100 years and counting.

Sollio
Cooperative Group

2022
Annual Report

Mission

Rooted in our regions and leveraging our collective strengths, we nourish people by ensuring the prosperity of farming families to ensure a sustainable future for our world.

Vision

To be recognized as a leader of reference in our Canadian retail markets, in the North American agricultural market and in the International agri-food industry.

Values

Honesty

Each of us acts with the utmost transparency, both within our company and in our relations with member cooperatives and other stakeholders. We all admit our mistakes freely, give credit where due and seek to avoid conflicts of interest.

Equity

Each of us, like each working group, treats our partners fairly and equitably. We believe that everyone deserves to find their place within our large cooperative network, to be recognized there and to flourish.

Responsibility

Each of us fully assumes our role within Sollio Cooperative Group, in particular by ensuring the sound management of our members' collective assets, by ensuring they fulfill their individual, mutual and collective commitments, remaining fully accountable for their actions, and by embracing the goal of sustainable development.

Solidarity

Driven by a desire for mutual aid, we consult and advise one another to achieve our common goals. We work hand in hand, in an open, consistent, methodical manner and rally around decisions made for the common good of our company.

Sollio Cooperative Group: it’s you, it’s us.

Producers, processors, distributors, employees.
People dedicated to developing our agri-food practices to produce high-quality food and continue building a prosperous future for our local farming families and consumers.

We are the largest agri-food cooperative in Canada, with strong roots in Québec. We are people of the land, forward thinkers with our feet planted in the present, our sights set on the future. We are resilient and determined to preserve farming and food resources and transform them into collective wealth.

At Sollio, we grow, raise, produce and process locally to do our part every day to build the economy of tomorrow. We are present, from Farm to Table, throughout the Nation. Our three divisions, Sollio Agriculture, BMR Group and Olymel, serve as lead economic drivers in the agriculture, retail and food sectors. Our network of cooperatives actively contributes to the vitality of all Québec regions.

For you, for us, the plan is clear: ensure the prosperity of locals and future generations for centuries to come.

Sollio Cooperative Group: 100 years and counting!


Ferme Lait'xcellence
Finalist
Sollio Next Generation Award
2022-2023
100 years
and counting.

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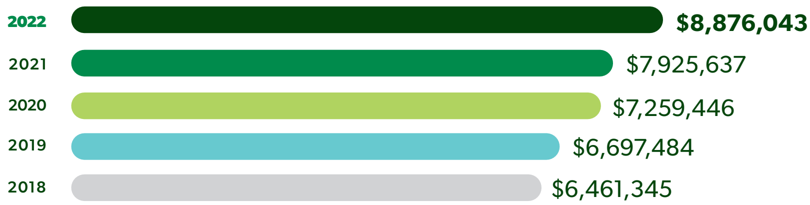
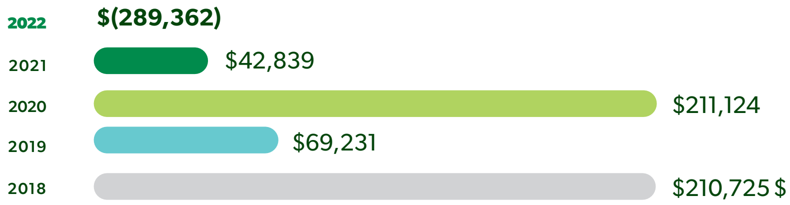
Highlights

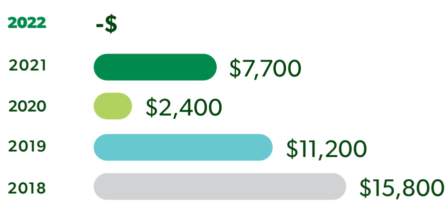
Revenues
(in thousands of dollars)



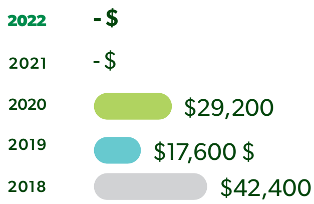
Earnings (loss) before patronage refunds, income taxes and discontinued operations
(in thousands of dollars)



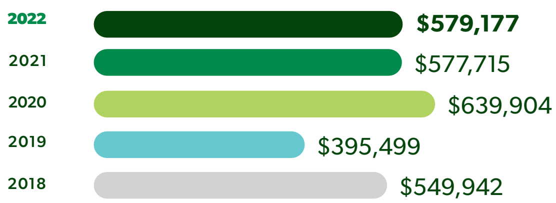
Dividends paid to the cooperative pork chain
(in thousands of dollars)



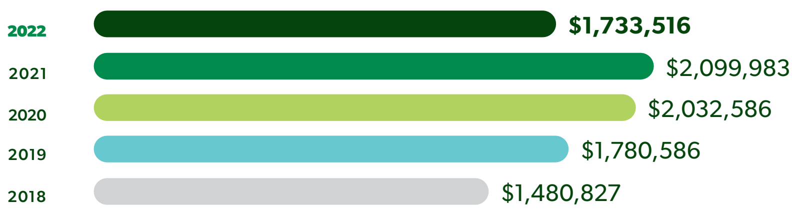
Patronage refunds
(in thousands of dollars)



