuations, La Coop uses foreign exchange contracts.

Currency swaps – debt

La Coop draws down a portion of its credit facility in the form of LIBOR advances and uses currency swaps to manage the risk of changes in foreign exchange rates for this debt.

A hedging relationship is terminated if the hedge ceases to be effective, and the loss or gain on the related derivative financial instrument is recognized in a separate component of equity until the future transaction occurs, at which time the loss or gain is removed from equity and recognized as an adjustment to the carrying amount of the hedged item or recorded in the consolidated statement of earnings.

Derivative financial instruments that are not designated as hedges are measured at fair value, which is the approximate amount that might be obtained in settlement of such instruments at prevailing market rates. Gains and losses resulting from remeasurement at year-end are recognized in the consolidated statement of earnings.

Commodity forward contracts and swaps

La Coop often buys and sells grain, sells hogs and buys fertilizer to cover certain identifiable future price risks for these commodities. La Coop does not use hedge accounting for commodity forward contracts and swaps. Therefore, gains and losses on these contracts, realized or not, are presented in cost of sales and selling and administrative expenses.

Commodity options

La Coop also uses options to manage commodity price risk. The options give La Coop the right but not the obligation to exercise them at a predetermined price before the option expiry date. La Coop does not use hedge accounting for commodity options. Therefore, gains and losses on these contracts, realized or not, are presented in cost of sales and selling and administrative expenses.

Notes to consolidated financial statements

Years ended October 26, 2019 and October 27, 2018

2. Significant accounting policies

Business combinations

Business combinations are accounted for by applying the acquisition method. Under this method, the assets acquired and liabilities assumed are measured at their fair values at the date of acquisition and the excess of the purchase price over the fair value of the net assets acquired is recorded as goodwill. If the fair value of the net assets acquired exceeds the consideration paid, the excess is recognized immediately as net gains on remeasurement of assets in the consolidated statement of earnings.

Acquisition-related costs are recognized as financial expenses as incurred.

The results of businesses acquired are included in the consolidated financial statements as of their respective date of acquisition.

When options to purchase all or part of the non-acquired shares of the target company are held by La Coop or options to sell the same shares are held by third parties, La Coop recognizes a liability when such options are exercised.

La Coop measures non-controlling interests in acquired businesses at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

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 future income tax 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. Future income tax assets and liabilities are measured using substantively enacted income tax rates applicable in the years in which the temporary differences are expected to reverse. A valuation allowance is recorded to reduce the carrying amount of future 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 26, 2019 and October 27, 2018 included 52 weeks.

3. Business acquisitions

Meat Division

On November 26, 2018, La Coop acquired, via its subsidiary Olymel L.P., 100% of the shares of a business operating in the meat sector for a consideration of \$225,726,000, net of cash acquired.

The total value of net assets acquired and the consideration paid were as follows:

	Total \$
Net assets acquired	
Current assets	32,230
Property, plant and equipment	47,364
Intangible assets	134,170
Goodwill	92,984
Total assets acquired	306,748
Current liabilities	18,975
Long-term debt	20,065
Non-current future income tax liabilities	41,982
Total liabilities assumed	81,022
Total net assets acquired	225,726
Consideration paid	
Cash consideration, net of cash acquired	225,726

Notes to consolidated financial statements

Years ended October 26, 2019 and October 27, 2018

3. Business acquisitions

Meat Division [cont'd]

On June 26, 2018, La Coop acquired, via its subsidiary Olymel L.P., certain assets of a meat sector business for a consideration of \$65,281,000.

The total value of net assets acquired and the consideration paid were as follows:

	Total \$
Net assets acquired	
Current assets	10,923
Property, plant and equipment	28,860
Intangible assets	15,600
Goodwill	10,922
Total assets acquired	66,305
Total current liabilities assumed	1,024
Total net assets acquired	65,281
Consideration paid	
Cash	65,281

Agri-business Division

On November 19, 2018, La Coop and two of its subsidiaries acquired the assets and assumed certain liabilities of a business operating in the agriculture sector for a consideration of \$35,521,000.

The gain on acquisition is presented as net gains on remeasurement of assets in the consolidated statement of earnings.

The total value of net assets acquired and the consideration paid were as follows:

	Total \$
Net assets acquired	
Current assets	23,241
Interest in a joint arrangement	5,987
Property, plant and equipment	9,466
Property, plant and equipment held for sale	1,584
Total assets acquired	40,278
Total current liabilities assumed	1,342
Total net assets acquired	38,936
Consideration	
Cash	35,521
Gain on acquisition	3,415
Total	38,936

On November 19, 2018, La Coop repaid the debts of the joint arrangement acquired in exchange for a note receivable in the amount of \$39,853,000.

On November 30, 2018, a subsidiary of La Coop resold current assets acquired as part of this business combination at their carrying amount to joint arrangements in which it has interests for a consideration of \$13,924,000. No gains or losses were recognized following this transaction.

Following a reorganization of the activities of the acquired joint arrangement, the note receivable by La Coop was transferred to two entities: an amount of \$14,166,000 was assumed by another joint arrangement and an amount of \$25,687,000 was assumed by a subsidiary. Accordingly, on November 30, 2018 and September 4, 2019, the joint arrangement in which an interest was acquired as part of this transaction sold to a La Coop subsidiary current assets at their carrying amount of \$37,750,000 and long-term assets in the amount of \$8,313,000. In exchange, a note payable to La Coop for the amount of \$25,687,000 and current liabilities with a carrying amount of \$13,529,000 were assumed and shares of this subsidiary were issued for a value of \$6,847,000. The issuance of shares generated a non-controlling interest for La Coop in the amount of \$3,424,000. On the same dates, the joint arrangement in which an interest was acquired as part of this transaction sold assets to another joint arrangement of La Coop at their carrying amount in exchange for the assumption of the \$14,166,000 note.

Notes to consolidated financial statements

Years ended October 26, 2019 and October 27, 2018

3. Business acquisitions

Agri-business Division [cont'd]

On April 20, 2018, La Coop acquired 100% of the shares of a business operating in the agriculture sector for a consideration of \$87,669,000, net of cash acquired.

The total value of net assets acquired and the consideration paid were as follows:

	Total \$
Net assets acquired	
Current assets	14,344
Property, plant and equipment	10,799
Intangible assets	37,975
Goodwill	42,723
Other non-current assets	134
Total assets acquired	105,975
Current liabilities	6,637
Long-term debt	819
Non-current future income tax liabilities	10,850
Total liabilities assumed	18,306
Total net assets acquired	87,669
Consideration paid	
Cash consideration, net of cash acquired	87,669

On July 4, 2018, La Coop acquired 75% of the shares of a business operating in the agriculture sector for a consideration of \$19,628,000, net of cash acquired.

