Annual Report 2018

La Ferme Réso inc.
La Coop Establishment &
Farm Transfer Award finalist
La Coop 2018-2019

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

La Coop Chambord
Chambord

Citadelle, coopérative de producteurs de sirop d'érable
Plessisville

La Coop Comax
Saint-Hyacinthe

La Coop Covilac
Baie-du-Febvre

La Coop des deux rives
Normandin

La Coop Dupuy et Sainte-Jeanne d'Arc
Dupuy

Groupe coopératif Dynaco
La Pocatière

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
Have-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 Matapédienne
Amqui

La Coop des Montérégiennes
Granby

Nutrinor coopérative
Saint-Bruno-Lac-Saint-Jean

La Coop Novago
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

La Coop Rivière-du-Sud
Saint-François-de-Montmagny

Scotian Gold Co-operative Limited
Coldbrook, Nova Scotia

La Coop Seigneurie
Saint-Narcisse-de-Beaurivage

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

Coopérative de consommation de Saint-Alexis
Saint-Alexis-de-Matapédia

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-Fabrien

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 ltée
Saint-Quentin,
New Brunswick

La Coop Saint-Ubald
Saint-Ubalde

Magasin CO-OP de Saint-Victor
Saint-Victor

Sussex & Studholm Agricultural Society No. 21
Sussex, New Brunswick

La Coop Unicoop
Sainte-Marie

La Coop Unifrontières
Napierville

VIVACO groupe coopératif
Victoriaville

AUXILIARY MEMBERS

Coop de services agricole Le Partage
Lotbinière

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

Coopérative d'utilisation de machenerie agricole des Basses-Laurentides
Mirabel

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 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’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 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-Sylvère
Deschaillons

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

ROOTS IN THE PRESENT, EYES ON THE FUTURE

Engaging with members and consumers and mindful of today's challenges, La Coop fédérée is mobilizing resources to make tomorrow's world a prosperous place, embracing its roots, and open to progress and innovation.

OUR MISSION

Rooted in the agricultural community and leveraging our collective strengths, we contribute to feeding the world.

OUR AMBITION

Building on a cooperative model that is profitable and responsive, we will be recognized as a leader in the Canadian agriculture and agri-food sectors, and the retail sector in Eastern Canada.

THE WORLD IS CHANGING AND SO ARE WE

La Ferme LCM Quesnel inc.
La Coop Establishment &
Farm Transfer Award finalist
La Coop 2018-2019

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HIGHLIGHTS

	2014	2015	2016	2017	2018
REVENUES [in thousands of dollars]	$ 5,376,073	$ 5,991,969	$ 6,335,219	$ 6,271,772	**$ 6,515,972**
EARNINGS BEFORE PATRONAGE REFUNDS AND INCOME TAXES [in thousands of dollars]	$ 73,806	$ 95,702	$ 275,438	$ 351,228	**$ 210,725**
DIVIDENDS PAID TO THE COOPERATIVE PORK CHAIN [in thousands of dollars]			$ 10,800	$ 15,800	**$ 11,200**
PATRONAGE REFUNDS [in thousands of dollars]	$ 25,000	$ 35,000	$ 55,000	$ 88,000	**$ 42,400**
WORKING CAPITAL [in thousands of dollars]	$ 274,029	$ (6,346)*	$ 415,280	$ 414,274	**$ 553,559**
PREFERRED SHARES AND LA COOP'S EQUITY [in thousands of dollars]	$ 702,473	$ 761,635	$ 961,809	$ 1,285,250	**$ 1,480,827**

* 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]	2018	2017
Revenues	$ 6,515,972	$ 6,271,772
Operating earnings	146,896	318,663
Earnings before patronage refunds and income taxes	210,725	351,228
Patronage refunds	42,400	88,000
Net earnings	135,411	197,955
Accounts receivable and inventories	1,344,541	1,155,468
Current assets	1,445,230	1,223,755
Working capital	553,559	414,274
Property, plant and equipment, at cost	1,917,236	1,660,422
Property, plant and equipment, net carrying amount	1,020,130	828,589
Total assets	3,261,469	2,666,990
Long term debt and obligations under capital leases including current portion	642,414	374,076
Preferred shares and La Coop's equity	1,480,827	1,285,250
Number of employees	14,020	13,150

PRESIDENT'S MESSAGE

GHISLAIN GERVAIS
President

OUR BUSINESS MODEL IS A MODEL FOR THE FUTURE, HAILED FOR ITS RESILIENCE, LONGEVITY AND CAPACITY TO CREATE WEALTH.

For La Coop fédérée ("La Coop"), fiscal 2018 was highlighted by major projects and unprecedented key investment decisions. Ahead of its 100th anniversary, a strategic thinking exercise focused on the model for the "La Coop fédérée of tommorow". Meanwhile, work on Vision 2020, the modernization project for La Coop's network business model forged ahead, achieving an important milestone with the implementation of the first regional agricultural partnership.

La Coop's consolidated sales totalled $6.5 billion in 2018, maintaining the upward trend of recent years. Earnings before patronage refunds and income taxes amounted to $211 million - an excellent performance amid market uncertainty and volatility triggered by the NAFTA renegotiations and the trade war between China and the United States.

This result was mostly driven by the pork and poultry processing and marketing activities of Olymel, La Coop's Meat Division. The investments made in recent years, the beneficial relationships Olymel maintains with its business partners, and the restructuring of its pork processing operations in eastern Canada all contributed. Olymel has not only achieved record results in the past three years, but its operations are also less sensitive to risk arising from the volatility of this commodity market.

Olymel's growth was bolstered by major acquisitions this year, including Triomphe Foods, a well-established Québec business known for its wide range of deli meats and specialty hams, and Pinty's Delicious Foods, an Ontario poultry slaughtering and processing business specializing in fully cooked products.

La Coop's other divisions also contributed to strong 2018 performance. The Agri-business Division made forays outside Québec with the acquisitions of Standard Nutrition and Maizex Seeds, specializing in animal nutrition and grain marketing, and the purchase of crop production assets from Cargill. These transactions are in line with La Coop's growth plan to become a Canadian leader in the agriculture sector by building on its existing operations and extending the Agri-business Division's reach to Ontario and the Western provinces and Ontario.

Meanwhile, the Agri-business Division's structural projects are well underway in Québec. The Port of Québec's grain transfer port terminal project aims to provide Québec and Canadian agricultural producers access to the international grain export market. Work on the Bécancour urea and methanol plant project also continues.

"We need to pursue market development without losing our cooperative soul."

The Retail Division (Groupe BMR) has again improved its operating and financial results, opening a new store in Montréal – La Shop – based on a unique and innovative omni channel concept to enhance its traditional hardware offering. Groupe BMR has also fully embraced the digital shift with its first online sales.

These investments could not have been made without backing from financial institutions. We thank our financial partners for recognizing La Coop's quality management and for their support through preferred shares and a renewed credit facility.

On behalf of the Board of Directors, I extend my thanks to Gaétan Desroches, Réjean Nadeau, Sébastien Léveillé, Pascal Houle and their respective teams for their determination and continuous efforts to successfully carry out these numerous projects. My thanks also go out the 14,020 employees who make up the extended La Coop family and are the organization's main strength.

La Coop fédérée of tomorrow

During the past 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 growth strategy, governance, financial model, patronage refunds, talent, and brand image.

Thinking was framed by the major challenges ahead. While the agri-food industry's rapid consolidation is heightening market competitiveness, it is also generating growth opportunities. The dilution of sales to members resulting from the acquisitions made in recent years is an immense challenge for maintaining La Coop's cooperative identity. We need to pursue market development without losing our cooperative soul.

We know very well that the growth of the agricultural cooperatives network is vital. We do not live in a vacuum. We need to position ourselves strongly across all our business sectors to ensure our credibility and relevance. We must give ourselves the means to fulfill our ambitions by achieving critical mass, extending value chains and constantly improving our working methods. The aim is to make La Coop's network a key player with the capacity to operate in the market for the benefit of our members.

That said, growth must not be achieved at any cost. A key element highlighted during the strategic thinking exercise is the critical importance of sound governance. The actions that will arise from our planning aim to maintain the democratic process specific to the cooperative model and ensure that La Coop remains under the control of Québec agriculture producers. New types of memberships might need to be created in certain sectors to ensure that our cooperative model develops as we expand into new regions and sectors.

In the spirit of sound governance, patronage refund distribution must be based on the principles of objectivity, transparency and equity, and strike a fair balance between La Coop's various components. We need, at the same time, to reward profitable sectors and support sectors with long-term potential, as well as La Coop's traditional businesses, founding cooperatives while attracting and retaining new members.

BOARD OF DIRECTORS

Ghislain Gervais
President
Executive Committee Member

Muriel Dubois, ASC
1st Vice-President
Executive Committee Member

Mathieu Couture
2nd Vice-Président
Executive Committee Member

Richard Ferland
Executive Committee Member

Marc-André Roy
Executive Committee Member
Audit Committee Member

Normand Marcil
Audit Committee President

Benoit Massicotte

Cathy Fraser
Audit Committee Member

François Drainville

Jean-François Pelletier
Audit Committee Member

Adrien Pitre

Patrick Soucy
Audit Committee Member

Réjean Vermette

David Mercier

Robert Dutton
Guest Member of the Board of Directors
Audit Committee Member

> "La Coop's contribution to Canadian economic growth is already very impressive."

Another growth-related challenge is to make La Coop an employer of choice that can attract and retain quality employees. This challenge takes on greater importance given labour scarcity and succession issues. Strategic succession planning is therefore a key aspect of "La Coop fédérée of tomorrow." Amid increased labour mobility, maintaining our organizational values and cooperative culture within all our employees is also vital.

"La Coop fédérée of tomorrow" spurs us to sharpen the focus of our efforts to reposition ourselves on our identity. The goal is to project a brand that is both contemporary and reflects its roots, true to its origins across all of Québec's social and regional transformations.

Vision 2020

Consolidation is challenging our network, and guiding our Vision 2020 actions. As you know, the consolidation of agricultural cooperatives is not new, but rather an ongoing process beginning the 1950s. At that time, La Coop's network comprised nearly 565 member cooperatives. In 2020, member agricultural producers will be largely made up of less than 10 large cooperatives.

Our forerunners did the right thing in setting up an extensive network of businesses to share, help each other and provide each other services. They likely did not think that the fruits of their efforts would continue down through the years into the 21st century. Those who went before us gave us much, and we must do the same for those who will come after.

To do so, we must strive to build a network that is strong, prosperous, agile and resilient. That's what Vision 2020 aims to achieve, with the orchestrated consolidation of agricultural cooperatives, and by setting up regional agricultural partnerships between the consolidated cooperatives and La Coop.

The Vision 2020 project achieved an important milestone this year with the launch of the first regional partnership between VIVACO groupe coopératif and La Coop. Other projects are also underway, including two other potential partnerships with the Avantis and Unifrontières cooperatives.

Vision 2020 is a project we are implementing together to ensure the continuity of La Coop's network, a modern service offering and ultimately, prosperity for Québec agricultural families.

Of Concern to Agricultural producers

Fiscal 2018 was also a year of uncertainty for agricultural producers, particularly with respect to trade relationships. The Canada-United-States-Mexico Agreement (CUSMA) was signed under pressure from the United States. As we all know, supply management was on the chopping block. Our government granted the United States further concessions related to our milk, eggs and poultry production system.

La Coop expressed its disappointment. While acknowledging the importance for Canada of building strong trade links with its North American partners and that trade liberalization generally promotes economic growth, La Coop would have liked to see the CUSMA fully protect supply management, a system that continues to demonstrate its effectiveness and relevance.

That said, the agreement has a positive aspect that we welcome. We're confident it will contribute to maintaining and increasing our exports of pork and other agricultural goods to the United States. Exports are a foundation of our overall growth strategy and the recent entry into force of the Comprehensive and Progressive Agreement for Trans Pacific Partnership (CPTPP) in the six countries that have ratified it, including Canada, will give us preferential access to large Asian markets.

La Coop is well aware that the past year was difficult for hog producers in both Québec and elsewhere in Canada. The Cooperative Pork Chain also serves as a structural tool for supporting producers through such difficult cycles. Farms have reaped concrete benefits from the Cooperative Pork Chain.

Since its implementation in 2012, members of the Cooperative Pork Chain have received several million dollars in patronage refunds and dividends. A financial support program has been implemented to help producers convert their facilities to comply with new animal well-being standards.

The Fermes Boréales breeding facilities are producing quality piglets with excellent technical and economic results. A number of producers have expressed interest in participating in the project, and a second expansion phase is being planned. The Pork Chain supports its members, enabling them to market quality pork that is recognized and sought after by high value-added markets.

La Coop also welcomes adoption of the Politique bioalimentaire 2018-2025, a flagship bio-food policy. La Coop is wholeheartedly behind its dual goal – to better meet consumer expectations while providing greater support to businesses and organizations operating in this sector. Over the coming year, La Coop will closely follow its implementation and collaborate with the authorities concerned.