Working capital
(in thousands of dollars)



Preferred shares and equity of the Cooperative
(in thousands of dollars)



(In thousands of dollars)

	2022 $	2021 $
Revenues	8,876,043	7,925,637
Operating loss	(227,541)	(50,939)
Earnings (loss) before patronage refunds, income taxes and discontinued operations	(289,362)	42,839
Patronage refunds	-	-
Net loss	(336,879)	(10,322)
Accounts receivable and inventories	1,786,106	1,676,674
Current assets	1,928,638	1,923,875
Working capital	579,177	577,715
Property, plant and equipment, at cost	2,547,259	2,659,864
Property, plant and equipment, net carrying amount	1,358,174	1,464,378
Total assets	4,577,368	4,969,460
Long-term debt and obligations under capital leases including current portion	1,203,915	1,108,089
Preferred shares and equity of the Cooperative	1,733,516	2,099,983
Number of employees	15,930	15,850

Ghislain Gervais, ASC
President

Stay the course

After multiple years of growth, fiscal 2021–2022 was a transitional year. The goal of this transition is clear: to return Sollio Cooperative Group to a strong footing.

With consolidated sales of over $8.9 billion, Sollio Cooperative Group recorded a loss before income taxes, including discontinued operations, of $337.5 million. The loss included $248 million in impairment of intangible assets and goodwill.

In turbulent times, staying the course is more important than ever. And that is what we did. Management marshalled forces across the organization primarily to continue executing the vast project launched last year: the asset and operational efficiency optimization plan.

Such an undertaking is performed over a long horizon, with a slate of actions to be completed in the coming year. The results are not immediate but are promising in the long term.

A major project goal is to restore financial health and better position ourselves for the future. This will allow us to start investing again in strategic projects, where expedient, to ensure the continuity of Sollio Cooperative Group.

Just as importantly, the optimization plan does not fundamentally alter the organization's core operations. We are not touching our core lines of business.

This project involves all our divisions. I would like to point out that throughout the year, the senior executives and their teams were creative and agile in implementing the best turnaround and operational efficiency solutions, while staying true to our core lines of business.

In addition to championing this project, our executives and their teams have faced a mixed business environment with headwinds in some sectors and tailwinds in others.

On a brighter note, BMR Group enjoyed a record year while Sollio Agriculture's crop production exceeded expectations. In particular, these two sectors benefited from high commodity prices, including fertilizers and softwood lumber. But they also had to manage the risks associated with the volatility of these markets, with highly granular ongoing inventory management, and they did so successfully.

We would also like to highlight the impact of the conflict in Ukraine, which began at the height of the Eastern European fertilizer procurement season. The Sollio Agriculture team worked hard to ensure all orders were available and delivered to the network for the planting period, in spite of complex logistics.

Meanwhile, Olymel's processed pork and poultry sectors reported outstanding results, driven primarily by higher prices and the mix of products sold.

Once again this year, Olymel's fresh pork operations generated negative results. Our fresh pork plants are particularly affected by labour shortages as the working conditions are tougher than in many other employment sectors.

Labour shortages resulted in prioritizing slaughter and producing low-margin primary cuts. In addition, COVID-19 health restrictions were still in place for a few months of the fiscal year, which weighed on operational effectiveness.

Québec pork pricing continues to put us at a disadvantage compared with our Canadian and North American competitors. The impact of this pricing is even greater due to our inability to fully process cuts. The challenge is to strike the right pricing balance to achieve a win-win approach for both producers and processors.

Even though the past two years have been difficult in the fresh pork sector, the outlook is encouraging. Olymel continues to execute on its plan to improve pork operations and results continue to recover.

Another bright spot is the government's temporary program allowing agri-food processors to raise the threshold for temporary workers in their plants.

This allows us to onboard and train new workers expected to arrive in the coming months. With the new thresholds authorized under the government program, assuming they become permanent, Olymel stands to meet its labour needs to a large extent for the next few years.

Lastly, in the shorter term, our plants regained the right to export to China a few months ago. China is a unique global market for consumption of pork by-products.

The other sector that reported unfavourable results was Sollio Agriculture's Grains Department. Yet, even in this sector, the outlook is encouraging. Our withdrawal from grain export operations is largely complete, as are the losses associated with this exit.

Again, the contrasts in sector results show how significant diversification is for our business operations. Some of our sectors deliver stable results year after year, which helps to maintain Sollio Cooperative Group's resilience.

In this more challenging environment, we were able to count on the continued trust of our financial partners as we set up temporary term financing, amended preferred shares and renewed our credit facility. I extend my heartfelt thanks to these partners for supporting our organization and cooperative business model.

I would also like to thank senior management, their respective teams and our 16,000+ employees for their engagement and dedicated service to our organization.

The strength of our network

Also on the bright side, our network of cooperatives enjoys a solid bill of health, with the financial position of our agricultural cooperatives strengthening year after year. Our vast network restructuring project, Vision Plus, is well underway.