The total value of net assets acquired and the consideration paid were as follows:

	Total \$
Net assets acquired	
Current assets	8,370
Property, plant and equipment	5,165
Intangible assets	9,000
Goodwill	16,207
Total assets acquired	38,742
Current liabilities	7,364
Non-current future income tax liabilities	3,283
Total liabilities assumed	10,647
Total net assets acquired	28,095
Consideration	
Cash consideration, net of cash acquired	19,628
Non-controlling interest	8,467
Total	28,095

On September 4, 2018, La Coop acquired 50% of the shares of a business operating in the agriculture sector, in which it already held a 50% interest, for a consideration of \$1,500,000, thus acquiring effective control on the acquisition date of September 4, 2018.

Notes to consolidated financial statements

Years ended October 26, 2019 and October 27, 2018

3. Business acquisitions

Retail division

On September 1, 2019, La Coop acquired, via its subsidiary, a 55% interest in a business operating in the distribution and marketing of construction materials for a consideration of \$47,548,000, net of cash acquired.

The total value of net assets acquired and the consideration paid were as follows:

	Total \$
Net assets acquired	
Current assets	86,638
Property, plant and equipment	11,945
Intangible assets	45,377
Goodwill	41,133
Other non-current assets	2,125
Total assets acquired	187,218
Current liabilities	26,078
Long-term debt	62,000
Non-current future income tax liabilities	7,006
Total liabilities assumed	95,084
Total net assets acquired	92,134
Consideration	
Cash consideration, net of cash acquired	47,548
Non-controlling interest	44,586
Total	92,134

The group of non-controlling shareholders holding 45% of the interests of the newly acquired business has an option to sell a portion of its interests to La Coop when the financial statements of La Coop's subsidiary for the fiscal year ending in 2021 will be approved, under the terms of the agreement. La Coop is obligated to repurchase the interests at the time when and if the option is exercised.

In addition, this same group of non-controlling shareholders has an option to sell, in or after the fiscal year ending in 2026, all or a portion of its interests to La Coop, which would be obligated to repurchase them. In the event the option is partially exercised, the repurchase of the remaining interests may be carried out over several fiscal years up to a maximum of three times.

The terms of the agreement also indicate that La Coop, via its subsidiary, has an option to purchase all or a portion of the interests, on or after October 31, 2026.

La Coop fédérée

On November 1, 2017, La Coop acquired, via its subsidiaries, an additional 11.3% interest in a business in which it already had an interest of 42.5% for a consideration of \$4,525,000, net of cash acquired. The consideration comprised an amount of \$2,785,000, net of cash, paid by La Coop and an amount of \$1,740,000 paid through an interest in a joint arrangement. La Coop thus acquired effective control of this business on the acquisition date of November 1, 2017.

The remeasurement at fair value of the interest held as at November 1, 2017 generated a gain on remeasurement of assets of \$10,406,000 presented under net gains (losses) on disposal and remeasurement of assets. This interest was already accounted for as an interest in a joint arrangement and as an investment in an entity subject to significant influence using the equity method.

Notes to consolidated financial statements

Years ended October 26, 2019 and October 27, 2018

3. Business acquisitions

La Coop fédérée [cont'd]

The total value of net assets acquired and the consideration paid were as follows:

	Total \$
Net assets acquired	
Current assets	1,476
Property, plant and equipment	8,363
Intangible assets	42,843
Goodwill	6,088
Other non-current assets	2,917
Total assets acquired	61,687
Current liabilities	802
Long-term debt	10,850
Non-current future income tax liabilities	4,334
Total liabilities assumed	15,986
Total net assets acquired	45,701
Consideration	
Cash paid by La Coop, net of cash acquired	2,785
Amount paid through an interest in a joint arrangement	1,740
Non-controlling interest	21,458
Fair value of the interest held as at November 1, 2017	19,718
Total	45,701

4. Acquisition of units from a subsidiary's non-controlling interest

On October 28, 2018, La Coop exercised its option to purchase all of the units of a group of non-controlling unitholders of its subsidiary for a total consideration of \$38,729,000. The excess of fair value of the consideration paid over the carrying amount of the non-controlling interest was recognized as a reduction of the reserve in the amount of \$16,455,000 and the non-controlling interest was reduced by \$22,274,000.

5. Operating expenses

Operating expenses include the following items:

	2019 \$	2018 \$
Cost of sales and selling and administrative expenses		
Cost of inventories	6,482,421	5,721,197
Research and development tax credits	(1,350)	(1,131)
Amortization of property, plant and equipment	100,600	76,311
Amortization of intangible assets	29,874	17,957
Amortization of transaction costs	1,348	978
Amortization of deferred credit	(1,200)	(900)
Net financial expenses		
Interest on bank borrowings	1,437	804
Interest on obligations under capital leases	81	264
Interest on long-term debt	49,675	20,837
Interest on preferred shares	1,041	955
Interest income	(2,109)	(1,237)

Notes to consolidated financial statements

Years ended October 26, 2019 and October 27, 2018

6. Patronage refunds

In accordance with the provisions of the act governing La Coop, at their January 15, 2020 meeting, the directors declared patronage refunds of \$17,600,000 to be paid from earnings for the year. They authorized the patronage refunds to be paid in the following proportions:

	2019 \$	2018 \$
Cash	5,280	12,720
Class D-1 common shares	12,320	29,680
	17,600	42,400

These consolidated financial statements reflect the directors' resolution.

7. Income taxes

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

	2019 \$	2018 \$
Current	12,984	21,157
Future	165	11,757
Income taxes	13,149	32,914

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

	2019 \$	2018 \$
Earnings before patronage refunds and income taxes	79,353	210,725
Patronage refunds	17,600	42,400
Earnings for calculation of income tax expense	61,753	168,325
Income taxes at combined federal and provincial rates of 26.63% [26.75% in 2018]	16,445	45,027
Effect of non-deductible expenses for tax purposes	2,105	2,271
Remeasurement of investments in entities subject to significant influence	3,223	(2,784)
Investments in taxable entities subject to significant influence	(8,158)	(3,599)
Earnings attributable to non-controlling interests	(2,705)	(5,296)
Other items	2,239	(2,705)
Income taxes	13,149	32,914

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

	2019 \$	2018 \$
Non-deductible provisions and reserves for tax purposes	5,163	3,460
Losses carried forward	4,047	-
Other items – net	(448)	157
Current future income tax assets	8,762	3,617
Excess of carrying amount over tax basis:		
Property, plant and equipment	(65,390)	(50,440)
Intangible assets	(58,576)	(22,135)
Investments	(5,670)	(6,523)
Losses carried forward	12,887	11,481
Employee future benefits	(671)	5,702
Other	1,401	194
Non-current future income tax liabilities	(116,019)	(61,721)

Notes to consolidated financial statements

Years ended October 26, 2019 and October 27, 2018

8. Accounts receivable

	2019 \$	2018 \$
Trade receivables	627,610	610,876
Allowance for doubtful accounts	(10,713)	(8,280)
	616,897	602,596

On September 23, 2019, a subsidiary of La Coop entered into an agreement that resulted in a disposal of a portion of the accounts receivable portfolio.