Looking ahead

The future is promising. Demand for agricultural products is growing continuously as populations and revenues rise across the world. La Coop is very well positioned here in Canada, as well as in the most attractive export markets, particularly in Asia.

Against this backdrop, La Coop's contribution to Canadian economic growth can only expand. And La Coop's current contribution is already very impressive. Including the direct, indirect and induced benefits, La Coop contributes nearly $4 billion to Canada's GDP and creates over 35,000 full-time jobs. Its operations generate tax revenues of about $1 billion per year for the federal and provincial governments. Those who went before us, who aimed to build a vast cooperative network, would be very proud of these numbers.

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. I am also grateful to all the directors in La Coop's network. With your commitment and determination, we're able to adapt the cooperative model to our members' needs.

Ghislain Gervais
President

MANAGEMENT DISCUSSION AND ANALYSIS

GAÉTAN DESROCHES, agr., MBA
Chief Executive Officer

STRIVING TO BE MORE COMPETITIVE, LA COOP FÉDÉRÉE MUST KEEP FORGING AHEAD AND PREPARE FOR FUTURE GROWTH.

La Coop fédérée ("La Coop") generated $6.516 billion in sales and $210.7 million in earnings before patronage refunds and income taxes for the fiscal year ended October 27, 2018, compared with $6.272 billion and $351.2 million, respectively, for fiscal 2017.

The Meat Division (Olymel L.P.) had a good year, but results fell short of the record fiscal 2017 performance. Olymel's earnings before income taxes attributable to members amounted to $167.9 million, down $122.5 million from $290.4 million in fiscal 2017. The record performance in 2017 was driven by a highly favourable market, bolstered by strong sustained demand from China. Also, the stronger Canadian dollar had a downward impact on the industry's meat margins during the year. Meat Division sales were up $5.6 million, driven by increases in processed poultry volumes and selling prices. The higher sales also resulted from the addition of four months' sales generated by the acquired assets of a business specializing in the marketing of processed pork. This increase was partly offset by the decline in fresh pork selling prices.

The Agri-business Division reported earnings before income taxes attributable to members of $33.4 million, down $8.4 million from $41.8 million. Business acquisitions made in recent months triggered an increase in acquisition and integration costs as well as higher financial expenses resulting from greater use of financing. Performance of day-to-day operations improved in the Animal Production Sector, particularly for animal feed, and in the Eastern and Western crop production sectors. Agri-business Division's external sales were up $192.1 million from last year, stemming essentially from multiple acquisitions carried out during fiscal 2018, particularly in the animal and crop production sectors. Higher sales in the Animal Production Sector was driven by growth and gains in market shares in the ruminant and dairy segment, and by the addition of six months' sales of an acquired business operating in the animal nutrition sector. In addition, higher fertilizer sales volumes, particularly in Western Canada, bolstered crop production sales. Sales growth in the Grains Sector stemmed from spiking prices in early summer.

"At La Coop, we gave ourselves clear orientations as well as the means to implement them. We succeeded!"

The Retail Division posted earnings before taxes, including corporate expenses, of approximately $1.3 million, up $0.2 million from $1.1 million last year. The Division's sales growth more than offset the increase in direct costs related to higher sales. The widespread labour shortage in the market led to additional costs in the distribution sector and higher transportation costs. A $1.8 million loss on the disposal of a subsidiary's total assets was recorded, giving rise to a $513,000 loss for the year in consolidated results. BMR's external sales were up $34.9 million from fiscal 2017, driven by higher material sales stemming from Ontario market development efforts, increased market share in the dimensional lumber sector and higher average material selling prices. Retail stores recorded higher sales, attributable to the hiring of sales representatives, corporate store renovations and Montréal market development. It should also be mentioned that sales declined as a result of the discontinuation of farm machinery distribution operations, which was completed in May 2018.

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 recorded for fiscal 2018 was $10.1 million compared with $5.6 million in 2017. The increase comes from growth in sales volume, the inclusion of profits for a full year from a business acquired last year, the addition of new corporate sites and procurement synergies.

Cost of sales and selling and administrative expenses amounted to $6.346 billion, compared with $5.935 billion in 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 driving growth.

Financial expenses for fiscal 2018 increased to $22.6 million from $17.8 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 $146.9 million, compared with $318.7 million in fiscal 2017.

The other contributions to earnings included the share of results of joint arrangements, namely businesses in which La Coop has joint control. This share increased to $47.2 million from $34.4 million for the previous fiscal year, following the change in the business model for allocating results of Agri-business Division's joint arrangements and improved Energy Sector performance.

The share of results of entities subject to significant influence – entities in which we have less than a 50% interest – amounted to a loss of $0.1 million compared with a profit of $0.7 million in fiscal 2017. The decline in this share is due to the change in presentation method of an entity which is considered a subsidiary since the beginning of the year.

Other investments, which represent interest and dividend income from other investments, totalled $1.7 million compared with $2.1 million for the prior fiscal year.

Net gains (losses) on disposal and remeasurement of assets amounted to a gain of $9.6 million in 2018 compared with a $4.8 million loss in 2017. The gain was essentially generated by the remeasurement of an investment held as a result of acquisition of control. In 2017, the loss stemmed from the impairment of long-lived assets, namely the impairment of an interest in an entity under significant influence, and the recognition of losses on disposal of property, plant and equipment.

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
Agri-business

Pascal Houle
Executive Vice-President and
Chief Executive Officer BMR

Ben Marc Diendéré
Senior Vice-President
Communications,
Public Affairs and Brand
Management

Josée Létourneau
Senior Vice-President
Legal Affairs

Isabelle Leclerc, MBA
Senior Vice-President
Human Resources

Bernard Marquis
Senior Vice-President
Strategic Projects

Management Discussion and Analysis

Gaétan Desroches, agr., MBA

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

Earnings before patronage refunds and income taxes totalled $210.7 million compared with $351.2 million for fiscal 2017.

For the year ended October 27, 2018, after deducting $42.4 million in declared patronage refunds and $32.9 million in income taxes, La Coop reported net earnings of $135.4 million compared with $197.9 million in fiscal 2017. Net earnings attributable to members of La Coop and included in the reserve amounted to $115.6 million in fiscal 2018 and $168.3 million in fiscal 2017 while net earnings attributable to non-controlling interests amounted to $19.8 million and $29.6 million, respectively.

Note also that in light of fiscal 2018 results, the Board of Directors resolved on January 16, 2019, to pay an $11.2 million dividend to holders of shares in the Cooperative Pork Chain.

Parent company

The parent company's net expenses, including the real estate subsidiary's results, increased to $27.4 million from $15.2 million for the previous fiscal year, owing to the recording of the actuarial expense and unfavourable return on actuarial assets.

Human resources

All of the network's human resources teams worked together to address current issues, during another important year of transformation and modernization

"We should be proud that our achievements, programs and organizational culture are resonating in our business communities and among the general public."

marked by labour recruitment challenges. Each division has a strong and dedicated human resources team that ensures harmonious growth and innovative practices.

Vision 2020

Major projects were carried out as part of the Vision 2020 project to facilitate the operationalization of the business models of cooperatives under consolidation. Multiple workshops were offered to ensure employee engagement and buy-in, and alignment of conditions for new cooperatives. Change management is clearly the key to success for this kind of transformation.

Human resources program

As the nation-wide expansion continued, a number of employee programs were reviewed to align them with target markets, including revamping the pension plan and bonus program and introducing Canada-wide salary scales. Amid a labour shortage, attracting and retaining talent was at the heart of our thinking.

Performance management has also been under review by the parent company and certain divisions. The focus of this review was to put discussions between employees and their manager back at the core of the performance management process and to encourage frequent meetings for ensuring continuous monitoring and eliminating bureaucracy as much as possible.

Numerous training management tools were implemented and improved to deliver virtual content to employees. We have also developed internal expertise in creating training capsules, which facilitates the digital shift in training, to the benefit of the entire network. We're pleased to have received subsidies to make this shift a success and we continue to develop our digital expertise.

Awards and competitions

Groupe BMR, the Agri-business Division and Olymel have all won numerous awards in different competitions the parent company and the divisions have taken part in to raise La Coop's profile and make it more attractive to talent.

Looking ahead

Looking ahead at the coming year, we have numerous challenges to face and projects to carry out. Data management, which will facilitate proactive strategic decision-making, will be a priority in the coming years. In collaboration with the entire network, we will undertake an analysis of our human resource management systems. An ambitious project to revamp corporate policies is also in the cards. Finally, with regards to talent and culture, strategic planning will focus on three important areas: succession planning, leadership development and internal mobility. This will allow us to develop an avant-garde internal culture and a capacity to execute our projects throughout the organization, thereby consolidating our positioning as an employer of choice.

A year of transformation that sets the stage for future growth

While La Coop further improved its competitiveness in fiscal 2018, it will have to keep forging ahead.

Despite a tense political climate owing to trade agreements, a more difficult business environment for several of our sectors (agriculture, meat and retail), and the initial signs of a demographic shift with the shortage of labour and succession issues, we successfully completed our five-year 2013-2018 plan. Mission accomplished! We stuck to the plan and delivered.

At La Coop, we gave ourselves clear orientations as well as the means to implement them. We succeeded! At the time of writing, our pilot project, namely the partnership between La Coop and VIVACO groupe coopératif, has been carried out. This partnership is part of Vision 2020, the modernization project for La Coop network's business model. La Coop's network transformation in Québec accelerated with the creation of La Coop Novago and Avantis Coopérative during the year.

The strategic framework in the 2017-2018 master plan for achieving growth is in place. We firmly intended to reach a critical mass in order to improve our competitiveness and grow faster than the market in line with our strategic drivers. Given market consolidation, we had to move faster to seize business opportunities. With our great agility, we're ahead of our initial plan for certain items.

I would like to take this opportunity to acknowledge the efforts made by our teams, both in the parent company and in the divisions. Despite a few setbacks, La Coop and its divisions have earned prestigious recognitions and distinctions and won major awards. We should be proud that our achievements, programs and organizational culture are resonating in our business communities and among the general public.

In Québec, probably more than elsewhere in Canada, people's awareness of the food they consume, sustainable development and environmental protection has grown very strongly. This should make us very proud!

During fiscal 2018, we injected $217 million in capital expenditures into the Québec and Canadian economy. La Coop plays the role of leader in its industry, for the benefit of families, rural life, regions and agricultural producers.

Having initiated the next strategic session on La Coop fédérée of tomorrow, the outcome of this exercise, once adopted, will set the stage for La Coop's 100th anniversary in 2022.

We have carried out at least three strategic planning exercises over the past fifteen years. We have developed an operating model that have proved its mettle. La Coop and its network have demonstrated that when we work together, we can move mountains.

This year again, our economic tour, our meetings with politicians, the public and media, confirmed that La Coop is a key player in the Québec and Canadian agricultural

community for food and health security, protection of the lands, promoting agricultural interests and the survival of our regions.

Let’s continue to cherish our roots in agricultural cooperatives. La Coop and its divisions continue to provide a humane environment where talented people can enjoy rewarding careers. Our employees - our human resources - are among our most valuable assets and are key to our success. We must keep attracting new employees in order to meet the challenges of the 5.0 era.

La Coop has a brand strategy that will enable it to proudly enter the 21st century. Between 1922 and now, we have changed names three times and the logo and symbol at least five teams. Each change has propelled forward the cooperative as well as its federation, activities and members. The goal of our television and web campaigns is to establish the presence of La Coop and its members among consumers and inform them of its plans. As highlighted last year, this exceptional, widely acclaimed campaign is the prelude to our positioning for modernizing the brand image of La Coop and its network. To be recognized, we need to be known. By taking actions on several fronts, we can optimize our growing popularity and also maintain our good reputation.

If we wish to leave our mark on our times, as our founders did, La Coop must have a structuring influence on society. We cannot be satisfied with the status quo. La Coop must become a powerful symbol for all the generations interested in agriculture and food. Leveraging its current heritage, La Coop must build a global and inclusive brand.

The management committee and I would like to extend special thanks 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 thankful for the commitment and dedication you showed during the past fiscal year.

We would also like to thank our financial partners, our joint ventures and in particular our partners in the Energy Sector, which contribute to the success of La Coop and the network. We especially wish to thank all the 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, their commitment and their support in achieving the year’s results.

Gaétan Desroches, agr., MBA

Chief Executive Officer

MANAGEMENT TEAM

David Arseneau
General Manager,
Animal Production

Casper Kaastra
General Manager,
Crop Production

Gino Becerra
General Manager,
Grains

Simon Baillargeon
Vice-President,
Business Development

Alexandre St-Jacques Burke
Vice-President,
Operational Finances

Marie-Hélène Daigle
Vice-President,
Human Resources

Saad Chafki
Vice-President,
Technologies and
Agri-business Projects

Benoît Bessette
Vice-President,
Marketing, Communications
and Strategy

SÉBASTIEN LÉVEILLÉ, agr., MBA

Executive Vice-President Agri-business

Sollio Agriculture

After a year full of achievements, we are more dedicated than ever to our objective - farming common sense - for the prosperity of farming families.