Note that Vision Plus supports the consolidation of our agricultural cooperatives and business partnerships with our Sollio Agriculture division. This project has modernized the network's business model, in particular to better meet producers' needs. Without a doubt, the consolidated cooperatives are strongly positioned to face the major challenges of today and tomorrow. These large cooperative businesses are powerhouses of the regional economy.

In this regard, we would like to highlight the official launch of Unoria Coopérative on November 1, 2022, which resulted from the amalgamation of the Purdel and Agriscar cooperatives. This consolidation initiative will allow Unoria Coopérative to remain a major economic driver and ensure sustainable agriculture in the Lower St. Lawrence and Gaspé regions. This most recent amalgamation rounds up the consolidation phase initially targeted during implementation of Vision Plus.

At the same time, a partnership between Unoria Coopérative and Sollio Agriculture was forged to bring together all of the cooperative's agricultural operations. These business partnerships between the cooperatives and Sollio Agriculture help strengthen our network, making us more competitive and bolstering the customary ties that make us stand out.

Vision Plus remains a dynamic, scalable project, which stands to ensure its long-term success. Vision Plus is not static, and the structures put in place can evolve and improve continuously, as needed.

Beyond organizational structures, it is the human factor that makes the difference. And it is often in adversity that we show are true colours. I salute the exceptional solidarity shown by the network's elected officers and leaders in rising to the challenges of a turbulent year.

Throughout this past year, your solidarity made all the difference in our various meetings and concrete operational actions to support Sollio Cooperative Group, such as in updating the pre-purchasing program. We can all be proud of this outpouring of solidarity, which underpins the unparalleled strength and resilience of our network. Solidarity is the beating heart of our cooperative movement. For that, you have my deepest gratitude. We have no doubt this is an essential value to pass on to future generations of agricultural cooperators to ensure our network continuity.

Board of Directors

Ghislain Gervais, ASC
President
Executive Committee Member

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

Jean-Philippe Côté
2nd Vice-President
Audit Committee Member

Richard Ferland
Director
Executive Committee Member

David Mercier
Director
Executive Committee Member

Marc-André Roy
Director
Executive Committee Member

Cathy Fraser
Director

Adrien Pitre
Director

Patrick Soucy
Director
Audit Committee President

Jean Bissonnette, ASC
Director
Audit Committee Member

Normand Lapointe
Director
Audit Committee Member

Sophie Gendron
Director

Lucie Boies
Director

Guy Labrecque
Director
Audit Committee Member

Denis Lévesque
Director

François R. Roy, ASC
Guest director
Audit Committee Member

Ferme Lait'xcellence
Finalist
Sollio Next Generation Award
2022-2023

100 years
and counting.

100 years and counting

As in the past, we will adapt successfully and continue to generate value for our members through our durable and resilient cooperative model.

We will stay the course in the coming months, delivering on our asset and operational efficiency optimization plan. For improved guidance in the coming years, strategic planning will be completed.

We will also continue our work on the cornerstones of our cooperative model, including continuous improvement of our governance structure. New this year: an Annual Board Matrix was developed to provide the network with an accurate representation of the Board's profile and characteristics, as well as a portrait of the Board's directors.

With respect to government affairs, we will continue to defend and represent the interests of Sollio Cooperative Group, the network and members on issues with major ramifications, such as the temporary foreign worker program, government tariffs on fertilizers or Bill 41, *An Act to amend the Agrologists Act.*

We are maintaining our structured approach to corporate responsibility. As in the past, we intend to improve our environmental performance, help our producers deal with the challenges related to climate change and be part of the solution. This year, we undertook, among other initiatives, a detailed assessment of each division's greenhouse gas emissions and water consumption in order to set realistic targets for the future.

This is also the first year under the crop production research farm's new mandate. The research farm now works to equip Sollio Agriculture and its network to help agricultural producers meet the challenges of sustainable agriculture.

These concrete actions show our resolve to take part in finding solutions to various environmental and social challenges. I am proud to see we are making sustained efforts to ensure a robust and sustainable future for our network and society at large through our footprint in communities.

Sollio Cooperative Group celebrates a century of existence—a one-of-kind legacy. Our responsibility is to ensure the Cooperative's continuity and leave a lasting legacy for future generations of agricultural cooperators. Those responsibilities and our values are what guide the actions and decisions we take every day.

To conclude, I would like to extend my thanks to my colleagues on the Board of Directors for their solidarity, their professionalism and their trust in me. In my name and on behalf of the Board of Directors, I would also like to express my gratitude to Pascal Houle, Chief Executive Officer, and his teams for their sustained efforts and for having stayed the course in the organization's major projects. And I applaud all the directors across the network. It is your commitment and determination that give real meaning to our collective action.