9. Inventories

Inventories are as follows:

	2019 \$	2018 \$
Inventories – Meat Division	303,024	323,508
Inventories – Agri-business Division	329,109	284,183
Inventories – Retail Division	165,409	134,254
	797,542	741,945

10. Interests in joint arrangements

	2019 \$	2018 \$
Agri-business Division – 50% and 60% interests [50% in 2018]	99,315	90,198
Meat Division – 50% and 67.7% interests	73,338	84,629
Petroleum industry company – 50% interest	60,842	51,338
	233,495	226,165

11. Investments in entities subject to significant influence

	2019 \$	2018 \$
Agri-business Division – 7.6% and 40.9% interests [7.6% and 40% in 2018]	14,731	17,548
Meat Division – 26.3% interest [20% in 2018]	2,099	748
Retail Division – 20% and 40% interests [24.5% and 33% in 2018]	19,091	816
	35,921	19,112

Retail Division

On February 18, 2019, La Coop acquired, via its Retail Division, a 40% interest in a business operating in the maple syrup industry for a consideration of \$17,215,000.

Notes to consolidated financial statements

Years ended October 26, 2019 and October 27, 2018

12. Investments

	2019 \$	2018 \$
Shares and other securities of cooperatives	13,057	13,194
Note receivable, non-interest bearing, repayable under the terms of the agreement	14,177	45,000
Note receivable, bearing interest at the prime rate plus 1%, repayable on demand	14,166	–
Other notes receivable	27,354	30,026
Note receivable, repayable and bearing interest at the rate defined under the terms of the agreement	4,618	4,618
	73,372	92,838
Investments – current portion	27,999	19,815
	45,373	73,023

In 2019, La Coop wrote down the note receivable in the amount of \$45,000,000 as at October 27, 2018. In La Coop's opinion, there is reasonable doubt as to the ultimate collectibility of a portion of principal. Accordingly, an impairment loss of \$30,823,000 was recorded and presented as net loss on the disposal and remeasurement of assets in the consolidated statement of earnings.

13. Property, plant and equipment

	2019			2018
	Cost \$	Accumulated amortization \$	Net carrying amount \$	Net carrying amount \$
Land	91,431	–	91,431	80,394
Pavement	48,468	17,185	31,283	27,975
Buildings	910,732	264,938	645,794	554,469
Machinery and equipment	1,066,358	677,810	388,548	301,277
Automotive equipment	49,490	31,354	18,136	7,902
Leasehold improvements	26,081	9,251	16,830	7,941
Breeding livestock	23,477	7,023	16,454	14,946
Assets under capital leases				
Buildings	2,596	313	2,283	2,209
Machinery and equipment	2,208	1,275	933	1,110
Automotive equipment	–	–	–	209
	2,220,841	1,009,149	1,211,692	998,432
Property, plant and equipment held for sale	–	–	3,689	21,698

On December 20, 2018, La Coop sold the building housing the head office, generating a net gain on disposal of assets of \$13,285,000. This building was presented as property, plant and equipment held for sale as at October 27, 2018.

Notes to consolidated financial statements

Years ended October 26, 2019 and October 27, 2018

14. Intangible assets

	2019			2018
	Cost \$	Accumulated amortization \$	Net carrying amount \$	Net carrying amount \$
Trademarks	122,453	11,610	110,843	58,669
Client lists	167,898	32,774	135,124	85,581
Exclusive supply rights	128,201	51,384	76,817	26,104
Production rights	44,922	–	44,922	44,172
Software and information technology development projects	40,579	18,141	22,438	12,663
Financial support	1,034	211	823	–
	505,087	114,120	390,967	227,189

15. Bank borrowings

Bank borrowings consist of subsidiaries' demand credit facilities.

For one of the subsidiaries, the demand credit facility, renewable annually, available for bank borrowings, advances, letters of credit and standby letters of credit, totalled \$17,000,000 in 2019 and 2018, subject to a maximum of \$6,000,000 in 2019 and 2018 for letters of credit and standby letters of credit. The overdraft facility, which was used in the amount of \$967,000 as at October 26, 2019 [undrawn in 2018], bearing interest at the prime rate of 3.95% in 2019 and 2018. La Coop is joint and several guarantor for all amounts owing under this agreement.

For other subsidiaries acting as joint guarantors, the revolving demand operating credit facility is renewable annually and may at no time exceed the greater of \$4,300,000 and an amount based on the accounts receivable and inventories of these subsidiaries, that is \$2,626,000 in 2019 [\$2,171,000 in 2018]. The revolving operating credit facility bears interest at the prime rate plus 0.5%, representing a rate of 4.45% in 2019 [prime rate plus 1.75%, representing 5.70% in 2018]. The facility was used in the amount of \$308,000 as at October 26, 2019 [undrawn in 2018].

Another subsidiary has an annually renewable demand loan facility, with an authorized amount of \$7,500,000 [\$5,000,000 in 2018], of which \$4,250,000 was drawn down in 2019 [\$2,000,000 in 2018], bearing interest at the prime rate plus 0.25%, representing a rate of 4.20% in 2019 and 2018. This demand loan is secured by the subsidiary's accounts receivable and inventories with a carrying amount of \$7,913,000 in 2019 [\$7,934,000 in 2018].

A subsidiary has an annually renewable demand loan facility, with an authorized amount of \$10,000,000 in 2019 [\$9,000,000 in 2018], of which \$8,000,000 was drawn down in 2019 [\$6,000,000 in 2018], bearing interest at the prime rate plus 0.25%, representing a rate of 4.20% in 2019 and 2018. This demand loan is secured by the subsidiary's accounts receivable and inventories with a carrying amount of \$13,543,000 in 2019 [\$6,902,000 in 2018].