Sales of the Agri-business Division for fiscal 2018 amounted to $2.125 billion compared with $1.933 billion last year. This increase of nearly $192 million stemmed mainly from the acquisitions made by the Agri-business Division in 2018.

Earnings before income taxes for the fiscal year decreased compared with the previous year owing to certain extraordinary items. However, results of current operations were up by more than $2 million, driven by the impressive performance of animal feed operations and crop production sector, when shares of investments are taken into account.

The political and economic climate was marked by pressures on supply management, free-trade agreements as well as trade wars.

The Livestock Production Sector benefited from growth and increased market share in the ruminant and dairy segment. The dairy sector was up 3.8% in fiscal 2018, bolstered by conditions in the dairy products market and more favourable dairy policies until mid-year. This growth was achieved amid continuous improvement in animal feed conversion rates. However, quota cuts, lower milk prices and uncertainty over the future of the supply management system, triggered by the negotiation of the Canada-United-States-Mexico Agreement, in turn slowed the pace of growth from mid-year onwards. Technical performance of hog production was satisfactory during the year, but financial performance did not follow suit owing to lower average prices. Growth in La Coop certified pork and higher sales volumes were positive factors in fiscal 2018.

In crop production, fertilizer sales were up significantly since Spring 2017. Sales grew strongly in 2018, driven by higher volumes in Québec, including industrial clients, and the performance of our subsidiaries Agrico and Agronomy Company of Canada (ACC).

"The political and economic climate was marked by pressures on supply management, free-trade agreements as well as trade wars."

In the seed sector, market conditions last Winter favoured increased planting of corn at the expense of soya. Market conditions conducive to wheat growing led to more planting in Québec, for both Spring and Fall wheat. These conditions caused fluctuations that affected our sales of corn and wheat. A significant decline in the surface area under soya planting in the prairies also impacted our royalty sales. The low returns obtained by soya producers in 2017 influenced their seeding plans for 2018. Last, the Maizex Seeds acquisition was undoubtedly the highlight of 2018 for the Seed Department.

For crop protection, regulatory changes created disruption starting in Winter 2018 as they required products containing atrazine to be replaced by other products, which led to stable volumes.

Agronomy Company of Canada and the Agromart network continued to make significant contributions to results. This network was heavily involved in planning and completing the transaction with Cargill whose crop production operations will be integrated in 2019.

Grains Sector sales were up, mainly following the increase in prices in early Summer. Lower corn trading volumes resulting from unfavourable market conditions for margins were offset by a price increase of over 10%. Soya bean volumes were also below fiscal 2017 levels.

"The Vision 2020 project was our primary focus. With the support of all, everything was ready for the launch of Sollio & Vivaco Agriculture coopérative."

Achievements of the year included the efforts made to complete the transaction with Cargill and ensure full integration from day one. The Grains Sector also launched construction of its maritime export terminal in Québec City.

The Vision 2020 project was our primary focus. With the support of all, everything was ready for the launch of Sollio & Vivaco Agriculture coopérative.

Following a successful first year, the digital program gathered steam and expanded, particularly with the addition of new functionalities to the AgConnexion platform, the enrollment of 34 new member cooperatives and retailers, and the receipt of a Mercure award.

At the end of an achievement-filled year and ahead of its transition to Sollio Agriculture, the team is more motivated than ever to develop agriculture as it should be, to ensure prosperity of farming families. We now make up a thousand employees ready to take on our new identity.

Those are the challenges awaiting Sollio Agriculture, challenges that cannot be met without all our collaborators across the country, our colleagues on the agriculture management committees and in the parent company, the Chief Executive Officer and the Board of Directors who support us in the achievement of our objectives.

Sébastien Léveillé, agr., MBA

Executive Vice-President Agri-business

Our Distribution Network

La Coop · AGRO CENTRE · The Agromart Group · AGRICO · Co-op Country Store

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

Sylvain Beaurivage
Vice-President, Food Service

Lise Gagnon
Vice-President, Marketing and R & D

Sylvain Fournaise
Vice-President, Food Safety and Technical Services

Louis Banville
Vice-President, Human Resources

Carole Potvin
Vice-President, Finance

Alexandre Tarini
Vice-President, Logistics

Marco Dufresne
Vice-President, Engineering and Project Management

Denis Trahan
Vice-President and General Manager, ATrahan Transformation Inc.

Réal Gauthier
Vice-President, Triomphe Division

Anthony Spiteri
Vice-President, Marketing, Pinty's

Claude Bourgault
Vice-President, Non-Edible Products and Energy

RÉJEAN NADEAU

President and CEO

Olymel reported excellent results for fiscal 2018, but fell short of the exceptional performance of the previous two years.

Compared with $3,433 billion last year, sales totalled $3,439 billion, largely driven by the fresh pork sector's sound performance, continuously high meat margins and sustained demand from China.

Production of value-added pork products was up, following increased demand, especially from Japan and South Korea. Sales to China were sustained, making this country Olymel's largest market in terms of volume for the second consecutive year. In light of this market's increasing size, Olymel opened its fourth international office in Beijing last fall.

In line with its growth plans, Olymel continued to make the necessary investments in production and processing sectors as well as in process improvement during fiscal 2018. The aim is to secure supplies for its facilities while increasing their capacity and efficiency.

Olymel's business model further continues to demonstrate its relevance. Olymel has consolidated its position as leader in Canada's agri-food processing industry with initiatives such as the partnership with Groupe Robitaille regarding Oly-Robi and the acquisition of Triomphe Foods completed in fiscal 2018.

Olymel operated under uncertain global conditions in fiscal 2018, with the looming threat of a large-scale trade war between the United-States and China. The international markets in which Olymel is present are volatile. Trade tensions and the U.S. pork industry's very high slaughtering capacity were the main factors driving uncertainties throughout the year. But tensions were reduced by the signing of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the new Canada-United-States-Mexico Agreement (CUSMA).

Meat Division

Hog production

For the Eastern hog production sector, Olymel incurred a loss in 2018, slightly larger than in the previous fiscal year. Fermes Boréales phase 1, which comprises five breeding facilities each with 2,360 sows, will be implemented next year in Témiscamingue.

The Western hog production sector reported a loss larger than in the previous fiscal year, owing primarily to lower hog selling prices, higher grain prices and transportation costs, significant capital expenditures to upgrade production facilities, and a stronger Canadian dollar. In 2018, Olysky continued to integrate the hog farms acquired in Alberta the previous year and started converting a number of its facilities to install open gestation stalls. All the commercial hogs produced by Olysky were supplied to the Olymel plant in Red Deer, meeting nearly 60% of its procurement needs. In the Western region, the hog production sector is currently in decline and the challenge is to ensure supplies are sufficient to meet our processing needs and customer demand.

Fresh pork

For the third consecutive fiscal year, the Eastern fresh pork sector generated positive results, although lower than in 2017, which was Olymel's best ever year. While the meat margin decreased, results were bolstered by higher sales volumes, increases in the number of hogs slaughtered and in hog weight, and Oly-Robi Transformation's positive contribution. The significant increase in refrigerated fresh pork volumes at the Vallée-Jonction plant and the launch of value-added production from fresh pork at the Saint-Esprit plant also contributed to the sector's sound performance. Significant investments made in recent years to restructure the Eastern fresh pork sector are paying off. In 2018, the Vallée-Jonction and Saint-Esprit plants also installed the new CO_2 stunning system that will greatly improve animal well-being, the work environment and meat quality. The combined investment amounted to nearly $15 million.

The partnership entered into in 2017 with Groupe Robitaille regarding Oly-Robi will come to fruition in April 2019 when the upgrade project for ATrahan, the Olymel division in Yamachiche, is completed. Lucyporc plant personnel will then join Olymel employees and 315 new recruits to create a work force of over 1,000. This completely revamped and modernized plant will focus mainly on Olymel's value-added production.

To avoid volatility in the Eastern fresh pork sector, Olymel will implement more stringent controls to ensure greater coordination of volumes and quality across its operations. In this respect, Olymel is awaiting with great interest the decision of the Régie des marchés agricoles et alimentaires du Québec on the price paid to hog producers in response to their request of amendments to the hog agreement. Olymel and other processing companies have made representations to the Régie regarding this vital matter for the industry's future, emphasizing the importance of not compromising its competitive capacity.

The Western fresh pork sector reported excellent results for the third consecutive year. While slaughtering volumes were slightly down, this excellent performance was driven mainly by the higher meat margin, lower supply costs and a greater volume of value-added products.

Lastly, the latest available data shows that Olymel accounted for 34.2% of total Canadian worldwide pork exports.

Processed pork

Processed pork sector results topped prior year performance, exceeding expectations for 2018. Lower volumes were offset by this sound performance which was driven by the higher meat margin and favourable customer mix. The widespread scarcity of labour in 2018 impacted all our operating sectors, but the biggest challenge was achieving maximum capacity at pork processing facilities.

The bacon sector recorded positive results for fiscal 2018, falling slightly short of prior year performance. These results were attributable to a favourable customer mix which drove up the meat margin.

The fresh sausage sector generated positive results, despite a slight decline stemming from the launch of production in Western Canada. Sales volumes were identical to the 2017 level. In the Eastern region, fresh sausage production is concentrated at the La Fernandière plant in Trois-Rivières, and the sector saw an increase in the meat margin resulting from a favourable customer mix and lower raw material costs. Over $9 million was invested in the La Fernandière expansion project which was carried out in 2018.

Fiscal 2018 was highlighted by the acquisition of the assets of Triomphe Foods, a business well-established in

“In line with its growth plans, Olymel continued to make the necessary investments in production and processing sectors as well as in process improvement during fiscal 2018.”

the Québec market and the mass distribution network. This company is well known for its production of a wide range of deli meats and specialty hams, including the Tour Eiffel, Nostrano, Alpina and La Mère Poule brands. With this transaction, which included three production facilities and affected over 275 employees, Olymel will enter new market segments.

Fresh and processed poultry

The primary poultry processing sector generated positive results, slightly below fiscal 2017 performance, bolstered mainly by a favourable customer mix and higher volumes. However, the sector has seen a decline in the meat margin over the past five years owing to an imbalance between supply and demand. An investment totalling over $28 million was approved in 2018 to install a CO_2 stunning system at the Saint-Damase and Berthierville poultry slaughtering and cutting plants. This will make Olymel one of the first businesses in Canada and the first in Québec to operate CO_2 stunning systems in all of its slaughtering facilities. For the third consecutive year, Olymel’s interests in Sunnymel, New Brunswick and in Volaille Giannone, Québec generated positive contributions to 2018 results.

The turkey sector reported a loss again, albeit lower than in fiscal 2018. The meat margin improved as a result of better turkey selling prices, but the market is still affected by an imbalance between supply and demand.

Following 44 days of hearings, in 2018, the Régie des marchés agricoles et alimentaires du Québec granted the poultry processors' requests by deciding to maintain the guaranteed supply system in place since 1998 and harmonized with Ontario's since 2013. Lastly, since several free trade agreements have opened up the Canadian market for products subject to supply management, the poultry sector could be exposed to some volatility in the coming years, whose extent is difficult to predict today.

Although sales volumes grew, the processed poultry sector generated a loss for fiscal 2018, compared with a profit last year, partly owing to a lower meat margin resulting from higher raw material costs. Restructuring of the Brampton plants and the launch of chicken cube production at the Saint-Jean-sur-Richelieu plant also contributed to the loss. Following these changes, activities in the coming year will be geared toward maximizing value-added production.

Also during fiscal 2018, Olymel announced its intention to acquire all the shares of Pinty's Delicious Foods Inc., an Ontario poultry slaughtering and processing company, specializing in fully cooked products and other related products. Pinty's employs 360 persons and operates three facilities. This acquisition, which was completed on November 26, 2018, will allow Olymel to strengthen its presence in the Canadian poultry market.

An era of growth

Olymel is enjoying strong growth, but is also facing plenty of challenges, such as ensuring supplies and environmentally sound production, and managing market risks and uncertainty. One issue that preoccupied us most in 2018 was the availability of manpower.

Olymel created over 1,500 new jobs during the past two years. To do so, our human resources team deployed considerable efforts and many original measures and programs to recruit candidates and train recruits, and promoted stable and permanent positions to retain them. Hats off to our human resources group. Their effectiveness no doubt helped Olymel win the Grand Prix Créateur d'emplois et de prospérité du Québec 2018 awarded by Jean Boulet, the new Québec minister of Labour, Employment and Social Solidarity. Given the planned retirements and our ambition to sustain growth, labour will remain a challenge and we will continue to give it the attention it requires.

I take the opportunity to congratulate and thank the personnel at all our facilities and service outlets who are committed to feed the world every day and make an invaluable contribution to our success.

