Management report

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

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

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

Gaétan DESROCHES, Agr., MBA
Chief Executive Officer

Paul NOISEUX, CPA, CGA
Chief Financial Officer

Montréal, January 15, 2020

Independent auditors' report

To the members of
La Coop fédérée

Opinion

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

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

Basis for opinion

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

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

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

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

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

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

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

Ernst & Young s.r.l./S.E.N.C.R.L.[1]

Montréal, Canada
January 15, 2020

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

EY
A member firm of Ernst & Young Global Limited

Independent auditors' report

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of La Coop's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on La Coop's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause La Coop to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within La Coop to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Ernst & Young s.r.l./S.E.N.C.R.L.[1]

Montréal, Canada
January 15, 2020

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

A member firm of Ernst & Young Global Limited

Consolidated balance sheet

As at October 26, 2019 and October 27, 2018

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

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

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

On behalf of the Board,

Ghislain GERVAIS, Director

Muriel Dubois, agr.

Muriel DUBOIS, Director

Consolidated statement of earnings

Years ended October 26, 2019 and October 27, 2018

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

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

Consolidated statement of reserve

Years ended October 26, 2019 and October 27, 2018

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

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

Consolidated statement of cash flows

Years ended October 26, 2019 and October 27, 2018

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

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

Notes to consolidated financial statements

Years ended October 26, 2019 and October 27, 2018

[All tabular amounts are in thousands of dollars.]

1. Business description

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

2. Significant accounting policies

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

Principles of consolidation

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

Consolidated subsidiaries

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

Inventories

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

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

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

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

Interests in joint arrangements

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

Investments in entities subject to significant influence

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

Investments

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

Property, plant and equipment

Property, building and equipment

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

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

Notes to consolidated financial statements

Years ended October 26, 2019 and October 27, 2018

2. Significant accounting policies

Property, plant and equipment [cont'd]

Property, building and equipment [cont'd]

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

Pavement	$6^2/_3$% to 10%
Buildings	$3^1/_3$% to 10%
Machinery and equipment	5% to $33^1/_3$%
Automotive equipment	$6^2/_3$% to $33^1/_3$%
Leasehold improvements	Lease term
Assets under capital leases	Lease term

Breeding livestock

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

Intangible assets

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

Trademarks

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

Client lists

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

Financial support

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

Rights

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

Software and information technology development projects

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

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

Impairment of assets

Accounts receivable and notes receivable

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

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

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

Long-lived assets subject to amortization

Property, plant and equipment and intangible assets subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment is assessed by comparing the carrying amount of an asset to be held and used with its future net undiscounted cash flows expected from use together with its residual value. If the asset is considered to be impaired, the impairment charge is measured by the amount by which the carrying amount of the asset exceeds its fair value generally determined on a discounted cash flow basis. An impairment loss is recognized and presented in the consolidated statement of earnings and the carrying amount of the asset is adjusted to its fair value. An impairment loss may not be reversed if the fair value of the long-lived asset in question subsequently increases.

Intangible assets with indefinite lives

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

Notes to consolidated financial statements

Years ended October 26, 2019 and October 27, 2018

2. Significant accounting policies

Impairment of assets [cont'd]

Goodwill

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

Deferred revenues

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

Revenue recognition

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

Research and development

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

Foreign currency translation

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

Employee future benefits

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

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

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

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

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

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

Patronage refunds

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

Notes to consolidated financial statements

Years ended October 26, 2019 and October 27, 2018

2. Significant accounting policies

Financial instruments

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

Subsequently, La Coop measures its financial instruments as follows:

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

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

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

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

Derivative financial instruments

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

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

The derivative financial instruments that La Coop chose to designate as cash flow hedging items are not recognized before their maturity. Gains and losses arising from the hedging item are recognized when the hedged item affects consolidated earnings. The gain or loss portion of a hedging item is recorded as an adjustment to the revenues or to the expenses of the related hedged item. Realized gains and losses on these contracts are presented in cost of sales and selling and administrative expenses.

Foreign exchange contracts

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

Currency swaps – debt

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

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

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

Commodity forward contracts and swaps

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

Commodity options

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

Notes to consolidated financial statements

Years ended October 26, 2019 and October 27, 2018

2. Significant accounting policies

Business combinations

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

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

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

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

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

Environmental obligations

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

Income taxes

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

Year-end

La Coop's year-end is the last Saturday of October. The years ended October 26, 2019 and October 27, 2018 included 52 weeks.

3. Business acquisitions

Meat Division

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

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

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

Notes to consolidated financial statements

Years ended October 26, 2019 and October 27, 2018

3. Business acquisitions

Meat Division [cont'd]

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

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

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

Agri-business Division

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

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

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

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

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

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

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

Notes to consolidated financial statements

Years ended October 26, 2019 and October 27, 2018

3. Business acquisitions

Agri-business Division [cont'd]

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

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

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

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

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

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

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

Notes to consolidated financial statements

Years ended October 26, 2019 and October 27, 2018

3. Business acquisitions

Retail division

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

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

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

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

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

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

La Coop fédérée

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

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

Notes to consolidated financial statements

Years ended October 26, 2019 and October 27, 2018

3. Business acquisitions

La Coop fédérée [cont'd]

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

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

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

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

5. Operating expenses

Operating expenses include the following items:

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

Notes to consolidated financial statements

Years ended October 26, 2019 and October 27, 2018

6. Patronage refunds

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

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

These consolidated financial statements reflect the directors' resolution.