Notes to consolidated financial statements

Years ended October 26, 2019 and October 27, 2018

16. Accounts payable and accrued liabilities

	2019 \$	2018 \$
Trade payables and accrued liabilities	704,804	698,578
Government remittances	7,860	12,533
Accrued interest on long-term debt	1,620	1,417
	714,284	712,528

17. Obligations under capital leases

	2019 \$	2018 \$
Obligation under a capital lease bearing interest at the fixed rate of 3.20%, repayable in blended monthly instalments of \$11,900, and a principal repayment of \$1,222,000 at maturity in July 2022	1,501	1,594
Obligations under capital leases bearing interest at fixed rates ranging from 1.95% to 6.93% in 2019 [from 1.95% to 10.65% in 2018], repayable in monthly blended instalments ranging from \$72 to \$20,736, maturing between December 2019 and June 2021	327	657
	1,828	2,251
Obligations under capital leases – current portion	400	423
	1,428	1,828

Minimum lease payments in upcoming years are as follows:

	\$
2020	400
2021	123
2022	1,305

Minimum payments of obligations under capital leases include interest totalling \$155,000.

The obligations under capital leases are secured by the underlying leased assets.

Notes to consolidated financial statements

Years ended October 26, 2019 and October 27, 2018

18. Long-term debt

	2019 \$	2018 \$
Credit facility, ¹ drawn under margin loans at the prime rate of 3.95% in 2019 and 2018, under bankers' acceptances at the rate of 4.12% [3.31% to 3.48% in 2018] and LIBOR advances at rates ranging from 3.80% to 3.90% [3.05% to 3.22% in 2018], renewable in June 2023	433,232	466,796
Term credit, ² drawn under margin loans at the prime rate of 3.95% and under bankers' acceptances at the rate of 4.10% in 2019, renewable in June 2020	200,000	–
Term credit, comprising two tranches bearing interest at the fixed rates of 5.00% and 4.64%, repayable in seven annual principal instalments of \$8,571,429 and \$5,714,286, respectively, on or after November 1, 2023	100,000	60,000
Term credits of subsidiaries, secured by immovable hypothecs on the universality of the subsidiaries' property, bearing interest at fixed rates ranging from 5.55% to 5.95% and at the prime rate plus 0.5%, representing a rate of 4.45% [4.31% to 5.91% in 2018], repayable in monthly principal instalments totalling \$179,713, maturing between June 2032 and June 2039	30,308	23,417
Term credit, bearing a fixed rate of 6.50%, repayable in full in December 2019	25,000	25,000
Note payable, bearing interest at the prime rate plus 0.75%, representing a rate of 4.70% in 2019, repayable in annual principal instalments of \$7,625,000 starting January 10, 2020	22,875	–
Balance of purchase price payable, bearing interest at the lower of 4% and the prime rate, which was 3.95% in 2019 and 2018, repayable in annual principal instalments of \$20,000,000	20,000	40,000
Mortgage loans of a subsidiary, secured by movable and immovable hypothecs, bearing interest at rates ranging from 3.80% to 3.95%, maturing between June 2027 and June 2032	8,762	9,724
Mortgage loan of a subsidiary, secured by a hypothec on a building and land of the subsidiary with a carrying amount of \$13,499,000 as at October 26, 2019 [\$14,681,000 in 2018], bearing interest at a fixed rate of 7.76%, repayable in blended monthly instalments of \$83,404, maturing in March 2023	5,045	5,630
Other borrowings, bearing interest at rates ranging from 0% to 5.20% in 2019 and 2018, maturing between December 2019 and July 2022	3,144	7,386
Mortgage loan of the real estate subsidiary, secured by movable and immovable hypothecs, bearing interest at the prime rate plus 0.25%, representing a rate of 4.20% in 2018, repaid in full in 2019	–	4,213
	848,366	642,166
Transaction costs	(4,420)	(2,003)
	843,946	640,163
Long-term debt – current portion	255,700	31,326
	588,246	608,837

1. La Coop has an overall revolving credit facility of \$1,000,000,000 in 2019 and 2018. La Coop can use this credit facility as follows: US- and Canadian-dollar margin loans, bankers' acceptances, LIBOR advances and standby letters of credit. The interest rate is based on a rate schedule that varies according to a financial ratio calculated quarterly on a consolidated basis. On August 30, 2019, the credit facility agreement was amended to provide for a potential increase of the available amount to \$1,350,000,000 subject to the achievement of specific conditions. As at October 26, 2019, this amendment did not apply as the conditions were not met.

2. La Coop can use this term credit as follows: US- and Canadian-dollar margin loans, bankers' acceptances and LIBOR advances. The interest rate is based on a rate schedule that varies according to a financial ratio calculated quarterly on a consolidated basis.

La Coop's long-term debt is subject to compliance with certain financial ratios based on La Coop's consolidated financial statements. As at October 26, 2019, La Coop was in compliance with these financial ratios.

The principal repayments required over the next five years are as follows: 2020 – \$255,700,000; 2021 – \$10,135,000; 2022 – \$9,841,000; 2023 – \$437,797,000; 2024 – \$16,578,000.

Notes to consolidated financial statements

Years ended October 26, 2019 and October 27, 2018

19. Deferred credit

Deferred credit arises from the recovery of insurance in excess over the impaired value of property, plant and equipment and is recognized as revenue at the same rate as the amortization of the assets. During the year, the replacement value of property, plant and equipment was reviewed resulting in an additional deferred credit for the Meat Division and the Agri-business Division. This additional amount increases the deferred credit amount related to the non-amortized insurance proceeds following the fire at one of the Meat Division plants in 2012.

20. Employee future benefits

La Coop measures its defined benefit obligations and the fair value of plan assets at each year-end. The most recent actuarial valuations of the pension plans for funding purposes were as at December 31, 2018, except for a valuation carried out as at December 31, 2017. The actuarial valuation of other post-retirement benefits was carried out as at March 31, 2017. The next required actuarial valuations will be as at December 31, 2021, except for a valuation to be carried out as at December 31, 2020 for the pension plans and as at March 31, 2020 for other post-retirement benefits.

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

	Pension plans \$	Other post-retirement benefits \$	Total \$
2019			
Defined benefit obligations	243,319	22,914	266,233
Fair value of plan assets	267,871	–	267,871
Net defined benefit asset (liability)	24,552	(22,914)	1,638

The net defined benefit liability presented in La Coop's consolidated balance sheet is as follows:

	Pension plans \$	Other post-retirement benefits \$	Total \$
Defined benefit asset	72,542	–	72,542
Defined benefit liability	(47,990)	(22,914)	(70,904)
Net defined benefit asset (liability)	24,552	(22,914)	1,638

	Pension plans \$	Other post-retirement benefits \$	Total \$
2018			
Defined benefit obligations	234,303	22,806	257,109
Fair value of plan assets	232,863	–	232,863
Net defined benefit liability	(1,440)	(22,806)	(24,246)

The net defined benefit liability presented in La Coop's consolidated balance sheet is as follows:

	Pension plans \$	Other post-retirement benefits \$	Total \$
Defined benefit asset	43,339	–	43,339
Defined benefit liability	(44,779)	(22,806)	(67,585)
Net defined benefit liability	(1,440)	(22,806)	(24,246)

The cost of defined benefit pension plans is as follows:

	Pension plans \$	Other post-retirement benefits \$	Total \$
2019			
Current service cost	5,924	1,366	7,290
Interest cost	3	1,174	1,177
Remeasurements and other items	(17,365)	(1,372)	(18,737)
Employee future benefit cost (income)	(11,438)	1,168	(10,270)

	Pension plans \$	Other post-retirement benefits \$	Total \$
2018			
Current service cost	5,351	1,129	6,480
Interest cost (income)	(550)	1,049	499
Remeasurements and other items	13,303	1,109	14,412
Employee future benefit cost	18,104	3,287	21,391

Notes to consolidated financial statements

Years ended October 26, 2019 and October 27, 2018

21. 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

Class A preferred shares, with a par value of \$1, non-voting and redeemable at their par value upon a decision of the Board of Directors. These shares are issued upon the conversion of common shares held by members who do not fulfill the commitments of their contracts with La Coop or if the contract commitments are not renewed.

Preferred investment shares

Series 1 – FSTQ preferred investment shares with a par value of \$100, non-voting and redeemable at their par value upon a decision of the Board of Directors on or after October 24, 2022, with an annual dividend, payable semi-annually, at a rate set under the Series 1 – FSTQ subscription agreement, cumulative and preferential except for the interest on Cooperative Investment Plan shares.

Series 2 – CRCD preferred investment shares with a par value of \$100, non-voting and redeemable at their par value upon a decision of the Board of Directors on or after October 24, 2022, with an annual dividend, payable semi-annually, at a rate set under the Series 2 – CRCD subscription agreement, cumulative and preferential except for the interest on Cooperative Investment Plan shares.

Series 3 – ESSOR preferred investment shares with a par value of \$100, non-voting and redeemable at their par value upon a decision of the Board of Directors on or after October 24, 2022, with an annual dividend, payable semi-annually, at a rate set under the Series 3 – ESSOR subscription agreement, cumulative and preferential except for the interest on Cooperative Investment Plan shares.

Series 4 – FONDACTION preferred investment shares with a par value of \$100, non-voting and redeemable at their par value upon a decision of the Board of Directors on or after October 24, 2022, with an annual dividend, payable semi-annually, at a rate set under the Series 4 – FONDACTION subscription agreement, cumulative and preferential except for the interest on Cooperative Investment Plan shares.

Series 5 – FSTQ preferred investment shares with a par value of \$100, non-voting and redeemable at their par value upon a decision of the Board of Directors on or after October 24, 2022, with an annual dividend, payable semi-annually, at a rate set under the Series 5 – FSTQ subscription agreement, cumulative and preferential except for the interest on Cooperative Investment Plan shares.

Series 6 – 2017 preferred investment shares with a par value of \$100, non-voting and redeemable at their par value upon a decision of the Board of Directors on or after June 1, 2020, with an annual dividend, payable semi-annually, at a rate set under the Series 6 – 2017 subscription agreement, cumulative and preferential except for the interest on Cooperative Investment Plan shares.

Series 7 – 2019 preferred investment shares with a par value of \$100, non-voting and redeemable at their par value upon a decision of the Board of Directors on or after November 1, 2022, with an annual dividend, payable semi-annually, at a rate set under the Series 7 – 2019 subscription agreement, cumulative and preferential except for the interest on Cooperative Investment Plan shares.

Cooperative Investment Plan preferred shares

Preferred shares with a par value of \$10, issued to employees of La Coop in accordance with the Cooperative Investment Plan, bearing interest at a rate determined by the Board of Directors, redeemable at their par value by La Coop only upon a decision of the Board of Directors on or after the fifth anniversary of their issuance.

Common shares

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

Class AA common shares, with a par value of \$25. Holding such shares is an essential condition to qualify as a member of the pork chain and obtain voting rights. These shares 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. These shares 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, starting the day after the fifth anniversary of their issuance. However, the Board of Directors may not redeem Class B-1 common shares if there are any outstanding Class D-1 common shares. These shares were issued to members as partial payment of patronage refunds.

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, starting the day after the fifth anniversary of their issuance. These shares were issued to members as partial payment of patronage refunds.

Notes to consolidated financial statements

Years ended October 26, 2019 and October 27, 2018

21. Share capital

Common shares [cont'd]

Class P-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, starting the day after the fifth anniversary of their issuance. The redemption date must also coincide with that for Class D-1 common shares issued during the same year. These shares were issued to members as partial payment of patronage refunds.

Class P-2, Series 1-262 common shares, with a par value of \$25, 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 P-2 common shares if there are any common shares outstanding other than Class B-1, D-1 or P-1 common shares. These shares were issued to members as Class AA common share dividends.

Class P-100 common shares, with a par value of \$1, non-voting and redeemable at their par value upon a decision of the Board of Directors. These shares were issued to members as discretionary eligible dividends.

Class P-200 common shares, with a par value of \$1, non-voting and redeemable at their par value upon a decision of the Board of Directors.

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	
	2019	2018	2019 \$	2018 \$
Preferred shares				
Class A	368,951	391,927	369	392
Series 1 – FSTQ investment shares	500,000	500,000	50,000	50,000
Series 2 – CRCD investment shares	500,000	500,000	50,000	50,000
Series 3 – ESSOR investment shares	50,000	50,000	5,000	5,000
Series 4 – FONDACTION investment shares	250,000	250,000	25,000	25,000
Series 5 – FSTQ investment shares	250,000	250,000	25,000	25,000
Series 6 – 2017 investment shares	2,000,000	2,000,000	200,000	200,000
Series 7 – 2019 investment shares	3,000,000	–	300,000	–
Cooperative Investment Plan				
Series 2013, redeemable as of 2019, 3.5%	–	449,475	–	4,495
Series 2014, redeemable as of 2020, 3.5%	543,568	543,568	5,436	5,436
Series 2015, redeemable as of 2021, 3.5%	635,715	635,715	6,357	6,357
Series 2016, redeemable as of 2022, 3.5%	633,667	633,667	6,337	6,337
Series 2017, redeemable as of 2023, 3.5%	710,610	710,610	7,106	7,106
Series 2018, redeemable as of 2024, 3.75%	763,255	–	7,632	–
	10,205,766	6,914,962	688,237	385,123
Transaction costs	–	–	(5,533)	(2,926)
	10,205,766	6,914,962	682,704	382,197
Preferred shares recognized as a financial liability	(543,568)	(449,475)	(5,436)	(4,495)
	9,662,198	6,465,487	677,268	377,702
Common shares				
Class A	30,969	27,301	774	682
Class AA	2,570	2,470	64	61
Class B-1	42,443,296	42,457,404	42,443	42,458
Class D-1	242,816,806	240,822,446	242,817	240,823
Class P-1	4,991,204	4,999,258	4,991	4,999
Class P-2	251	241	7	7
Class P-100	23,681,925	18,368,810	23,682	18,369
AUXILIARY MEMBERS	480	490	12	12
	313,967,501	306,678,420	314,790	307,411
	323,629,699	313,143,907	992,058	685,113