Food is at the heart of people's daily lives, and the world of food is constantly changing. As a Canadian leader in agri-food processing, Olymel is well positioned to track and interpret consumer and customer trends. We have the means and talent to respond to these trends. Beyond these trends, a consensus has emerged on the need for a balanced and diversified diet. Accordingly, Olymel must integrate the contribution of diversified protein sources into its growth and development, while continuing to strive for excellence in the pork and poultry sectors. As we have demonstrated in the past with our expertise, we will seize opportunities to expand our offer to feed the world, as our mission requires. It's an exciting prospect.

Lastly, I wish to thank my colleagues on the management team for their support and contribution to Olymel's success. I'm also grateful to our President Ghislain Gervais and all the members of the Board of Directors for their support and invaluable advice.

Réjean Nadeau

President and Chief Executive Officer

Our Brands

MANAGEMENT TEAM

Martin Juneau
Principal Vice-President,

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

Jean St-Maurice
Advisor to
Senior Management

PASCAL HOULE, CPA, CMA

Chief Executive Officer

GROUPE BMR

BMR Group continued its winning streak in fiscal 2018, improving on prior-year performance.

Sales grew $48.6 million to $936.8 million from $888.2 million last year, primarily as a result of higher building material sales and further inroads in the Ontario market.

After a year of rising building material prices due to forest fires in Western Canada and robust U.S. demand, BMR Group acted quickly to capitalize on low prices early in the year to secure its supply, providing dealers with higher margins for the remainder of the year. Corporate stores also saw sharp growth in overall sales, driven in particular by new sales to construction contractors, the U. Cayouette hardware store acquisition and our La Shop BMR launch in the Montréal area.

Our focus on developing the Ontario market through our specialized division delivered significant sales gains compared with the previous year, with our banner attracting over 100 new retailers.

Consolidated operating surplus was up 3.3% to $17.3 million in 2018 from $16.7 million last year, mainly due to higher sales. Like many other companies, BMR Group was not immune to the labour shortage, encountering significant recruitment challenges in its hardware and building materials warehouses, with the resulting additional costs putting a damper on results. The various measures put in place, including a new collective agreement signed at the end of the fiscal year, are already yielding more successful recruitment results.

A year of major renovations

In fiscal 2018, BMR Group embarked on major renovations and a raft of improvement initiatives across the organization. Significant progress was achieved on our main strategic projects, with our digital transformation and Eastern Canada expansion key among them.

First, our BMR website became transactional this year, with consumers now able to shop online from a catalogue of nearly 10,000 products. We have forged new synergies between traditional and virtual sales channels, while leveraging their complementary natures. Our digital shift was recognized by the Conseil québécois du commerce de détail (CQCD), which awarded us the Digital Shift award in the fall of 2018.

"In fiscal 2018, BMR Group embarked on major renovations and a raft of improvement initiatives across the organization."

In addition, major work was completed to pave the way for BMR Group's new information system, set for implementation in the coming year. This new system will revolutionize BMR Group and dealers operations, with substantial benefits that will deliver greater agility and competitiveness.

In line with our promise of nationwide growth, an impressive slate of 26 new BMR and Country Store stores joined our network this year, including 21 from outside Québec. We also took an innovative approach to developing new markets under a one-of-kind urban concept, with the launch of our first La Shop BMR hardware store in the heart of Montréal's Griffintown. A concept carefully designed to meet the needs of local consumers, La Shop BMR reinvents the traditional hardware store by adding products and services tailored to an urban lifestyle. New brand, same familiar layout, new product categories and new personalized services: all BMR Group teams had a hand in ensuring La Shop BMR made a solid first impression.

“In line with our promise of nationwide growth, an impressive slate of 26 new BMR and Country Store stores joined our network this year.”

This year, BMR Group also developed three innovative store concepts tailored to our dealers: BMR Express, BMR and BMR Pro. Running the gamut from smaller neighbourhood hardware stores, to “classic” BMRs, to stores catering to construction contractors, these three new concepts are perfectly in tune with the market reality of each business. In fiscal 2019, our renovation plans for a number of BMR stores will bring the drawing board to life. Apart from a great new look, these changes will offer an enhanced shopping experience with a view to boosting sales.

Solid bases for the BMR of tomorrow

Our performance in fiscal 2018 was outstanding, and the BMR of tomorrow is built on a solid footing. Given our impressive slate of new dealers, the BMR banner approach and renewed DNA clearly resonate with hardware store owners nationwide.

In closing, I would like to extend my heartfelt thanks to BMR Group’s Executive Committee and the 8,000 employees across our network, who bring renovations—large and small—to life for thousands of Canadians. I would also like to express my gratitude to La Coop fédérée for its invaluable support throughout the year. And, of course, many thanks to all our affiliated dealers for their trust and solidarity.

Pascal Houle, CPA, CMA

Chief Executive Officer

Our Brands

GROWING AND MODERNIZING TRUE TO COOPERATIVE PRINCIPLES

La Ferme Pomerleau et frères inc.
La Coop Establishment &
Farm Transfer Award finalist
La Coop 2018-2019

PAUL NOISEUX, CPA, CGA

Chief Financial Officer

La Coop's consolidated balance sheet showed total assets of over $3.2 billion as at October 27, 2018, compared with $2.7 billion at the end of the previous fiscal year.

As at October 27, 2018, the consolidated balance sheet of La Coop fédérée showed assets totalling more than $3.2 billion compared with $2.7 billion as at the end of the previous fiscal year. This growth in total assets resulted primarily from business acquisitions made in the Agri-business and Meat Divisions, and significant capital investments in the Meat Division.

La Coop reported a consolidated debt/equity ratio of 31:69 at the end of fiscal 2018 compared with 23:77 at the end of the previous fiscal year.

Preferred shares, share capital, contributed surplus and reserve totalled $1.481 billion as at year-end compared with $1.285 billion as at the end of fiscal 2017. These items represented 45.4% of total assets in 2018 compared with 48.2% as at the previous fiscal year-end. La Coop's reserve and contributed surplus as at October 27, 2018 amounted to $791.2 million, representing 53.4% of preferred shares and equity.

Liquidity and capital resources

As at October 27, 2018, 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 comprises an overall credit facility of $1 billion. Also, an additional $250 million was made available under an accordion feature. The maturity date was extended to June 2021 following an amendment to the agreement made in July 2018. Drawdowns amounted to $466.8 million at the end of fiscal 2018 compared with $196.7 million in fiscal 2017.

La Coop has other borrowing arrangements and mortgages payable, including a balance of purchase price payable in annual payments of $20 million. La Coop fédérée also has three term credit facilities, comprising a fixed-rate $60 million facility repayable in three annual payments starting in July 2020, a $25 million facility bearing interest at a 6.5% fixed-rate repayable in December 2019, and a $23.4 million drawdown on a facility bearing interest at fixed interest rates, repayable in monthly payments, and maturing in 2033.

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 2018, La Coop met its financial obligations and complied with the financial covenants set out in its financing agreements.

HARMONIZE THE VOICES OF ALL MEMBERS

RISKS AND UNCERTAINTIES

La Coop's management and its divisions are responsible for rigorous risk management by identifying the risks to which La Coop is exposed and determining the appropriate mitigating actions to manage them.

In the course of business, La Coop is exposed to risks that could have an unfavourable impact on the achievement of its objectives, reputation and financial position.

Competition and competitiveness risks

La Coop operates in the agricultural, meat and retail industries with a presence in dynamic, competitive and changing 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 buying habits and new technologies all have an impact on its financial performance and market shares. As a result, La Coop must closely monitor changes in its market and competitive environment while retaining the capacity to innovate and develop new products. Agile operations, optimized costs and an extended value chain are key assets in achieving a competitive edge.

Human resources risks

La Coop's success is built on the hard work and skills of its employees. To achieve its objectives, La Coop must attract, engage, train and retain talent with the appropriate skills and expertise. Maintaining competitive and fair compensation and employee benefits is imperative for La Coop. It offers training and professional development programs at all levels. La Coop makes every effort to maintain positive employee and union relations. A succession management plan is in place to ensure La Coop business continuity and success. Occupational health and safety is a risk for La Coop and is mitigated by policies, training, audits and best practices.

Growth and transformation risks

Continuous growth is vital for La Coop to remain an agrifood leader in Québec and across Canada, develop adequate critical mass worldwide and maintain its capacity to create wealth and extend its value chain. La Coop makes acquisitions and enters into 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.

By transforming its business model and network, La Coop is able to fulfil its aspirations, keep the network relevant and better meet member expectations.

Supply risks

Due to supplier consolidation in recent years, supply sources are more limited. La Coop has every interest in forging solid and long-lasting relationships with its suppliers to ensure supplies at competitive prices while maintaining supply quality, quantities and lead times. It is also important to invest in and strive toward greater integration in order to build a network of partners to achieve strategic objectives.

Risks and uncertainties

Market risks

Macroeconomic conditions are extremely volatile and cyclical. Raw material price volatility, exchange rate fluctuations, global inventories, weather conditions, and sociopolitical and economic stability are all factors that could have a significant impact on La Coop's capacity to achieve its objectives. Diversifying its business allows it to manage market volatility and reduce its exposure to these factors. Financial risk management policies have also been adopted to minimize exposure to the risk of significant losses and ensure effective financial risk management. Lack of control over supply prices and costs can be offset by market intelligence and stringent production cost controls.

Product risks

La Coop is exposed to raw material and product deterioration and contamination risks in the meat and agricultural sectors. La Coop complies with government requirements by applying strict food safety procedures and controls. La Coop holds accreditations such as Hazard Analysis and Critical Control Point (HACCP) and Safe Quality Food (SQF).

Livestock health and well-being risks

Livestock contamination and epidemics are significant risk factors for La Coop. Epidemics can significantly hamper production and raw material supply at processing plants. Quality management is of utmost importance to La Coop. Animal well-being is a priority for La Coop; animals must not be subject to abuse or ill treatment that could be detrimental to their health.

“La Coop implements measures to reduce its environmental footprint and risks arising from its operations, products and services.”

Legal, regulatory and compliance risks

La Coop is subject to a wide range of laws, regulations and standards, including those relating to the environment, workplace health and safety, intellectual property, privacy and taxation. As a responsible corporate citizen, La Coop incurs operating expenses to ensure compliance with laws, regulations and standards. La Coop is also bound by international trade agreements governing its business. It closely monitors regulatory developments to anticipate any business or member 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, that could compromise system availability and integrity or data privacy. La Coop and all of its divisions deploy resources to improve and increase the effectiveness and efficiency of the systems, tools and methods in place.

Environmental risks

La Coop implements measures to reduce its environmental footprint and risks arising from its operations, products and services. Its environmental policy also demonstrates the commitments made by La Coop with respect to prevailing government regulatory requirements and best practices in its operating sectors. La Coop monitors legislative and regulatory developments. La Coop demonstrates 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 its territory, La Coop has evolved seamlessly with a focus on member services, reaping generous rewards that it shares equitably with the entire 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 31 traditional agricultural cooperatives and 26 consumer cooperatives as regular members, and 42 agricultural equipment cooperatives ("CUMA") as auxiliary members. These same cooperatives comprised some 119,000 voluntary members.

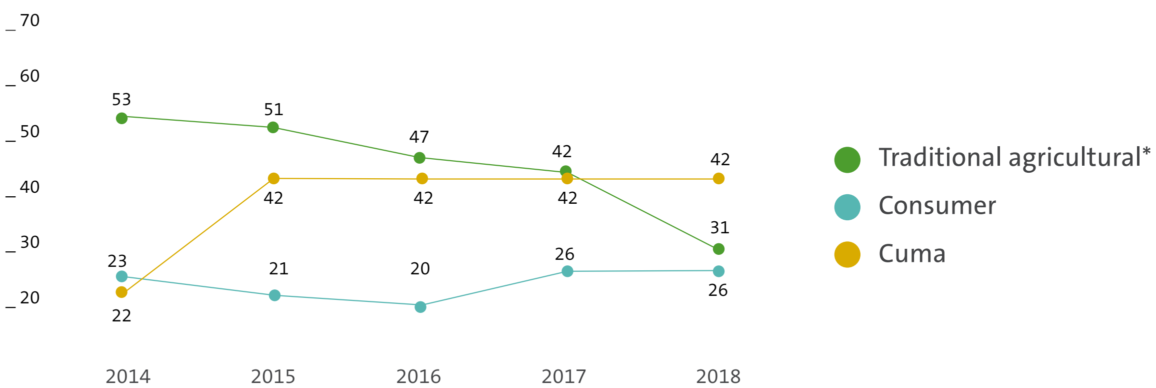
119,172
members, agricultural producers and consumers

32,395
regular members, non-agricultural

21,828
regular members, agricultural producers

64,949
auxiliary or associate members

Changes in the number of cooperative members

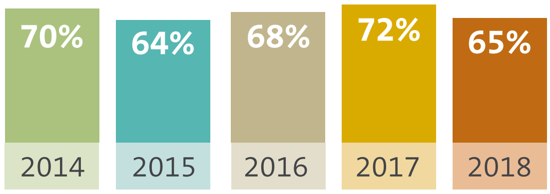


*The number of traditional agricultural cooperatives is decreasing owing to the mergers carried out to implement the Vision 2020 project.