7. Income taxes

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

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

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

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

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

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

Notes to consolidated financial statements

Years ended October 26, 2019 and October 27, 2018

8. Accounts receivable

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

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

9. Inventories

Inventories are as follows:

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

10. Interests in joint arrangements

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

11. Investments in entities subject to significant influence

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

Retail Division

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

Notes to consolidated financial statements

Years ended October 26, 2019 and October 27, 2018

12. Investments

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

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

13. Property, plant and equipment

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

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

Notes to consolidated financial statements

Years ended October 26, 2019 and October 27, 2018

14. Intangible assets

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

15. Bank borrowings

Bank borrowings consist of subsidiaries' demand credit facilities.

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

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

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

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

Notes to consolidated financial statements

Years ended October 26, 2019 and October 27, 2018

16. Accounts payable and accrued liabilities

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

17. Obligations under capital leases

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

Minimum lease payments in upcoming years are as follows:

	$
2020	400
2021	123
2022	1,305

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

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

Notes to consolidated financial statements

Years ended October 26, 2019 and October 27, 2018

18. Long-term debt

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

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

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

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

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

Notes to consolidated financial statements

Years ended October 26, 2019 and October 27, 2018

19. Deferred credit

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

20. Employee future benefits

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

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

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

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

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

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)

The cost of defined benefit pension plans is as follows:

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

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

Notes to consolidated financial statements

Years ended October 26, 2019 and October 27, 2018

21. Share capital

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

Preferred shares

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

Preferred investment shares

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

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

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

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

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

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

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

Cooperative Investment Plan preferred shares

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

Common shares

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

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

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

Class B-1 common shares, with a par value of $1, non-voting and redeemable at their par value upon a decision of the Board of Directors, starting the day after the fifth anniversary of their issuance. However, the Board of Directors may not redeem Class B-1 common shares if there are any outstanding Class D-1 common shares. These shares were issued to members as partial payment of patronage refunds.

Class D-1 common shares, with a par value of $1, non-voting and redeemable at their par value upon a decision of the Board of Directors, starting the day after the fifth anniversary of their issuance. These shares were issued to members as partial payment of patronage refunds.

Notes to consolidated financial statements

Years ended October 26, 2019 and October 27, 2018

21. Share capital

Common shares [cont'd]

Class P-1 common shares, with a par value of $1, non-voting and redeemable at their par value upon a decision of the Board of Directors, starting the day after the fifth anniversary of their issuance. The redemption date must also coincide with that for Class D-1 common shares issued during the same year. These shares were issued to members as partial payment of patronage refunds.

Class P-2, Series 1–262 common shares, with a par value of $25, non-voting and redeemable at their par value upon a decision of the Board of Directors. However, the Board of Directors may not redeem Class P-2 common shares if there are any common shares outstanding other than Class B-1, D-1 or P-1 common shares. These shares were issued to members as Class AA common share dividends.

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

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

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

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

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

Notes to consolidated financial statements

Years ended October 26, 2019 and October 27, 2018

21. Share capital

Transactions during the year were as follows:

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

Notes to consolidated financial statements

Years ended October 26, 2019 and October 27, 2018

21. Share capital

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

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

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

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

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

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

22. Net change in non-cash working capital items

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

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

Notes to consolidated financial statements

Years ended October 26, 2019 and October 27, 2018

23. Commitments and contingencies

(a) Operating leases

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

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

Meat Division

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

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

Agri-business Division

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

(c) Claims and lawsuits

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

24. Guarantees

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

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

Notes 15, 17, 18 and 23 to the consolidated financial statements provide information relating to some of these agreements. The following constitutes additional disclosure.

Operating leases

La Coop and its subsidiaries have general indemnity clauses in most of their movable and immovable property leases whereby they, as lessees, agree to indemnify the lessor against liabilities related to the use of the leased property. These leases mature at various dates through December 2039. The nature of the agreements varies based on the contracts and therefore prevents La Coop from estimating the total potential amount it would have to pay to lessors. Historically, La Coop has not made any significant payments under such agreements. Furthermore, La Coop and its subsidiaries have property insurance protecting them against such potential situations.

Guarantee contracts

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

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

Notes to consolidated financial statements

Years ended October 26, 2019 and October 27, 2018

25. Financial instruments

(a) Derivative financial instruments

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

Foreign exchange contracts and currency swaps

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

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

Commodity and currency forward contracts, options and swaps

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

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

Currency swaps on debt

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

Interest rate swaps on debt

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

(b) Fair value of derivative financial instruments

The fair value of the derivative financial instruments reflects the estimated amounts La Coop would receive (or pay) to terminate open contracts at year-end. The prices obtained by La Coop's bankers are compared with closing capital market prices.

The fair value of derivative financial instruments was as follows:

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

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

Notes to consolidated financial statements

Years ended October 26, 2019 and October 27, 2018

25. Financial instruments

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

Credit risk

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

Loans and receivables

In the normal course of business, La Coop evaluates the financial position of its clients on a regular basis and examines the credit history of new clients. To protect itself against financial losses related to credit risk, La Coop has a policy that sets out credit conditions for various areas of operations. Specific credit limits are set for each segment and client and reviewed periodically. The allowance for doubtful accounts is based on the client's specific credit risk and historical trends. Moreover, La Coop holds security on the assets and investments of certain clients in the event of default. La Coop believes its credit risk exposure to accounts receivable to be minimal due to client and sector diversification.

Derivatives

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

Liquidity risk

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

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

Market risk

Foreign exchange risk

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

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

Interest rate risk

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

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

Other price risk

Commodity price risk

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

Notes to consolidated financial statements

Years ended October 26, 2019 and October 27, 2018

26. Related party transactions

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

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

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

The investments are as follows:

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

27. Subsequent events

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

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

Financial review – Unaudited

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

* For the purposes of ratio calculations, non-controlling interests are included in earnings before patronage refunds and income taxes.
** The credit facility was considered in this ratio’s calculation in 2015 for consistency with the presentation adopted in the consolidated financial statements.