Notes to consolidated financial statements

Years ended October 26, 2019 and October 27, 2018

21. Share capital

Transactions during the year were as follows:

	Number		Amount	
	2019	2018	2019 \$	2018 \$
Preferred shares				
Balance, beginning of year	6,914,962	5,839,509	382,197	279,957
Issued:				
Series 6 – 2017 investment shares	–	1,000,000	–	100,000
Series 7 – 2019 investment shares	3,000,000	–	300,000	–
Cooperative Investment Plan – Series 2018 [Series 2017 in 2018]	763,255	710,610	7,632	7,106
Transaction costs	–	–	(2,607)	(36)
	3,763,255	1,710,610	305,025	107,070
Transferred:				
Class A	39,289	533,433	40	533
Redeemed:				
Class A	(62,265)	(702,496)	(63)	(702)
Cooperative Investment Plan – Series 2013 [Series 2012 in 2018]	(449,475)	(466,094)	(4,495)	(4,661)
	(511,740)	(1,168,590)	(4,558)	(5,363)
	10,205,766	6,914,962	682,704	382,197
Cooperative Investment Plan – Series 2014 – current portion [Series 2013 in 2018]	(543,568)	(449,475)	(5,436)	(4,495)
Balance, end of year	9,662,198	6,465,487	677,268	377,702
Common shares				
Balance, beginning of year	306,678,420	297,944,621	307,411	298,891
Issued:				
Class A	5,170	445	129	11
Classe AA	130	100	3	2
Classe B-1	–	23,961	–	24
Classe D-1	12,320,046	29,815,932	12,320	29,816
Classe P-2	13	12	–	1
Class P-100	5,365,942	12,983,537	5,366	12,984
AUXILIARY MEMBERS	10	–	–	–
	17,691,311	42,823,987	17,818	42,838
Transferred:				
Class A	(80)	(1,750)	(2)	(44)
Class B	–	(3,822)	–	(4)
Class B-1	(4,756)	(74,719)	(5)	(74)
Class D-1	(32,533)	(411,142)	(33)	(411)
	(37,369)	(491,433)	(40)	(533)
Redeemed:				
Class A	(1,422)	(7,744)	(35)	(193)
Class AA	(30)	–	–	–
Class B	–	(2,192,654)	–	(2,193)
Class B-1	(9,352)	(4,223)	(10)	(4)
Class D-1	(10,293,153)	(31,394,124)	(10,293)	(31,394)
Class P-1	(8,054)	–	(8)	–
Class P-2	(3)	–	–	–
Class P-100	(52,827)	–	(53)	–
AUXILIARY MEMBERS	(20)	(10)	–	(1)
	(10,364,861)	(33,598,755)	(10,399)	(33,785)
Balance, end of year	313,967,501	306,678,420	314,790	307,411

Notes to consolidated financial statements

Years ended October 26, 2019 and October 27, 2018

21. Share capital

On September 5, 2019, the directors authorized an issuance of preferred shares pursuant to the Cooperative Investment Plan, 2019 Series, as of November 30, 2019, under which 803,000 preferred shares were issued for a cash consideration of \$8,030,000. On September 5, 2019, the directors also resolved to redeem, on or after November 30, 2019, 543,568 preferred shares issued under the Cooperative Investment Plan, 2014 Series, for a cash consideration of \$5,436,000.

On January 16, 2019, the directors resolved to redeem 10,253,000 Class D-1 common shares issued in 2010 and 2011 and 16,000 Class A preferred shares, with the same reference years, for a cash consideration of \$10,269,000.

On January 16, 2019, the directors also declared an eligible dividend of \$11,179,000, \$5,590,000 of which was paid in cash and \$5,589,000, in Class P-100 common shares. A balance of \$430,000 was offset with a subsidiary of La Coop.

On September 6, 2018, the directors authorized an issuance of preferred shares pursuant to the Cooperative Investment Plan, 2018 Series, as of November 30, 2018, under which 763,255 preferred shares were issued for a cash consideration of \$7,632,000. On September 6, 2018, the directors also resolved to redeem, on or after November 30, 2018, 449,475 preferred shares issued under the Cooperative Investment Plan, 2013 Series, for a cash consideration of \$4,495,000.

On January 17, 2018, the directors resolved to redeem 2,193,000 Class B common shares issued in 2005, 31,378,000 Class-D1 common shares issued in 2006 through 2010 and 429,000 Class A preferred shares, with the same reference years, for a cash consideration of \$34,000,000.

On January 17, 2018, the directors also declared an eligible dividend of \$15,780,000, \$2,297,000 of which was paid in cash and \$13,016,000, in Class P-100 common shares. A balance of \$467,000 was offset with a subsidiary of La Coop.

22. Net change in non-cash working capital items

Cash flows related to the net change in non-cash working capital items related to operations were as follows:

	2019 \$	2018 \$
Accounts receivable	49,402	(51,680)
Inventories	49,218	(96,489)
Prepaid expenses	(8,654)	4,709
Accounts payable and accrued liabilities	(57,644)	53,045
Deferred revenues	32,686	16,261
Income taxes	(5,251)	(41,280)
Patronage refunds payable	(7,440)	(480)
	52,317	(115,914)

Notes to consolidated financial statements

Years ended October 26, 2019 and October 27, 2018

23. Commitments and contingencies

(a) Operating leases

La Coop has entered into long-term operating leases for buildings, machinery and automotive equipment and is also committed under computer equipment and software leases. The future minimum lease payments of La Coop under these operating leases total \$145,553,000 and are as follows for the coming years: 2020 – \$29,195,000; 2021 – \$25,035,000; 2022 – \$20,129,000; 2023 – \$16,890,000; 2024 – \$13,196,000 and thereafter – \$41,108,000.

(b) Repurchase of the units of non-controlling unitholders

Meat Division

A group of non-controlling unitholders of one of La Coop's subsidiaries, holding 2.8% of the units of said subsidiary, has an option to sell, on or after December 31, 2023, all of its units to La Coop, which is obligated to repurchase or require its subsidiary to repurchase such units. The sale of the units and the payment of their sale price may be made in a maximum of four equal and consecutive annual instalments or sooner, according to the terms of the agreement. Additionally, this same group of non-controlling unitholders has an option to exchange, on or after December 31, 2019, its units in a partnership for units of La Coop's subsidiary. The units so acquired in La Coop's subsidiary are also covered by an option to sell, with the same redemption terms, effective on or after the 7th anniversary of their issuance.