Principle No. 2 – Democratic member control

The agricultural members of La Coop's 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.

Delegate attendance at La Coop's Annual General Meeting



In 2018, **199 delegates** out of a potential total of **306** exercised their rights, for a participation rate of **65%**.

At La Coop fédérée

15
Directors make up the Board of Directors of La Coop fédérée
Among which :

1 seat is reserved for a woman representation.

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

1 seat is reserved for a guest director (external).

In the La Coop fédérée's network

330
directors serve on boards of directors
Among which :

62 **youth** (under 35)

79 **women**

Cooperative Overview

Principle No.3 – Member economic participation

The cooperatives contribute equitably to La Coop fédérée's capital, holding $307.4 million in La Coop fédérée shares and $773.2 million in a collective reserve.

During the year, La Coop fédérée distributed patronage refunds to cooperatives in the amount of $42.4 million, paid an $11.2 million dividend to the Cooperative Pork Chain and redeemed member shares for a cash consideration of $10.3 million.

$245 M

in patronage refunds distributed to cooperatives in the past five years.

$37.8 M

in dividends distributed to members of the Cooperative Pork Chain in the past two years.

Patronage refunds distributed to member cooperatives

2014	2015	2016	2017	2018
$25,0 M	$35,0 M	$55.0 M	$88.0 M	$42.4 M

Dividends paid to the Cooperative Pork Chain

2016	2017	2018
$10.8 M	$15.8 M	$11.2 M

Statement of collective reserve

2014	2015	2016	2017	2018
$338.3 M	$384.4 M	$533.5 M	$688.4 M	$773.2 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, by fostering directors' independence from management and by pursuing sustainable results.

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

$1 476 M

is the equity of La Coop fédérée.

Ratio of members' equity to assets:

2014	2015	2016	2017	2018
30.3%	25.4%	31.9%	37.7%	33.7%

$115.6 M

of earnings attributable to members will be transferred into La Coop fédérée's collective reserve in 2018.

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 contributes to talent development through annual investments of nearly $10.9 million. More specifically, La Coop fédérée's investments in training represent 2.13% of the payroll of the parent company and the Agri-business Division, 2.50% of the payroll of Olymel and 1.15% of the payroll of BMR.

In addition, a host of training courses are offered to young 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.

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

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

50 youth became beneficiaries of the Fonds coopératif d'aide à la relève agricole during the year, bringing the total number of beneficiaries to 640, and gained 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 that work together to grow the cooperative movement. 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), 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).

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

16 countries supported

163 technical assistance missions

Nearly **2 000** person-days offered

Principle No. 7 – Concern for community

La Coop fédérée promotes sustainable development in the communities where it operates. It encourages modern 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.

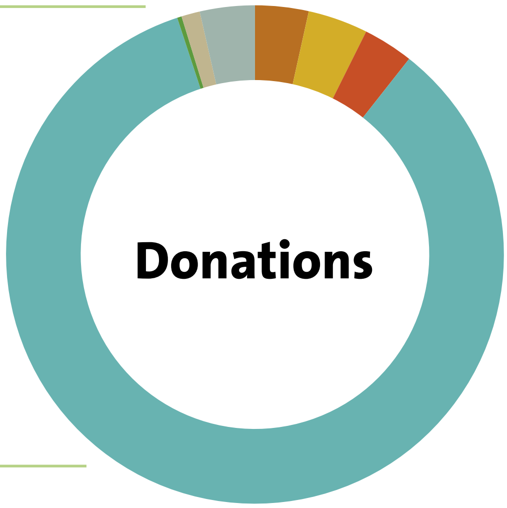
During fiscal 2018, La Coop fédérée and its subsidiaries awarded $5 million in donations and sponsorships across its territory.

Donations totalled $3.4 million, of which $2.8 million represented the value of food products generously donated by Olymel, primarily to Moisson organizations in Québec.

Sponsorships totalled $1.6 million, of which $1.2 million was provided to organizations or events that promote agri-food, crop production and health.

$ 2.6 millions

worth of food products was generously donated by Olymel in fiscal 2018 to Moisson organizations in Québec.

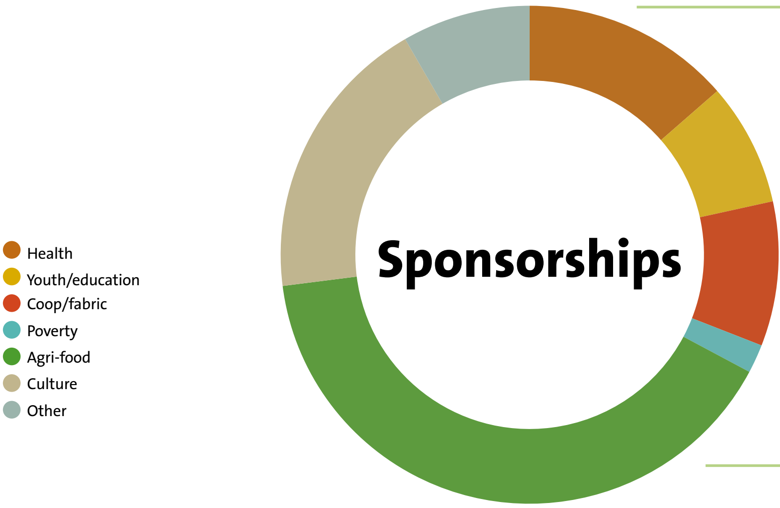


$ 270 000

was donated by La Coop fédérée to community organizations in the Montérégie where the **Défi Vélo La Coop** event took place in 2018.

$ 60 000

was donated by BMR to **Children's Wishes.**



$ 125 000

in sponsorships was awarded by La Coop fédérée for the Fête nationale.

$ 105 000

in sponsorships was awarded by the Agri-business Division to promote the agri-food industry.

$ 75 000

was awarded by BMR to the Jeux du Québec.

CONSOLIDATED FINANCIAL STATEMENTS

October 27, 2018

MANAGEMENT'S 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 27, 2018 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. The auditors appointed by the members, Ernst & Young LLP, 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

Paul NOISEUX, CPA, CGA
Chief Financial Officer

Montréal, January 16, 2019

INDEPENDENT AUDITORS' REPORT

To the members of La Coop fédérée

We have audited the accompanying consolidated financial statements of **La Coop fédérée**, which comprise the consolidated balance sheet as at October 27, 2018 and the consolidated statements of earnings, reserve and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with 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.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **La Coop fédérée** as at October 27, 2018 and the results of its operations and its cash flows for the year then ended in accordance with Canadian Accounting Standards for Private Enterprises.

Ernst & Young LLP[1]

Montréal, Canada
January 16, 2019

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

A member firm of Ernst & Young Global Limited

Consolidated balance sheet

As at October 27, 2018 and October 28, 2017

[in thousands of dollars]	Notes	2018 $	2017 $
ASSETS			
Current assets			
Accounts receivable	7, 25	602,596	527,182
Inventories	8	741,945	628,286
Income taxes receivable		27,444	–
Prepaid expenses		20,777	22,929
Derivative financial instruments	24	29,036	17,594
Future income tax assets	6	3,617	18,993
Investments – current portion	11, 25	19,815	8,771
		1,445,230	1,223,755
Non-current assets			
Interests in joint arrangements	9	226,165	204,415
Investments in entities subject to significant influence	10	19,112	20,879
Investments	11, 25	73,023	78,336
Property, plant and equipment	12	998,432	811,085
Property, plant and equipment held for sale	12	21,698	17,504
Defined benefit asset	19	43,339	50,958
Goodwill		207,281	130,120
Intangible assets	13	227,189	129,938
		1,816,239	1,443,235
		3,261,469	2,666,990
LIABILITIES AND EQUITY			
Current liabilities			
Bank overdrafts		13,549	20,692
Bank borrowings	14	8,000	8,559
Accounts payable and accrued liabilities	15, 25	712,528	642,374
Deferred revenues	25	89,718	73,108
Income taxes payable		–	13,620
Derivative financial instruments	24	18,912	13,403
Patronage refunds payable	5	12,720	13,200
Redeemable preferred shares – current portion	20	4,495	4,661
Obligations under capital leases – current portion	16	423	6,299
Long-term debt – current portion	17	31,326	13,565
		891,671	809,481
Non-current liabilities			
Obligations under capital leases	16	1,828	2,196
Long-term debt	17	608,837	352,016
Deferred credit	18	11,721	12,621
Defined benefit liability	19	67,585	61,186
Future income tax liabilities	6	61,721	46,873
		751,692	474,892
Total liabilities		1,643,363	1,284,373
EQUITY			
Share capital	20	685,113	574,187
Contributed surplus		18,000	18,000
Reserve		773,219	688,402
Equity of La Coop		1,476,332	1,280,589
Non-controlling interests	22, 26	141,774	102,028
Total equity		1,618,106	1,382,617
		3,261,469	2,666,990

Commitments and contingencies *[note 22]*

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, agr.
Muriel DUBOIS, Director

Consolidated statement of earnings

Years ended October 27, 2018 and October 28, 2017

[in thousands of dollars]	Notes	**2018** **$**	2017 $
Revenues	25	**6,515,972**	6,271,772
Operating expenses	4		
Cost of sales and selling and administrative expenses	25	**6,346,475**	5,935,345
Financial expenses		**22,601**	17,764
		6,369,076	5,953,109
Operating income		**146,896**	318,663
Other income and expenses			
Share of results of joint arrangements		**47,211**	34,442
Share of results of entities subject to significant influence		**(138)**	749
Other investments	25	**1,719**	2,131
Net gains (losses) on disposal and remeasurement of assets	3	**9,551**	(4,757)
Gain arising from an insurance benefit		**5,486**	–
		63,829	32,565
Earnings before patronage refunds and income taxes		**210,725**	351,228
Patronage refunds	5	**42,400**	88,000
Income taxes	6	**32,914**	65,273
Net earnings		**135,411**	197,955
Attributable to:			
Members of La Coop		**115,614**	168,349
Non-controlling interests		**19,797**	29,606
		135,411	197,955

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

Consolidated statement of reserve

Years ended October 27, 2018 and October 28, 2017

[in thousands of dollars]	Notes	**2018** **$**	2017 $
Reserve, beginning of year		**688,402**	533,545
Premium on issuance of non-controlling interest	9	**–**	16,603
Premium on redemption of non-controlling interest	26	**–**	(9,810)
Dividends on common shares		**(15,313)**	(10,784)
Dividends on preferred investment shares		**(15,484)**	(9,501)
Net earnings attributable to members of La Coop		**115,614**	168,349
Reserve, end of year		**773,219**	688,402

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

Consolidated statement of cash flows

Years ended October 27, 2018 and October 28, 2017

[in thousands of dollars]	Notes	**2018** $	2017 $
OPERATING ACTIVITIES			
Net earnings		**135,411**	197,955
Non-cash items:			
Amortization	4	**94,346**	82,733
Net losses (gains) on disposal and remeasurement of assets		**(9,551)**	4,757
Future income taxes		**11,757**	(13,919)
Gains on derivative financial instruments		**(5,933)**	(1,017)
Change in defined benefits		**14,018**	(10,714)
Share of results of joint arrangements		**(47,211)**	(34,442)
Share of results of entities subject to significant influence		**138**	(749)
Other investment income		**53**	(105)
Patronage refunds paid in common shares		**29,680**	74,800
		222,708	299,299
Net change in non-cash working capital items	21	**(115,914)**	(31,012)
Cash flows related to operating activities		**106,794**	268,287
INVESTING ACTIVITIES			
Business acquisitions	3	**(176,863)**	–
Acquisitions of units from a subsidiary's non-controlling interest		**–**	(28,544)
Acquisitions of investments		**(6,957)**	(3,785)
Acquisitions of interests in joint arrangements		**(9,145)**	(383)
Acquisitions of investments in entities subject to significant influence		**(5,676)**	(4,422)
Proceeds from disposal of investments		**1,368**	8,688
Proceeds from disposal of interests in joint arrangements		**152**	438
Proceeds from disposal of investments in entities subject to significant influence		**100**	432
Dividends received from joint arrangements		**29,924**	14,272
Dividends received from entities subject to significant influence		**757**	833
Additions to property, plant and equipment		**(217,065)**	(171,651)
Proceeds from disposal of property, plant and equipment		**4,232**	26,739
Additions to intangible assets		**(9,790)**	(2,480)
Proceeds from disposal of intangible assets		**–**	100
Cash flows related to investing activities		**(388,963)**	(159,763)
FINANCING ACTIVITIES			
Net change in bank borrowings		**(6,559)**	4,376
Repayment of obligations under capital leases		**(6,244)**	(1,833)
Proceeds from issuance of long-term debt		**278,660**	14,622
Repayment of long-term debt		**(16,723)**	(213,894)
Proceeds from issuance of preferred shares		**107,070**	104,656
Redemption of preferred shares		**(5,363)**	(3,952)
Dividends on preferred investment shares		**(15,484)**	(9,501)
Proceeds from issuance of common shares		**13**	40
Redemption of common shares		**(33,785)**	(11,974)
Dividends on common shares		**(2,297)**	(5,389)
Proceeds from issuance of units of a subsidiary to third parties		**2,497**	2,094
Dividends paid to non-controlling interests		**(12,473)**	(2,544)
Cash flows related to financing activities		**289,312**	(123,299)
Decrease (increase) in bank overdrafts		**7,143**	(14,775)
Bank overdrafts, beginning of year		**(20,692)**	(5,917)
Bank overdrafts, end of year		**(13,549)**	(20,692)

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

Notes to consolidated financial statements

Years ended October 27, 2018 and October 28, 2017

[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 the following significant subsidiaries:

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%
Standard Nutrition Inc.	Distribution and marketing of animal nutrition products	100%
Maizex Seeds Inc.	Production and marketing of seeds	75%
Gestion BMR inc.	Distribution and marketing of hardware products and materials	100%
Olymel L.P.	Production, processing and marketing of pork and poultry products	89.8%
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	53.8%
Immeuble 9001 l'Acadie, société en commandite	Manager of building housing the head office	100%

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.