Ghislain Gervais, ASC
President

Pascal Houle, CPA
Chief Executive Officer

Our priority: Return to profitability

Every year has its lot of challenges and unexpected developments but undoubtedly the year that ended will go down as one of the most turbulent years in Sollio Cooperative Group's history. For the fiscal year ended October 29, 2022, Sollio Cooperative Group recorded sales of $8.9 billion and a loss before taxes of $337.5 million, including a loss from discontinued operations. In fiscal 2021, sales totalled $7.9 billion with a loss before income taxes of $21.5 million. The deterioration was mainly attributable to the Sollio Food division.

Sollio Agriculture

The Sollio Agriculture division posted earnings before income taxes of $19.6 million, compared with a loss before income taxes of $24.8 million in fiscal 2021, representing an improvement of $44.4 million. This increase was mainly driven by the crop production sector, which was able to deal with volatile market prices while benefitting from a favourable positioning for available inventories. Despite the favourable economic conditions, fertilizer prices were greatly affected by the conflict in Ukraine since the second quarter of fiscal 2022. More specifically, the Canadian government imposed a 35% tariff on all imports from Russia. These tariffs proved very expensive for our partners and network members, and significant efforts were made not only to find new suppliers but also to influence the Canadian government's stance. As for the grain sector, its repositioning plan led to better results, despite having to pay penalties during the fiscal year related to the performance of contracts with different terminals across Québec and Ontario as well as provisions for such penalties on contracts in the medium and long term, following the discontinuation of export activities.

Sollio Retail

The Sollio Retail division (BMR Group) reported earnings before taxes, including corporate expenses, totalling $53.8 million, compared with $28.2 million for the previous fiscal year, representing a $25.6 million increase. This record financial performance resulted from extraordinary economic conditions coupled with several operational challenges. The division`s results were driven partly by higher sales resulting from commodity price increases during the first half of the year, combined with inflation and the addition of new vendors to the network. Commodity prices dipped at mid-year, but the decline was less than last year. The mechanisms put in place, such as the close monitoring of inventory combined with longer term strategic positioning, made it possible to maintain favourable profitability despite price volatility and achieve this historic result.

Energy sector results are reported as a share of results of a joint arrangement owing to a 50% interest held via a subsidiary. The share recorded for the year amounted to $17.0 million compared with $12.3 million a year earlier.

Sollio Food

Sollio Food (Olymel) posted a $445.7 million loss before income taxes, including corporate expenses, compared with a loss of $71.8 million in fiscal 2021. The deterioration was mainly attributable to the pork sector and a significant write-down of goodwill. The beginning of the fiscal year was particularly difficult for the Eastern pork sector as the labour shortage and the number of hogs awaiting slaughter forced the division to resort to external slaughtering, giving rise to significant additional costs. As a result, our plants experienced difficulties in producing fully deboned prime cuts and the division did not earn the margins expected from this added value operation. In addition, fiscal 2022 was marked by a significant rise in labour and supply costs. The Western pork sector also posted lower results than in fiscal 2021, which were significantly impacted by higher grain, labour and transportation costs, as well as the closure of the Chinese market in the first three quarters of the fiscal year for a second consecutive year.

However, the further processed pork and bacon sector posted excellent results, following higher sales volume stemming from the reopening of restaurants and the elimination of distancing measures, as well as optimization of products sold. The poultry sector generated record results, driven by a favourable market environment and investments in automation that had a positive impact on margins.

Expenses

Cost of sales and selling and administrative expenses totalled $9.0 billion compared with $7.9 billion for the previous year. The increase was mainly attributable to the Sollio Food and Sollio Agriculture divisions.

Net financial expenses increased to $84.0 million in fiscal 2022 from $35.7 million for the previous fiscal year, owing primarily to the higher interest rates during the fiscal year and an increase due to the Cooperative's financial results.

Including the results of its divisions, Sollio Cooperative Group reported a consolidated operating loss of $227.5 million, compared with a loss of $50.9 million in fiscal 2021.

Other income and expenses includes the share of results of joint arrangements, namely businesses in which Sollio Cooperative Group has joint control. This share totalled $60.0 million in fiscal 2022 compared with $57.4 million for fiscal 2021. This increase was mainly driven by the record 2022 results of the agriculture division's agricultural input distribution and marketing sector, partly offset by a decrease in results posted by the food division's pork sector.

The share of results of entities subject to significant influence – entities in which the Cooperative has an investment of less than 50% – amounted to $12.4 million in fiscal 2022, compared with $13.8 million in 2021. This decline was once again mainly attributable to the pork sector.

Investment income, which represents interest and dividend income from investments, totalled $2.8 million in fiscal 2022 compared with $2.0 million for the prior fiscal year.

Net losses on disposal and remeasurement of assets amounted to $161.4 million in fiscal 2022 compared with $12.6 million in fiscal 2021. The 2022 loss resulted mostly from the remeasurements of intangible assets and goodwill in the food division. The loss in 2021 stemmed from the disposal of property, plant and equipment in Sollio Food and the disposal of investments in Sollio Agriculture.

Gains (losses) on remeasurement of interest rate swaps represented a gain of $22.3 million in fiscal 2022 compared with a $26.3 million gain for fiscal 2021. The gains resulted from the sharp rise in interest rates.