Furthermore, another group of non-controlling unitholders of one of La Coop's subsidiaries, holding 5% of the units of said subsidiary, has an option to sell all or 50% of its units to La Coop, which is obligated to repurchase or require its subsidiary to repurchase such units. In the event the option is partially exercised, the redemption of the remaining units may be exercised on or after the fifth anniversary of the date of the first notice of partial exercise of the units. The sale of the units and the payment of their selling price may be made in a maximum of two equal and consecutive annual instalments, or sooner, according to the terms of the agreement, if the options are exercised on or before October 30, 2026, whereas they will be exercised in a maximum of three equal and consecutive annual instalments, or sooner if the options are exercised after October 30, 2026.

Agri-business Division

A group of non-controlling shareholders holding 25% of the shares of a subsidiary, has an option to sell all of its shares to La Coop from July 4, 2021 to the option expiry date of July 4, 2023. La Coop is obligated to repurchase the shares at the time the option is exercised or at the option expiry date of July 4, 2023.

(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.

24. 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 third parties 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 15, 17, 18 and 23 to the consolidated 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 most of their movable and immovable property leases whereby they, as lessees, agree to indemnify the lessor against liabilities related to the use of the leased property. These leases mature at various dates through December 2039. 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 property insurance protecting them against such potential situations.

Guarantee contracts

La Coop is committed under letters of credit with financial institutions and insurance companies in connection with obligations amounting to \$49,312,000 as at October 26, 2019 [\$29,715,000 in 2018]. Furthermore, La Coop is committed under comfort letters with financial institutions and suppliers regarding guarantees for interests in joint arrangements and subsidiaries. The balance of amounts due as at October 26, 2019 totalled \$91,097,000 [\$60,651,000 in 2018] in respect of which La Coop was committed to repurchase inventories amounting to \$77,792,000 as at October 26, 2019 [\$57,907,000 in 2018].

As at October 26, 2019 and October 27, 2018, no amounts were recognized in respect of the above-mentioned agreements.

Notes to consolidated financial statements

Years ended October 26, 2019 and October 27, 2018

25. 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, forward contracts, swaps and options on commodity and currency to reduce its exposure to exchange rate and commodity price fluctuations. These instruments are used exclusively for risk management purposes.

Foreign exchange contracts and currency swaps

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

Type	Country	Nominal amount in currency [thousands]	Average exchange rate	
			2019	2018
Sale	United States	US\$22,500 [US\$40,332 in 2018]	1.3176	1.3054
Sale	Japan	¥2,944,448 [¥3,913,646 in 2018]	0.012261	0.011630
Sale	Australia	A\$7,217 [A\$8,179 in 2018]	0.9050	0.9572
Purchase	Europe	€8,313 [€6,375 in 2018]	1.4647	1.4910

Commodity and currency forward contracts, options and swaps

La Coop has entered into purchase and sale contracts with maturities between one and three years with its clients to set various grain prices. As at October 26, 2019, La Coop's net commitments amounted to \$26,196,000 [\$32,950,000 in 2018]. La Coop recognized a gain of \$8,862,000 [\$8,069,000 in 2018] relating to grain price fluctuations in the consolidated statement of earnings. La Coop also entered into forward contracts for various grains and currencies and currency swaps, with maturities between one and three years, to reduce its exposure to fluctuations in various grain prices. As at October 26, 2019, the notional amounts represent \$72,351,000 [\$152,673,000 in 2018] and the commitments under these contracts amount to \$103,438,000 [\$97,732,000 in 2018]. La Coop recognized a gain of \$7,188,000 [\$1,725,000 in 2018] in the consolidated statement of earnings.

La Coop also entered into commodity forward contracts and swaps, specifically for hogs, fertilizers, and currency with maturities of less than one year to manage price fluctuation risk. As at October 26, 2019, the notional amounts represent \$57,135,000 [\$61,709,000 in 2018] and the commitments under these contracts amount to \$3,373,000 [\$44,635,000 in 2018]. La Coop recognized a gain of \$2,657,000 [\$550,000 in 2018] relating to these contracts in the consolidated statement of earnings. La Coop has also entered into hog and grain options with maturities of less than one year to manage price fluctuation risk. La Coop recognized a gain of \$422,000 [a loss of \$67,000 in 2018] in the consolidated statement of earnings. The fair value of those options resulted in a \$674,000 decrease in financial assets [\$544,000 in 2018].

Currency swaps on debt

To manage risks related to changes in foreign exchange rates, La Coop uses derivative financial instruments to set the Canadian-dollar amount of instalments on debt denominated in U.S. dollars. As at October 26, 2019, an advance amounting to US\$240,100,000 [US\$168,900,000 in 2018] was hedged under foreign exchange swap agreements. These financial instruments protect the company from the fluctuation of foreign exchange rates on a \$320,000,000 debt denominated in Canadian dollars [\$220,000,000 in 2018].

Interest rate swaps on debt

To manage risks related to changes in interest rates, La Coop uses derivative financial instruments to set the initial variable interest rates as fixed interest rates. As at October 26, 2019, the interest rates of three tranches of debt for a total amount of \$350,000,000 were set accordingly using interest rate swap agreements. These financial instruments with maturities ranging from three to seven years serve to hedge the impact of changes in variable interest rates by setting interest rates within a range of 1.88% to 1.95%.

(b) Fair value of derivative financial instruments

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. The prices obtained by La Coop's bankers are compared with closing capital market prices.

The fair value of derivative financial instruments was as follows:

Derivatives	2019 \$	2018 \$
Derivatives designated as hedges		
Foreign exchange contracts and currency swaps	1,202	(377)
Long-term debt hedging contracts	(7,263)	1,147
Other derivatives		
Commodity forward contracts and options – assets	36,398	29,036
Commodity forward contracts and options – liabilities	(18,264)	(18,912)
	18,134	10,124

In fiscal 2019 and 2018, no amounts were recognized in the consolidated statement of earnings for the ineffective portion of hedging relationships for foreign exchange contracts and currency swaps.

Notes to consolidated financial statements

Years ended October 26, 2019 and October 27, 2018

25. Financial instruments

(c) Nature and extent of risks arising from financial instruments and related risk management

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for La Coop by failing to discharge its obligations. The maximum exposure to credit risk for La Coop is equal to the carrying amount of the following financial instruments:

Loans and receivables

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. To protect itself against financial losses related to credit risk, La Coop has a policy that sets out credit conditions for various areas of operations. Specific credit limits are set for each segment and client and reviewed periodically. 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 its credit risk exposure to accounts receivable to be minimal due to client and sector diversification.