Interests in joint arrangements

La Coop uses the equity method to account for its interests in jointly controlled enterprises. None of La Coop's joint arrangements has a share of results that 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 stated at cost. 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 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.

Notes to consolidated financial statements

Years ended October 27, 2018 and October 28, 2017

2. SIGNIFICANT ACCOUNTING POLICIES

Intangible assets

Intangible assets subject to amortization are recognized at cost and amortized on a straight-line basis over their estimated useful life.

Trademarks

Trademarks are amortized over periods of 2 to 20 years.

Client lists

Client lists are amortized over periods of 5 to 21 years.

Rights

Rights consist of production rights and exclusive supply rights. Production rights are not amortized since they have an indefinite useful life while exclusive supply rights are amortized over periods of 5 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 3 to 5 years. The amortization of information technology development projects begins at project completion.

Impairment of assets

Financial assets

Allowance for doubtful accounts

Accounts receivable carried at amortized cost 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. 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.

Allowances for credit losses

Investments in cooperatives recognized at cost, interests in joint arrangements and investments in entities subject to significant influence recognized using the equity method are written down if analyses of entities' financial reports show they are experiencing financial difficulties. 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.

Notes receivable carried at amortized cost are subject to continuous impairment review and are classified as impaired when, in the opinion of La Coop, there is reasonable doubt as to the ultimate collectability of a portion of principal and interest. An impairment is established by analyzing certain financial ratios of these entities. 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 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.

Goodwill

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

Research and development

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

Notes to consolidated financial statements

Years ended October 27, 2018 and October 28, 2017

2. SIGNIFICANT ACCOUNTING POLICIES

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.

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

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. 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 after year-end. 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.

Financial instruments

Financial assets and liabilities are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method.

Financial assets measured at amortized cost using the effective interest method consist of accounts receivable. Financial liabilities measured at amortized cost consist of bank overdrafts, bank borrowings, accounts payable and accrued liabilities, deferred revenues and patronage refunds payable.

Shares and other securities of cooperatives included under investments are measured at cost since they have no quoted market price in an active market. Interests in joint arrangements and investments in entities subject to significant influence are accounted for using the equity method. Notes receivable are initially measured at fair value and subsequent measurements are recorded at amortized cost using the effective interest method.

Preferred shares and long-term debt are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method. For La Coop, this measurement is generally equal to cost due either to the use of a floating rate for certain borrowings or because management believes that the fair value of fixed-rate borrowings does not differ greatly from their carrying amount given the imminent maturity of some and the rates that could be obtained currently by La Coop for borrowings with similar conditions and maturities.

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, forward contracts, and commodity and currency options and swaps. 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. Derivative financial instruments are measured at fair value, which is the approximate amount that might be obtained in settlement of such instruments at prevailing market rates. The gain or loss portion of a hedging item is reported as an adjustment to the revenues from or 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.

Notes to consolidated financial statements

Years ended October 27, 2018 and October 28, 2017

2. SIGNIFICANT ACCOUNTING POLICIES

Derivative financial instruments

Foreign exchange contracts and currency swaps

La Coop often sells and buys outside Canada, mainly in US dollars, Japanese yen and Australian dollars. To protect these transactions against foreign exchange fluctuations, La Coop uses foreign exchange contracts and currency swaps. Gains and losses on foreign exchange contracts and currency swaps entered into to hedge future transaction cash flows are recognized in the consolidated statement of earnings when these transactions occur.

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. Gains and losses from these currency swaps used as cash flow hedges are included in the consolidated statement of earnings.

A hedging relationship is terminated when the hedge ceases to be effective, and the unrealized gain or loss on the related derivative financial instrument is recognized 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

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. 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.

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 27, 2018 and October 28, 2017 included 52 weeks.

3. BUSINESS ACQUISITIONS

Meat Division

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

This acquisition was accounted for using the purchase method and consolidated as of the acquisition date.

The total value of net assets acquired and 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

Notes to consolidated financial statements

Years ended October 27, 2018 and October 28, 2017

3. BUSINESS ACQUISITIONS

Agri-business Division

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

This acquisition was accounted for using the purchase method and consolidated as of the acquisition date.

The total value of net assets acquired and 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

Agri-business Division

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

This acquisition was accounted for using the purchase method and consolidated as of the acquisition date.

The total value of net assets acquired and 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

A group of non-controlling shareholders holding 25% of the shares of said 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 has the obligation to repurchase the shares at the time the option is exercised or at the option expiry date of July 4, 2023.

Agri-business Division

On September 4, 2018, La Coop acquired 50% of the shares of a company operating in the agriculture sector for a consideration of $1,500,000. As La Coop already held a 50% interest in this company, it acquired 100% control on the acquisition date of September 4, 2018.

Notes to consolidated financial statements

Years ended October 27, 2018 and October 28, 2017

3. BUSINESS ACQUISITIONS

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 acquired affective 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.

This acquisition was accounted for using the purchase method and consolidated as of the acquisition date.

The total value of net assets acquired and 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. OPERATING EXPENSES

Operating expenses include the following items:

	2018 $	2017 $
Cost of sales and selling and administrative expenses		
Cost of inventories	5,721,197	5,438,801
Research and development tax credits	(1,131)	(1,106)
Amortization of property, plant and equipment	76,311	67,749
Amortization of intangible assets	17,957	14,596
Amortization of transaction costs	978	1,288
Amortization of deferred credit	(900)	(900)
Financial expenses		
Interest on bank borrowings	804	499
Interest on obligations under capital leases	264	314
Interest on long-term debt	20,837	15,749
Interest on preferred shares	955	860
Interest income	(1,237)	(946)

Notes to consolidated financial statements

Years ended October 27, 2018 and October 28, 2017

5. PATRONAGE REFUNDS

In accordance with the provisions of the act governing La Coop, at their January 16, 2019 meeting, the directors declared patronage refunds of $42,400,000 to be paid from earnings for the year. They authorized the patronage refunds to be paid in the following proportions:

	2018 $	2017 $
Cash	12,720	13,200
Class D-1 common shares (B-1 and D-1 in 2017)	29,680	74,800
	42,400	88,000

These consolidated financial statements reflect the resolution.

6. INCOME TAXES

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

	2018 $	2017 $
Current	21,157	79,192
Future	11,757	(13,919)
Income taxes	32,914	65,273

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:

	2018 $	2017 $
Earnings before patronage refunds and income taxes	210,725	351,228
Patronage refunds	42,400	88,000
Earnings for calculation of income tax expense	168,325	263,228
Income taxes at combined federal and provincial rates of 26.75% [26.81% in 2017]	45,027	70,571
Effect of non-deductible expenses for tax purposes	2,271	1,363
Remeasurement of investments in entities subject to significant influence	(2,784)	–
Investments in taxable entities subject to significant influence	(3,599)	64
Earnings attributable to non-controlling interests	(5,296)	(7,944)
Other items	(2,705)	1,219
Income taxes	32,914	65,273

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

	2018 $	2017 $
Rollforward period	87	17,040
Non-deductible provisions and reserves for tax purposes	3,460	4,051
Other items – net	70	(2,098)
Current future income tax assets	3,617	18,993
Excess of carrying amount over tax basis:		
Property, plant and equipment	(50,440)	(46,099)
Intangible assets	(22,135)	(3,745)
Investments	(6,523)	(9,245)
Losses carried forward	11,481	10,292
Employee future benefits	5,702	2,233
Other	194	(309)
Non-current future income tax liabilities	(61,721)	(46,873)

Notes to consolidated financial statements

Years ended October 27, 2018 and October 28, 2017

7. ACCOUNTS RECEIVABLE

	2018 $	2017 $
Trade receivables	610,876	532,425
Allowance for doubtful accounts	(8,280)	(5,243)
	602,596	527,182

8. INVENTORIES

Inventories are as follows:

	2018 $	2017 $
Inventories – Meat Division	323,508	292,287
Inventories – Agri-business Division	284,183	208,451
Inventories – Retail Division	134,254	127,548
	741,945	628,286

The carrying amount of inventories recognized at net realizable value was $137,560,000 [$136,300,000 in 2017].
An inventory write-down of $21,395,000 was recognized as an expense during the year [$27,554,000 in 2017].
There were no write-down reversals in inventories in 2018 and 2017.

9. INTERESTS IN JOINT ARRANGEMENTS

	2018 $	2017 $
Agri-business Division – 50% interest	90,198	79,139
Meat Division – 50% and 67.7% interests	84,629	84,028
Petroleum industry company – 50% interest	51,338	41,248
	226,165	204,415

Agri-business Division

On November 3, 2017, La Coop entered into a joint arrangement for business purposes entitling it to a 50% interest in a business operating in the distribution and marketing of agricultural inputs sector for a total consideration of $6,800,000.

Meat Division

On December 31, 2016, La Coop entered into a joint arrangement for business purposes entitling it to a 50% interest in a hog slaughtering and pork cutting and processing business, and hog breeding operations for a total consideration of $40,000,000. In consideration for this interest, Olymel L.P. issued units to its partner resulting in the recognition of a non-controlling interest in the consolidated financial statements of La Coop. The excess of fair value of the consideration paid over the carrying amount of the non-controlling interest was recognized as an increase of the reserve in the amount of $16,603,000 under premium on issuance of a non-controlling interest.

10. INVESTMENTS IN ENTITIES SUBJECT TO SIGNIFICANT INFLUENCE

	2018 $	2017 $
Agri-business Division – 7.58%–40% interests	17,548	18,833
Meat Division – 20% interest	748	1,325
Retail Division – 24.5% and 33% interests [24.5% and 39% in 2017]	816	721
	19,112	20,879

Notes to consolidated financial statements

Years ended October 27, 2018 and October 28, 2017

11. INVESTMENTS

	2018 $	2017 $
Shares and other securities of cooperatives	13,194	12,541
Note receivable, bearing interest at the lower of the prime rate and 4%, repayable in accordance with the terms of the agreement	45,000	45,000
Other notes receivable	30,026	24,623
Note receivable, repayable and bearing interest at the rate defined under the terms of the agreement	4,618	4,943
	92,838	87,107
Investments – current portion	19,815	8,771
	73,023	78,336

12. PROPERTY, PLANT AND EQUIPMENT

	2018			2017
	Cost $	Accumulated amortization $	Net carrying amount $	Net carrying amount $
Land	80,394	–	80,394	78,624
Pavement	42,922	14,947	27,975	22,927
Buildings	795,223	240,754	554,469	423,978
Machinery and equipment	934,998	633,721	301,277	244,868
Automotive equipment	26,476	18,574	7,902	7,084
Leasehold improvements	12,711	4,770	7,941	5,595
Breeding livestock	19,664	4,718	14,946	15,359
Assets under capital leases				
Buildings	2,597	388	2,209	9,702
Machinery and equipment	1,350	240	1,110	2,636
Automotive equipment	901	692	209	312
	1,917,236	918,804	998,432	811,085
Property, plant and equipment held for sale	–	–	21,698	17,504

In fiscal 2017 and prior year, La Coop decided to offer for sale the building housing its head office, land and other buildings.

These items of property, plant and equipment are reported at the lower of their carrying amount and fair value less costs to sell, for a total amount of $21,698,000 as at October 27, 2018 [$17,504,000 in 2017]. Amortization of these items of property, plant and equipment stopped on the date they were designated as property, plant and equipment held for sale.