In fiscal 2022, gains arising from insurance benefits amounted to $2.1 million, compared with $6.9 million in 2021. These are amounts received from insurance claims.

Lastly, in 2022, the Cooperative decided to divest certain grain marketing activities in Ontario, as well as grain export activities, generating a net loss from discontinued operations of $48.2 million in 2022, compared with $64.3 million for the previous year.

For the fiscal year ended October 29, 2022, taking into account a tax recovery of $0.7 million, the net loss amounted to $336.9 million, compared with $10.3 million in fiscal 2021. Net loss attributable to members of the Cooperative amounted to $278.4 million, compared with $4.3 million in fiscal 2021, while net loss attributable to non-controlling interests totalled $58.5 million, compared with $6.0 million in fiscal 2021.

Management Committee

Pascal Houle, CPA
Chief Executive Officer

Alexandre St-Jacques Burke, FRM
Chief Financial Officer

Me Josée Létourneau
General Secretary
Legal Affairs

Casper Kaastra
Executive Vice-President
Chief Executive Officer
Sollio Agriculture

Alexandre Lefebvre, MBA
Executive Vice-President
Chief Executive Officer
BMR Group

Yanick Gervais, M. Fisc. CPA
President and
Chief Executive Officer
Olymel

Stéphane Forget, MBA, ASC
Senior Vice-President, Public Affairs,
Cooperation & Corporate
Responsibility

Bernard Marquis, agr.
Senior Vice-President,
Strategic Projects

Saad Chafki
Senior Vice-President,
Information Technology

Stéphanie Couturier
Senior Vice-President,
Communications

Marc Gauthier
Senior Vice-President,
Human resources

Fiscal 2022: another year marked by turbulence

Sollio Cooperative Group's 100th anniversary will be remembered for many reasons – not only for having reached an important milestone that very few organizations have achieved, but also for continuing to demonstrate our business model's relevance and strength. We have said it before, but it's in difficult times that our model makes the most sense.

Fiscal 2022 was another year of much turbulence; the labour shortage was exacerbated by the pandemic while Russia's war in Ukraine led to considerable upheaval. Meanwhile, the situation was compounded by severe disruptions in global markets with price volatility, high inflation, and challenges arising from supply chain fragility plus ongoing geopolitical risks resulting from tense relations between the Canadian and Chinese governments. Accordingly, more than ever, it was necessary to be agile and adapt to overcome challenges.

We spent most of the year carrying out our optimization plan, which continues, without affecting our core business and our level of service to members. This optimization plan is already showing results. We are in a much better position today than we were last year. We have been hard hit, and thanks to our business model, whose resilience is now well established, and to our strong cooperative values that are part of our DNA, we are gradually returning to profitability.

Over the past 100 years, we have weathered many storms while remaining focused on our mission of serving our members and getting involved in our communities.

Among our priorities, we maintain our main areas of action, namely actively encouraging and developing the next generation, continuing to implement our corporate responsibility approach and consistently supporting the community and our members. The land is the bread and butter of producers: that is why we encourage best practices, to leave a quality environment to the next generations.

Human resources

Agility, which is at the heart of our day-to-day decisions, requires a high degree of adaptability, as well as a strong organizational culture. While this year was the first full year in our roles for me and my colleagues Casper Kaastra, Alexandre Lefebvre and Yanick Gervais, CEOs of our divisions, we had the opportunity to observe how our values and vision are integrated on a daily basis. The Cooperative's strength takes on its full meaning.

Diversity, equity and inclusion

We are very sensitive to issues of diversity, equity, and inclusion. This led us to put in place last fall a formal program to promote the representativeness of several minority groups and to offer an inclusive workplace. In the coming years, we will be able to assess the success of this new program in our divisions.

Leadership development

Since we are all working together to create the Sollio of tomorrow, we give importance to leadership development within the organization and the network. In particular, we have set up a program targeting emerging leaders (Altitude program), a discussion forum for current leaders (Leadership Forum), as well as a townhall meeting for human resources professionals.

Health and well-being

Health and well-being of employees is one of our priorities. Sollio Cooperative Group is committed in several ways to promote physical health, for example, with the Défi Sollio, our sports and charitable activity par excellence, held in the Montérégie region. Employees of Sollio Cooperative Group, divisions and the network were encouraged to walk, run and bike to raise funds for charities. A total of $99,000 was donated to local organizations.

Ferme Karibel
Finalist
Sollio Next Generation Award
2022-2023

100 years and counting.

100 years and counting

For an organization that just passed the 100-year mark, the year that has ended is special. Not all companies can boast of such longevity, and Sollio Cooperative Group is the perfect example of a strong, resilient and relevant model for its members.

Celebrating a 100th anniversary means keeping alive the rich history of our great cooperative while allowing those who wrote it to live the experience and share their pride. It's a job well done!

Before officially closing this chapter in our history and moving on to the next, I would like to warmly thank our President, as well as all the members of the Board of Directors of Sollio Cooperative Group for their constant support.
I also want to thank my colleagues on the Executive Committee, and the division leaders, for their support, unwavering collaboration and precious work. I would also like to applaud the presidents and general managers of the cooperatives for their spirit of cooperation and invaluable solidarity in the face of hardship.