Derivatives

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, as it deals only with highly rated financial institutions.

Liquidity risk

Liquidity risk is the risk that La Coop will encounter difficulty in meeting its obligations associated with financial liabilities.

La Coop manages this risk by drawing up detailed financial projections and developing a long-term acquisition strategy. Treasury management at the consolidated level requires constant monitoring of expected cash inflows and outflows based on La Coop's consolidated financial position projections. Liquidity risk is evaluated using historical volatility, seasonal needs, current financial obligations and long-term debt obligations.

Market risk

Foreign exchange risk

La Coop often makes purchases and sales abroad. La Coop's policy is to maintain the purchase costs and selling prices of its business transactions by hedging its positions using derivative financial instruments. To protect these transactions against foreign exchange fluctuations, La Coop uses foreign exchange contracts, currency swaps and currency options.

La Coop's main foreign exchange risks are covered by a centralized treasury department. Foreign exchange risk is managed in accordance with the foreign exchange risk management policy. The policy aims to protect La Coop's operating earnings by eliminating the exposure to currency fluctuations. The foreign exchange risk management policy prohibits speculative transactions.

Interest rate risk

Interest rate risk relating to financial assets and liabilities results from changes in interest rates that La Coop may experience. La Coop believes that notes receivable, bank overdrafts, bank borrowings, obligations under capital leases and variable-rate long-term debt give rise to cash flow risk, as La Coop could be adversely affected in the event of changes in interest rates.

Centralized treasury management aims to match and bring about an appropriate combination of fixed- and variable-rate borrowings to minimize the impact of interest rate fluctuations.

Other price risk

Commodity price risk

Input prices are determined by several external factors. Extreme price volatility results from constant changes in supply markets. La Coop's policy is to maintain the purchase costs and selling prices of its business transactions by hedging its positions using derivative financial instruments. To protect these transactions against commodity price fluctuations, La Coop uses commodity forward contracts and options.

Notes to consolidated financial statements

Years ended October 26, 2019 and October 27, 2018

26. Related party transactions

La Coop enters into transactions with its joint arrangements in the normal course of business. Those transactions, measured at the exchange amount, are summarized as follows:

	2019 \$	2018 \$
Consolidated statement of earnings		
Revenues	652,331	513,250
Cost of sales and selling and administrative expenses	289,268	206,649
Other investments	1,575	1,613

	2019 \$	2018 \$
Consolidated balance sheet		
Accounts receivable	149,017	104,557
Investments	62,068	76,772
Accounts payable and accrued liabilities	16,180	64,125
Deferred revenues	58,733	34,797

The investments are as follows:

	2019 \$	2018 \$
Advances and notes receivable, bearing interest at the prime rate plus 0.5% to 1% [0.5% to 2% in 2018]	14,766	948
Note receivable [note 12]	14,177	45,000
Advance, bearing interest at 15%, without specific terms of repayment	8,421	8,421
Advances, non-interest bearing, without specific terms of repayment	8,086	5,785
Note receivable, repayable and bearing interest at the rate defined under the terms of the agreement	4,618	4,618
Advance, bearing interest at 5%, without specific terms of repayment	2,000	2,000
Preferred shares	10,000	10,000
	62,068	76,772

27. Subsequent events

On January 6, 2020, La Coop acquired, via its subsidiaries, the assets of a business operating in the agri-food sector. The fair value of assets acquired will be determined during the fiscal year ending October 31, 2020 as part of the initial recognition of the transaction, given the limited time frame between the acquisition date and the date of completion of the consolidated financial statements. This acquisition will be recorded using the acquisition method and consolidated as of the acquisition date. The acquisition was financed using La Coop's long-term credit facility and by the issuance of an additional term credit.

On January 15, 2020, the directors declared an eligible dividend of \$2,437,000, payable in cash of \$1,219,000 and \$1,218,000 in Class P-200 common shares.

Financial review – Unaudited

	2019	2018	2017	2016	2015	2014	2013
Operations							
<i>[in thousands of dollars]</i>							
Revenues	\$7,282,058	\$6,515,972	\$6,271,772	\$6,335,219	\$5,991,969	\$5,376,073	\$5,185,952
Net financial expenses	51,473	22,601	17,764	26,625	27,473	24,688	13,107
Amortization (excluding transaction costs)	129,274	93,368	81,445	83,610	77,688	59,860	53,628
Earnings before patronage refunds and income taxes	79,353	210,725	351,228	275,438	95,702	73,806	23,727
Patronage refunds	17,600	42,400	88,000	55,000	35,000	25,000	73
Income taxes	13,149	32,914	65,273	60,730	16,213	11,719	4,859
Net earnings attributable to members of La Coop	38,447	115,614	168,349	151,569	44,489	37,087	18,795
Earnings before patronage refunds, income taxes, gross financial expenses, amortization and net gains (losses)	265,461	312,894	456,133	390,707	201,019	165,091	82,165
Financial position							
<i>[in thousands of dollars]</i>							
Working capital **	\$404,261	\$553,559	\$414,274	\$415,280	\$(6,346)	\$274,029	\$206,559
Property, plant and equipment, net carrying amount	1,215,381	1,020,130	828,589	750,551	690,653	501,739	495,061
Total assets	3,880,159	3,261,469	2,666,990	2,450,589	2,298,308	1,737,587	1,615,048
Preferred shares and equity of La Coop	1,780,586	1,480,827	1,285,250	961,809	761,635	702,473	594,107
Financial ratios							
Working capital ratio**	1.4	1.6	1.5	1.6	(0.99)	1.5	1.3
Interest coverage*	2.5	10.3	20.8	11.3	4.5	4.0	2.8
Debt/equity ratio**	33:67	31:69	23:77	37:63	47:53	33:67	29:71
Earnings before patronage refunds and income taxes*/revenues	1.1%	3.2%	5.6%	4.3%	1.6%	1.4%	0.5%
Reserve and contributed surplus/preferred shares and equity of La Coop	44.0%	53.4%	55.0%	57.3%	50.5%	50.8%	55.6%
Preferred shares and equity of La Coop/total assets	45.9%	45.4%	48.2%	39.2%	33.1%	40.4%	36.8%
Number of employees	15,360	14,020	13,150	12,541	12,211	10,202	9,984

* For the purposes of ratio calculations, non-controlling interests are included in earnings before patronage refunds and income taxes.

** The credit facility was considered in this ratio's calculation in 2015 for consistency with the presentation adopted in the consolidated financial statements.

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