13. INTANGIBLE ASSETS

	2018			2017
	Cost $	Accumulated amortization $	Net carrying amount $	Net carrying amount $
Trademarks	67,184	8,515	58,669	45,129
Client lists	109,039	23,458	85,581	50,913
Exclusive supply rights	62,992	36,888	26,104	28,566
Production rights	44,172	–	44,172	1,329
Software and information technology development projects	29,106	16,443	12,663	4,001
	312,493	85,304	227,189	129,938

Software and information technology development projects are developed internally and the costs recognized under intangible assets are capitalized when the costs incurred allow for the use of the asset according to management's expectations.

Notes to consolidated financial statements

Years ended October 27, 2018 and October 28, 2017

14. BANK BORROWINGS

Bank borrowings consist of subsidiaries' demand credit facilities.

For one of the subsidiaries, the demand credit facility, renewable annually, available for bank overdrafts, advances, letters of credit and standby letters of credit, totalled $17,000,000 in 2018 and 2017, subject to a maximum of $6,000,000 in 2018 and 2017 for letters of credit and standby letters of credit. As at October 27, 2018, the facility was undrawn [$6,559,000 drawn down in 2017], bearing interest at the prime rate of 3.95% in 2018 [3.20% in 2017]. 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 receivables and inventories of these subsidiaries, that is $2,171,000 [$1,250,000 in 2017]. The revolving operating credit facility bears interest at the prime rate plus 1.75%, representing a rate of 5.70% in 2018 [4.95% in 2017]. This operating credit facility was undrawn in 2018 and 2017.

Another subsidiary has an annually renewable demand loan facility, with an authorized amount of $5,000,000 [$6,500,000 in 2017], of which $2,000,000 was drawn down in 2018 and 2017, bearing interest at the prime rate plus 0.25%, representing a rate of 4.20% in 2018 [3.45% in 2017]. This demand loan is secured by the subsidiary's accounts receivable and inventories with a carrying amount of $7,934,000 in 2018 [$6,676,000 in 2017].

A new subsidiary had an annually renewable demand loan facility, with an authorized amount of $9,000,000, of which $6,000,000 was drawn down in 2018 and bearing interest at the prime rate plus 0.25%, representing a rate of 4.20% as at October 27, 2018. This demand loan is secured by the subsidiary's accounts receivable and inventories with a carrying amount of $6,902,000 in 2018.

15. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2018	2017
	$	$
Trade payables and accrued liabilities	**698,578**	635,802
Government remittances	**12,533**	5,145
Accrued interest on long-term debt	**1,417**	1,427
	712,528	642,374

16. OBLIGATIONS UNDER CAPITAL LEASES

	2018	2017
	$	$
Obligation under a capital lease bearing interest at the fixed rate of 3.20%, repayable in blended monthly instalments of $11,900, maturing in August 2022	**1,594**	1,685
Obligations under capital leases bearing interest at fixed rates ranging from 1.95% to 10.65% in 2018 and 2017, repayable in monthly principal instalments ranging from $45 to $22,093, maturing between December 2018 and June 2021	**657**	989
Obligation under a capital lease bearing interest at the fixed rate of 3.50% and prime rate plus 1%, representing a rate of 4.95% in 2018 [4.20% in 2017], repayable in blended monthly instalments of $136,174, that matured in July 2018	**–**	5,821
	2,251	8,495
Obligations under capital leases – current portion	**423**	6,299
	1,828	2,196

Minimum lease payments in upcoming years are as follows:

	$
2019	**423**
2020	**400**
2021	**123**
2022	**1,305**
2023	**–**

Minimum payments of obligations under capital leases include interest totalling $232,000.
The obligations under capital leases are secured by the underlying leased assets.

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Years ended October 27, 2018 and October 28, 2017

17. LONG-TERM DEBT

	2018 $	2017 $
Credit facility[1] drawn under margin loans at the prime rate of 3.95% [3.20% in 2017], under bankers' acceptances at rates ranging from 3.31% to 3.48% [2.27% to 2.34% in 2017] and LIBOR advances at rates ranging from 3.05% to 3.22% in 2018 [2.08% in 2017], renewable in June 2021	**466,796**	196,728
Term credit, at a fixed rate of 5%, repayable in annual principal instalments of $20,000,000 from July 11, 2020 through July 2022	**60,000**	60,000
Balance of purchase price payable, bearing interest at the lower of 4% or the prime rate, representing a rate of 3.95% [3.20% in 2017], repayable in annual principal instalments of $20,000,000. An early repayment was made during a previous fiscal year	**40,000**	40,000
Term credit, at a fixed rate of 6.50%, repayable in full in December 2019	**25,000**	25,000
Term credit facilities of subsidiaries, secured by immovable hypothecs on the universality of the subsidiaries' property, bearing interest at fixed rates ranging from 4.31% to 5.91% [3.40% to 4.67% in 2017]. These term credit facilities are repayable in monthly principal instalments totalling $144,552 as of January 2019, maturing in September 2033	**23,417**	15,612
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	**9,724**	–
Mortgage loan of a subsidiary, secured by a hypothec on a building and land of the subsidiary with a carrying amount of $14,681,000 as at October 27, 2018 [$15,186,000 in 2017], bearing interest at a fixed rate of 7.76%, repayable in blended monthly instalments of $83,404, maturing in March 2023	**5,630**	6,170
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 [3.45% in 2017], repayable in monthly principal instalments of $81,518, maturing on October 31, 2018	**4,213**	5,191
Mortgage loans of a subsidiary, secured by hypothecs on rents, land, buildings and equipment, with a carrying amount of $8,502,000 in 2017, bearing interest at rates ranging from 3.20% to 3.70%, repaid during fiscal 2018	**–**	5,685
Mortgage loans and other borrowings, bearing interest at rates ranging from 0% to 5.20% in 2018 [0% to 4.45% in 2017], maturing between November 2018 and July 2022	**7,386**	12,896
	642,166	367,282
Transaction costs	**(2,003)**	(1,701)
	640,163	365,581
Long-term debt – current portion	**31,326**	13,565
	608,837	352,016

1. La Coop has an overall revolving credit facility of $1,000,000,000 [$750,000,000 in 2017]. 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 based on 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 27, 2018, La Coop was in compliance with these financial ratios.

The principal repayments required over the next five years are as follows:
2019 – $31,326,000; 2020 – $68,767,000; 2021 – $490,041,000; 2022 – $23,411,000; 2023 – $5,677,000.

On November 30, 2018, La Coop obtained an additional one-year non-renewable credit facility for a maximum amount of $200,000,000, maturing on November 30, 2019. The interest rate is based on a rate schedule that varies based on a financial ratio calculated quarterly on a consolidated basis.

18. DEFERRED CREDIT

The deferred credit amount represents the non-amortized insurance proceeds following the fire at one of the Meat Division plants in 2012. It is recognized as revenue at the same rate as the amortization of assets.

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19. 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, 2015, 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, 2018, except for a valuation to be carried 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:

2018	Pension plans $	Other post-retirement benefits $	Total $
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)

2017	Pension plans $	Other post-retirement benefits $	Total $
Defined benefit obligations	227,962	20,481	248,443
Fair value of plan assets	238,215	—	238,215
Net defined benefit asset (liability)	10,253	(20,481)	(10,228)

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

	Pension plans $	Other post-retirement benefits $	Total $
Defined benefit asset	50,958	—	50,958
Defined benefit liability	(40,705)	(20,481)	(61,186)
Net defined benefit asset (liability)	10,253	(20,481)	(10,228)

The cost of defined benefit pension plans is as follows:

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

2017	Pension plans $	Other post-retirement benefits $	Total $
Current service cost	4,915	1,025	5,940
Interest cost	5,225	1,218	6,443
Remeasurements and other items	(11,558)	(3,008)	(14,566)
Employee future benefit cost (income)	(1,418)	(765)	(2,183)

During fiscal 2017, amendments were made to certain other post-retirement benefit programs of La Coop, which resulted in a curtailment gain of $3,767,000 presented under remeasurements and other items.

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Years ended October 27, 2018 and October 28, 2017

20. 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 since May 31, 2015, 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 since May 31, 2016, 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 2013 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 since May 31, 2015, with an annual dividend, payable semi-annually, at a rate set under the Series 3 – ESSOR 2013 subscription agreement, cumulative and preferential except for the interest on Cooperative Investment Plan shares.

Series 4 – FONDACTION 2013 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 since May 31, 2015, with an annual dividend, payable semi-annually, at a rate set under the Series 4 – FONDACTION 2013 subscription agreement, cumulative and preferential except for the interest on Cooperative Investment Plan shares.

Series 5 – FSTQ 2013 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 since May 31, 2015, with an annual dividend, payable semi-annually, at a rate set under the Series 5 – FSTQ 2013 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.

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. However, the Board of Directors may not redeem Class B common shares if there are common shares outstanding other than Class B-1, D-1 or P-1 common shares or Class A common shares. 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 B and 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. However, the Board of Directors may not redeem Class D-1 common shares if any Class B common shares are outstanding. These shares were issued to members as partial payment of patronage refunds.

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 1–248 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 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.

Notes to consolidated financial statements

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20. SHARE CAPITAL

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

	Number		Amount	
	2018	2017	2018 $	2017 $
Preferred shares				
Class A	391,927	560,990	392	561
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 2013 investment shares	50,000	50,000	5,000	5,000
Series 4 – FONDACTION 2013 investment shares	250,000	250,000	25,000	25,000
Series 5 – FSTQ 2013 investment shares	250,000	250,000	25,000	25,000
Series 6 – 2017 investment shares	2,000,000	1,000,000	200,000	100,000
Cooperative Investment Plan				
Series 2012, redeemable as of 2018, 3.5%	—	466,094	—	4,661
Series 2013, redeemable as of 2019, 3.5%	449,475	449,475	4,495	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	—	7,106	—
	6,914,962	5,839,509	385,123	282,847
Transaction costs	—	—	(2,926)	(2,890)
	6,914,962	5,839,509	382,197	279,957
Preferred shares recognized as a financial liability	(449,475)	(466,094)	(4,495)	(4,661)
	6,465,487	5,373,415	377,702	275,296
Common shares				
Class A	27,301	36,350	682	908
Class AA	2,470	2,370	61	59
Class B	—	2,196,476	—	2,197
Class B-1	42,457,404	42,512,385	42,458	42,512
Class D-1	240,822,446	242,811,780	240,823	242,812
Class P-1	4,999,258	4,999,258	4,999	4,999
Class P-2	241	229	7	6
Class P-100	18,368,810	5,385,273	18,369	5,385
AUXILIARY MEMBERS	490	500	12	13
	306,678,420	297,944,621	307,411	298,891
	313,143,907	303,318,036	685,113	574,187

Notes to consolidated financial statements

Years ended October 27, 2018 and October 28, 2017

20. SHARE CAPITAL

Transactions during the year were as follows:

	Number		Amount	
	2018	2017	**2018** $	2017 $
Preferred shares				
Balance, beginning of year	**5,839,509**	4,793,939	**279,957**	179,253
Issued:				
Series 6 – 2017 investment shares	**1,000,000**	1,000,000	**100,000**	100,000
Cooperative Investment Plan – Series 2017 [Series 2016 in 2017]	**710,610**	633,667	**7,106**	6,337
Transaction costs	**—**	—	**(36)**	(1,681)
	1,710,610	1,633,667	**107,070**	104,656
Transferred:				
Class A	**533,433**	—	**533**	—
Redeemed:				
Class A	**(702,496)**	(214,435)	**(702)**	(215)
Cooperative Investment Plan – Series 2012 [Series 2011 in 2017]	**(466,094)**	(373,662)	**(4,661)**	(3,737)
	(1,168,590)	(588,097)	**(5,363)**	(3,522)
	6,914,962	5,839,509	**382,197**	279,957
Cooperative Investment Plan – Series 2013 – current portion [Series 2012 in 2017]	**(449,475)**	(466,094)	**(4,495)**	(4,661)
Balance, end of year	**6,465,487**	5,373,415	**377,702**	275,296
Common shares				
Balance, beginning of year	**297,944,621**	230,057,830	**298,891**	231,011
Issued:				
Class A	**445**	1,367	**11**	34
Class AA	**100**	160	**2**	4
Class B-1	**23,961**	11,220,000	**24**	11,220
Class D-1	**29,815,932**	63,580,000	**29,816**	63,580
Class P-2	**12**	16	**1**	2
Class P-100	**12,983,537**	5,389,203	**12,984**	5,389
	42,823,987	80,190,746	**42,838**	80,229
Transferred:				
Class A	**(1,750)**	—	**(44)**	—
Class B	**(3,822)**	—	**(4)**	—
Class B-1	**(74,719)**	—	**(74)**	—
Class D-1	**(411,142)**	—	**(411)**	—
	(491,433)	—	**(533)**	—
Redeemed:				
Class A	**(7,744)**	(1,716)	**(193)**	(43)
Class AA	**—**	(90)	**—**	(3)
Class B	**(2,192,654)**	(11,919,565)	**(2,193)**	(11,919)
Class B-1	**(4,223)**	(7,855)	**(4)**	(8)
Class D-1	**(31,394,124)**	(364,299)	**(31,394)**	(364)
Class P-1	**—**	(6,493)	**—**	(7)
Class P-2	**—**	(7)	**—**	(1)
Class P-100	**—**	(3,930)	**—**	(4)
AUXILIARY MEMBERS	**(10)**	—	**(1)**	—
	(33,598,755)	(12,303,955)	**(33,785)**	(12,349)
Balance, end of year	**306,678,420**	297,944,621	**307,411**	298,891

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Years ended October 27, 2018 and October 28, 2017

20. SHARE CAPITAL

On September 6, 2018, the directors authorized a preferred share issue pursuant to the Cooperative Investment Plan, Series 2018, as of November 30, 2018, under which 759,800 preferred shares were issued for a cash consideration of $7,598,000. 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, Series 2013, 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.