Finally, a special thank you to the employees of Sollio Cooperative Group and the divisions for their trust and dedication to our organization, to our big family.

We draw our strength from our network, from our values; we salute the past and are creating the future together. We're 100 years and counting!

Pascal Houle, CPA
Chief Executive Officer

Ferme Karibel
Finalist
Sollio Next Generation Award
2022-2023

Sollio Agriculture™

Ferme Lait'xcellence
Finalist
Sollio Next Generation Award
2022-2023

100 years and counting.

Casper Kaastra
Executive Vice-President and Chief Executive Officer

Sollio Agriculture achieves its repositioning plan

For the 2021–2022 fiscal year, Sollio Agriculture's net sales continued to increase to $2.929 billion, compared to $2.357 billion in 2020–2021. This $572 million increase, excluding discontinued operations, is mainly due to high input prices, particularly for fertilizers, but also to higher commodity costs in animal feed.

Net sales in the Livestock Production Sector were up 14.9% owing to an increase in ingredient costs that boosted the average selling price by $86 per tonne. However, the significant increase in production costs and squeeze on margins and volumes saw the sector end the year with lower results than expected.

The Crop Production Sector had another record year, with net sales up 37.6%. This was mainly due to the increase in the value of fertilizers. Our joint ventures performed well, with good management of operating costs and position gains following the sharp rise in input prices throughout the year. In a challenging environment arising from the introduction of tariffs on Russian imports, the Crop Production managed to secure supplies for all networks.

The Grain Sector continued to implement its repositioning plan over the past year, with an orderly exit from several business segments and reported net sales down 27.2% from last year. In connection with the plan, results are affected by penalties on contractual commitments and provision related to future commitments.

Highlights of the year

Our networks of crop production retail partners benefited from the upward trend in the value of fertilizers, which is reflected in the associated shares. With inflation, sales of crop protection products also hit a record high this year. Seeds saw a decline in sales of forage crops but an increase in Maizex soybeans and corn, up 8.9% from last year, mainly due to increased market shares in the different regions. Lastly, regional partnerships with cooperatives in Québec showed very positive results.

The sharp rise in commodity prices proved more challenging for the Livestock Production Sector, where merchandised volumes are in decline. The reduced number of hogs waiting for slaughter also contributed to the decline. In addition, our production and other costs have significantly increased this year. However, some of our subsidiaries performed well and benefited from value gains on their supply positions. The poultry sector remains a concern, with recurring challenges in chick quality and labour shortages as well as the hatching egg shortage, exacerbated by the avian flu outbreak and the fire at the Michaudville breeding farm. In light of these issues, major efforts are being made to regain profitability, restore performance to its expected level, and rebuild customer satisfaction.

The results of the previous year led to a repositioning plan for the Grain Sector, which involved making some difficult decisions. In the West, the end of merchandising activities led to an orderly wind-down of remaining positions and contracts and an integration of grain activities in mill supply. In Ontario, recurring losses also led to an orderly exit from the business and we initiated the sale of our assets. In Québec, commercial operations are already integrated into the Sollio & Grains Québec partnership. Finally, in Atlantic Canada, the merchandising activities were integrated into the mill supply function. Following the shutdown of export operations, the grain terminal was put up for sale, and its profitability was affected by the reduced export volumes as well as by exceptional operational challenges. The terminal was not sold, but in response to strong interest in using the facility, Sollio Agriculture restarted its operation, focusing on handling volumes for third parties. In short, the Grain Sector's results are below expectations but the outlook for the future is positive.

Sollio Agriculture is continuing to develop its technology, with a particular focus on improving cybersecurity. The initial phase of the business intelligence project, which is designed to consolidate and simplify data management and improve the decision-making process, is currently being delivered. The technology infrastructure was further optimized, and the AgConnexion platform was further developed and rolled out. With 20,000 farms now connected and over five million acres mapped, a major milestone was reached in the adoption of the platform.

The Corporate Responsibility (CR) process gained momentum this year with the creation of an action plan that includes eight commitments and 20 targeted results to improve Sollio Agriculture's CR performance by 2025. The goal of the CR process, which is central to Sollio Agriculture's strategic plan, is to put in place best practices in corporate responsibility. A crucial step in setting targets was taken with the inventory of greenhouse gas emissions and water consumption completed at all sites.

On the human resources front, Sollio Agriculture continued to implement its new organizational model. In the area of occupational health and safety, an integrated management technology platform was rolled out for incident reporting, audits, and risk analysis. We put in place a wide range of solutions to acquire talent and address the labour shortage.

The new CRF Agritech fertilizer coating plant is still under construction and will be commissioned in spring 2023. Given our objectives of reducing the impact of agriculture on the environment, particularly through the use of coated fertilizers, the plant's local production will be much welcomed.

Over the past year, Sollio Agriculture has been working on setting up a fifth agricultural partnership, Sollio & Unoria Agriculture coopérative. This business model continues to be successfully developed to benefit farmers.