On September 7, 2017, the directors authorized a preferred share issue pursuant to the Cooperative Investment Plan, Series 2017, as of November 30, 2017, under which 710,610 preferred shares were issued for a cash consideration of $7,106,000. On September 7, 2017, the directors also resolved to redeem, on November 30, 2017, 466,094 preferred shares issued under the Cooperative Investment Plan, Series 2012, for a cash consideration of $4,661,000.

On January 13, 2017, the directors resolved to redeem 11,919,000 Class B common shares issued between 2002 and 2005 and 215,000 Class A preferred shares, with the same reference years, for a cash consideration of $12,134,000. On January 13, 2017, the directors also declared an eligible dividend in the amount of $10,768,000, $5,384,000 of which was paid in cash and $5,384,000, in Class P-100 common shares.

21. NET CHANGE IN NON-CASH WORKING CAPITAL ITEMS

The net change in non-cash working capital items related to operations is as follows:

	2018 **$**	2017 $
Accounts receivable	**(51,680)**	(38,762)
Inventories	**(96,489)**	(24,930)
Prepaid expenses	**4,709**	1,695
Accounts payable and accrued liabilities	**53,045**	34,116
Deferred revenues	**16,261**	22,944
Income taxes	**(41,280)**	(30,376)
Patronage refunds payable	**(480)**	4,301
	(115,914)	(31,012)

22. 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 $104,658,000 and are as follows for the coming years: 2019 – $21,642,000; 2020 – $17,979,000; 2021 – $14,571,000; 2022 – $10,825,000; 2023 – $10,735,000 and thereafter – $28,906,000.

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 2.836% 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 shares in a joint arrangement 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.

In addition, another group of non-controlling unitholders of one of La Coop's subsidiaries, holding 2.36% of the units of said subsidiary, has an option to sell, on or after September 1, 2020, 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 five equal and consecutive annual instalments or sooner, according to the terms of the agreement.

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 5th 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.

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.

Notes to consolidated financial statements

Years ended October 27, 2018 and October 28, 2017

23. 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 14, 16, 17 and 22 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 July 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 $29,715,000 as at October 27, 2018 [$27,076,000 in 2017]. 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 27, 2018 totalled $60,651,000 [$43,259,000 in 2017] in respect of which La Coop is committed to repurchase inventories amounting to $57,907,000 as at October 27, 2018 [$51,992,000 in 2017].

As at October 27, 2018 and October 28, 2017, no amounts were recognized in respect of the above-mentioned agreements.

24. 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, commodity and currency forward contracts and options and currency swaps 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 2018	Average exchange rate 2017
Sale	United States	**US$40,332** [US$48,184 in 2017]	**1.3054**	1.2587
Sale	Japan	**¥3,913,646** [¥3,619,334 in 2017]	**0.011630**	0.011110
Sale	Australia	**A$8,179** [A$4,324 in 2017]	**0.9572**	0.9852
Purchase	Europe	**€6,375** [€– in 2017]	**1.4910**	–

Commodity and currency forward contracts, options and swaps

La Coop has entered into purchase and sale contracts with maturities between one and two years with its clients to set various grain prices. As at October 27, 2018, La Coop's net commitments amounted to $32,950,000 [$55,514,000 in 2017]. La Coop recognized a gain of $8,069,000 [$718,000 in 2017] 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 two years, to reduce its exposure to fluctuations in various grain prices. As at October 27, 2018, La Coop's net commitments amounted to $152,673,000 [$83,426,000 in 2017]. La Coop recognized a gain of $1,725,000 [$4,203,000 in 2017] in the consolidated statement of earnings.

La Coop also entered into commodity forward contracts, specifically for pork and fertilizers, and currency forward contracts, with maturities of less than one year to manage price fluctuation risk. As at October 27, 2018, La Coop's net commitments amounted to $61,709,000 [$63,413,000 in 2017]. La Coop recognized a gain of $550,000 [a loss of $146,000 in 2017] relating to these contracts in the consolidated statement of earnings. La Coop has also entered into pork, grain and currency options with maturities of less than one year to manage price fluctuation risk. La Coop recognized a loss of $67,000 [$354,000 in 2017] in the consolidated statement of earnings. The fair value of those options resulted in a $544,000 decline in financial assets [$584,000 in 2017].

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 US dollars. As at October 27, 2018, an advance amounting to US$168,900,000 [US$32,000,000 in 2017] was hedged under a foreign exchange swap agreement. This financial instrument serves to the cover the impact of changes in foreign exchange rates on a $220,000,000 loan denominated in Canadian dollars [$40,000,000 in 2017].

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Years ended October 27, 2018 and October 28, 2017

24. FINANCIAL INSTRUMENTS

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	2018 $	2017 $
Derivatives designated as hedges		
Foreign exchange contracts and currency swaps	**(377)**	(1,559)
Other derivatives		
Commodity forward contracts and options – assets	**29,036**	17,594
Commodity forward contracts and options – liabilities	**(18,912)**	(13,403)
	10,124	4,191

In fiscal 2018 and 2017, no amounts were recognized in the consolidated statement of earnings for the ineffective portion of hedging relationships for foreign exchange contracts and currency swaps.

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.

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25. 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:

	2018 $	2017 $
Consolidated statement of earnings		
Revenues	513,250	420,302
Cost of sales and selling and administrative expenses	206,649	220,032
Other investments	1,613	1,503

	2018 $	2017 $
Consolidated balance sheet		
Accounts receivable	104,557	60,223
Investments	76,772	74,562
Accounts payable and accrued liabilities	64,125	28,589
Deferred revenues	34,797	33,600

The investments are as follows:

	2018 $	2017 $
Advance bearing interest at 15%, without specific terms of repayment	8,421	8,421
Advances bearing interest at rates of 0% and 5%, without specific terms of repayment	7,118	7,442
Advances and notes receivable, bearing interest at the prime rate plus 0.5% to 2%	948	829
Non-interest bearing advances, without specific terms of repayment	5,285	2,870
Advances and notes receivable, bearing interest at the prime rate for a maximum of 4%	45,000	45,000
Preferred shares	10,000	10,000
	76,772	74,562

26. ACQUISITIONS OF UNITS FROM A SUBSIDIARY'S NON-CONTROLLING INTEREST

On March 7, 2013, a group of non-controlling unitholders of a subsidiary of La Coop exercised their rights to sell all of their units to La Coop, which is obligated to repurchase them. The purchase price of $129,178,000 is payable in a maximum of eleven annual tranches no later than August 15, 2023, according to a predetermined repurchase agreement whose terms and conditions are defined in the partnership agreement of the subsidiary, or sooner at La Coop's discretion, plus a consideration equal to the amount of the non-acquired tranches multiplied by the prime rate of a financial institution less 1%.

The first tranche of the interest was acquired on June 20, 2013 for a total consideration of $20,018,000. During fiscal 2014, La Coop did not purchase any units under the partnership agreement. A second tranche was acquired on August 15, 2015 for a total consideration of $26,925,000. The third tranche was acquired on August 15, 2016 for a total consideration of $27,366,000. 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 $9,129,000 and the non-controlling interest was reduced by $18,237,000.

On September 27, 2015, the partnership agreement of this subsidiary was restated and updated to reflect changes in the unit ownership of La Coop's subsidiary. The agreement stipulates that La Coop has agreed to early acquire units upon each payment of distributions by the subsidiary, in accordance with the terms and conditions set forth in the agreement. Accordingly, a fourth tranche was acquired on March 31, 2017. Additionally, on September 22, 2017, a sales agreement was entered into between the non-controlling unitholders of the subsidiary and La Coop, under which the terms and purchase price of the fifth tranche were agreed to by the parties. These two tranches were acquired for a total consideration of $28,544,000. 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 $9,810,000 and the non-controlling interest was reduced by $18,734,000.

The partnership agreement of this subsidiary was amended and stipulates that the remaining units have ceased to be subject to obligations requiring their purchase by La Coop and their sale by the group of unitholders as of October 31, 2017.

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27. SUBSEQUENT EVENTS

Meat Division

On November 26, 2018, La Coop acquired, via its subsidiary Olymel L.P., all the shares of a company operating in the meat sector for a consideration of $250,000,000, subject to certain adjustments. The fair value of assets acquired and liabilities assumed will be determined during the fiscal year ending October 26, 2019 as part of the initial recognition of the transaction, given the limited time frame between the acquisition date and the finalization date of the consolidated financial statements. The acquisition was financed using the credit facility under La Coop's long-term debt.

Agri-business Division

On November 19, 2018, La Coop acquired all the assets of a business operating in the agriculture sector for a consideration of $44,828,000, subject to certain adjustments. The fair value of assets acquired and liabilities assumed will be determined during the fiscal year ending October 26, 2019 as part of the initial recognition of the transaction, given the limited time frame between the acquisition date and the finalization date of the consolidated financial statements. The acquisition was financed using the credit facility under La Coop's long-term debt.

La Coop fédérée

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

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, payable in a cash payment of $5,590,000 and $5,589,000 in Class P-100 common shares.

28. COMPARATIVE FIGURES

Certain figures from fiscal 2017 have been reclassified to conform with the presentation adopted in 2018.

Financial review – Unaudited

	Part II Accounting Standards for Private Enterprises								Part V Pre-changeover Accounting Standards	
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Operations *[in thousands of dollars]*										
Revenues	**$6,515,972**	$ 6,271,772	$ 6,335,219	$ 5,991,969	$ 5,376,073	$ 5,185,952	$ 4,947,409	$ 4,442,438	$ 3,947,871	$ 3,919,963
Financial expenses	**22,601**	17,764	26,625	27,473	24,688	13,107	12,063	11,100	10,083	14,683
Amortization (excluding transaction costs)	**93,368**	81,445	83,610	77,688	59,860	53,628	51,637	54,355	56,698	53,710
Earnings before patronage refunds and income taxes	**210,725**	351,228	275,438	95,702	73,806	23,727	96,585	92,686	36,077	53,346
Patronage refunds	**42,400**	88,000	55,000	35,000	25,000	73	32,216	36,500	11,500	15,000
Income taxes	**32,914**	65,273	60,730	16,213	11,719	4,859	10,476	11,914	5,854	10,746
Net earnings attributable to members of La Coop	**115,614**	168,349	151,569	44,489	37,087	18,795	39,649	31,652	18,723	27,600
Financial position *[in thousands of dollars]*										
Working capital***	**$ 553,559**	$ 414,274	$ 415,280	$ (6,346)	$ 274,029	$ 206,559	$ 212,606	$ 170,068	$ 92,898	$ 191,178
Property, plant and equipment, net carrying amount	**1,020,130**	828,589	750,551	690,653	501,739	495,061	446,903	459,458	454,586	459,860
Total assets	**3,261,469**	2,666,990	2,450,589	2,298,308	1,737,587	1,615,048	1,517,054	1,393,285	1,291,237	1,221,516
Preferred shares and equity	**1,480,827**	1,285,250	961,809	761,635	702,473	594,107	590,372	457,121	440,518	412,482
Financial ratios										
Working capital ratio***	**1.6**	1.5	1.6	(0.99)	1.5	1.3	1.4	1.3	1.2	1.4
Interest coverage*	**10.3**	20.8	11.3	4.5	4.0	2.8	7.8	8.2	4.6	4.6
Debt/equity ratio***	**31:69**	23:77	37:63	47:53	33:67	29:71	24:76	36:64	36:64	36:64
Earnings before patronage refunds and income taxes*/revenues	**3.2%**	5.6%	4.3%	1.6%	1.4%	0.5%	1.7%	1.8%	0.9%	1.4%
Reserve and contributed surplus/ preferred shares and equity**	**53.4%**	55.0%	57.3%	50.5%	50.8%	55.6%	55.5%	68.7%	72.8%	73.2%
Preferred shares and equity**/ total assets	**45.4%**	48.2%	39.2%	33.1%	40.4%	36.8%	38.9%	32.8%	34.1%	33.8%
Number of employees	**14,020**	13,150	12,541	12,211	10,202	9,984	9,583	9,662	10,429	11,336

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

*** Accumulated other comprehensive income and the related financial instruments were excluded from ratio calculations for the fiscal years prior to 2011. In addition, non-controlling interests are excluded from the equity calculation.*

**** 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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