In 2021–2022, the organization was significantly impacted by the unstable geopolitical conditions. With rising prices, product and labour shortages, and supply chain issues, Sollio Agriculture took on many challenges this year to fulfil its mandate as the gradual resumption of operations following the pandemic was disrupted by the invasion of Ukraine and the imposition of tariffs on Russian fertilizers. However, these obstacles highlighted the agility of the organization and its networks. The year ended with good financial results.

In closing, I would like to thank our Chief Executive Officer, Pascal Houle, for coordinating the Cooperative's efforts through these turbulent times. I would also like to thank the Board of Directors for its support, which made it possible for Sollio Agriculture to contribute to the organization's debt reduction initiatives through its divestment plan. Lastly, thank you to our employees across the country. It is truly because of the efforts made by everyone that our repositioning plan was successful. We are entering the new fiscal year with cautious optimism and in a better position than last year, and we are committed to pursuing our efforts to generate value for farmers and for our organization.

Casper Kaastra
Executive Vice-President
and Chief Executive Officer

Our Distribution Network

Sollio Agriculture · Agro Centre · The Agromart Group · Agrico · Co-op Country Store · Maizex

Sollio
Retail

GROUPE BMR

Alexandre Lefebvre, MBA
Executive Vice-President and Chief Executive Officer

An exceptional year for BMR Group

BMR Group reported excellent results for the last fiscal year, with net sales reaching $1.574 billion compared with $1.530 billion for the previous year.

Fiscal 2022 was marked by growth and prosperity for BMR Group. Clients kept coming back throughout the year, four new vendors from Québec and Ontario joined the organization, and once again, exceptional financial results demonstrated that BMR Group is more than ever an industry leader.

A well-known, constantly evolving brand

During the last fiscal year, the BMR Group team launched a number of initiatives to ensure its brand remained influential, expand its footprint and strengthen the quality of the client experience.

Among others, four main product categories were entirely reviewed – flooring, finishing plumbing, outdoor and gardening – to offer consumers a wider range of up-to-date products. Twelve stores in Québec and Ontario underwent significant renovations, thus standardizing the BMR Group brand and greatly improving the quality of the client experience. Concurrently, we made changes to several functionalities of the BMR.ca website, improving browsing and making it a must-see showcase for our vendors and an inspiring shopping platform for our customers. We also developed several products under our private brands namely Architek, Bota Flora, Opaz and Splendi.

We continued to increase the involvement of our vendors in our decision-making process by setting up vendor committees in the paint, flooring, plumbing, outdoor and building materials departments. The goal of these committees is to listen to what network members have to say and benefit from our vendors' expertise and ideas.

A brand new initiative named Programme Excellence Marchand (Vendor Excellence Program) was launched across the BMR network to improve the client experience in our stores, increase the number of visits by consumers and contractors, standardize our banners and reinforce our image through outstanding business training. During the year, our representatives reviewed a number of stores based on specific criteria, and the achievements of our vendors were highlighted during the Salon d'achats BMR.

Thanks to our team's strength, we improved our logistics capabilities and optimized our supply chain, notably by increasing the delivery frequency at vendors and by reducing the number of storage and pick-up locations. We also worked on consolidating our leadership position in the contractor segment, mainly through Lefebvre & Benoît, which expanded its footprint in the industry.

Finally, this last year brought back the excitement associated with attending large events in person, especially with the return of the popular Salon d'achats BMR, which took place on November 10 and 11 at the Québec City Convention Centre under the theme "Together, wall-to-wall." In a happy and upbeat ambiance, nearly 1,200 visitors discovered the latest trends and novelties from more than 200 construction and renovation industry suppliers.

During the last fiscal year, the BMR Group team launched a number of initiatives to ensure its brand remained influential, expand its footprint and strengthen the quality of the client experience.

Solid foundations to support growth

While certain headwinds are expected in 2023, mainly stemming from the current and future economic context, BMR Group can rely on its solid foundations, an experienced team and its network vendors and partners to support its growth and face the challenges ahead. Throughout the year, we will continue to deploy a number of initiatives to increase our competitiveness and productivity, improve the client experience and reinforce our position of leader in the contractor market. It is therefore with great confidence and enthusiasm that we view the future and our business development.

BMR Group also made a significant contribution to Sollio Cooperative Group's turnaround plan, not only with its excellent profitability but also with its very rigorous inventory management and active optimization of its distribution network. BMR Group's actions generated significant financial benefits for the entire group, thereby providing it with greater flexibility.

Lastly, I would like to thank our vendors, network cooperatives and Sollio Cooperative Group, all of which made possible what we achieved last year. Our numerous past and future achievements would not be possible without our team members, which is why I would like to conclude by extending my warmest thanks to them for their dedication to ensure BMR Group remains the great organization it is today.

BMR, welcome home!

Alexandre Lefebvre, MBA
Executive Vice-President
and Chief Executive Officer

Our Banners

BMR · agrizone · Potvin & Bouchard · Lefebvre & Benoit Matériaux de construction

Sollio Food

OLYMEL

Feeding the world


45-16
FOOD SERVICE
SERVICE ALIMENTAIRE

Yanick Gervais, M. Fisc. CPA
President and Chief Executive Officer

2022, a year of consolidation and optimization

As in last year, Olymel reported a loss for fiscal 2022. Difficult conditions, particularly in the fresh pork sector, were largely responsible for the disappointing results and the decline compared with the previous year. However, sales increased by $373.9 million to $4.6 billion, mainly driven by the Western fresh pork and poultry sectors.

The poultry, processed pork and bacon sectors all contributed positively to the year's results. Fiscal 2022 ended with an increase of 33.6 million kilos sold compared to the previous year, which is the best performance in our history.

In the previous fiscal year, the coronavirus pandemic, labour shortages, rising costs related to inflation and supply chain disruptions, and a four-month strike at our Vallée-Jonction plant were factors that made up a perfect storm. The repercussions of this unfavourable economic situation were also felt in 2022. Despite the overall decline in performance, there were some encouraging signs during the fiscal year, including the restoration of export accreditations to the Chinese market for all our plants toward the end of the year. In addition, the significant turnaround measures announced since fall 2021, particularly in the fresh pork sector, began to produce results, allowing us to look forward to better days.

Hog production

The Eastern hog production sector posted a loss for the second consecutive year. The sector was affected by high prices for grains such as corn and soybeans amid soaring world prices and by lower prices for hogs sold to slaughterhouses and one-off costs related to restructuring operations.

Also during fiscal 2022, as part of the restructuring of the production sector, Olymel sold all the intellectual property of its AlphaGene genetics division to PIC, a division of GENUS plc, a global leader in swine genetics.

Unlike the previous fiscal year, the Western hog production sector posted a loss mainly owing to the unfavourable impact of higher raw material costs on the margin, as well as to the increase in labour costs. This sector produced over 1.2 million hogs in 2022.

Lastly, Olymel, in collaboration with the industry and public authorities, continued to implement monitoring measures to guard against an outbreak of African swine fever.

Eastern fresh pork

The Eastern fresh pork sector's results were even more negative than last year. The shortage of labour in hog slaughterhouses and the partial closure of the Chinese market for most of the year were two factors that prevented Olymel from achieving the expected margins. External slaughtering costs for pigs awaiting slaughter and the need to favour prime cuts over value-added cuts due to the labour shortages also weighed on the sector's results.

To overcome the labour shortage, several collective agreements in the sector were renewed and enhanced, resulting in a significant increase in labour costs. The war in Ukraine also caused grain prices to soar, pushing up supply costs. The hog purchase price formula based on a U.S. price index continued to disadvantage Olymel compared to its North American competitors.

All these factors contributed to the Eastern fresh pork sector's poor performance throughout fiscal 2022. However, following the equally negative results of fiscal 2021, Olymel had developed a robust turnaround plan for the sector, the main components of which were implemented at the beginning of fiscal 2022. Measures such as reducing hog purchases and slaughtering, cutting back on shifts, reallocating labour, discontinuing slaughter operations at the Princeville plant to convert it into a value-added cutting centre and recruiting temporary foreign workers are all beginning to yield positive results. Nonetheless, the sector is being closely monitored, in order to return it to profitability.

Amid these difficult circumstances, Québec hog producing partners have kept in mind the importance of the issues. The discounts they have given to buyers are a testament to their commitment to the industry and we are very grateful.

Fiscal 2023 should see the end of ongoing negotiations with Les Éleveurs de porcs du Québec to renew the pork marketing agreement. Olymel's goal, like that of other buyers, is to reach an agreement under which supply conditions are comparable to those elsewhere in Canada and the United States. This is a realistic and essential objective for the viability of the entire Québec hog industry.

In fall 2022, chilled fresh pork products in the domestic chilled category for mass distribution were launched under the Olymel brand. This line of six products proudly bears the *Porc du Québec* logo and their retail availability aims to make consumers rediscover high-quality meats produced here.

Western fresh pork

The Western fresh pork sector reported negative results for the second consecutive year. Despite significant growth in exports of chilled pork products, and a higher slaughter volume compared with last fiscal year, the meat margin in the Western fresh pork sector was affected by higher hog prices, fluctuations in the Canadian and U.S. currencies, and the increase in labour costs. Note that the hog slaughtering and cutting plant in Red Deer, Alberta regained its export licence to China during the fourth quarter of 2022 after it was suspended in April 2019.

Further processed pork

The further processed pork sector posted positive results, well exceeding fiscal 2021 performance. Despite a decline in sales volume, this result was driven by higher selling prices, a factor that contributed to the increase in the meat margin. Fiscal 2022 presented several challenges, including the reduction of production capacities related to labour shortages and workforce management. In addition, high inflation in transportation, ingredient and packaging costs also led Olymel to review its pricing formulas and tightly control its costs. The integration of temporary foreign workers, workforce training and improvement of our manufacturing processes will remain the priorities for this sector in 2023.

Bacon

For fiscal 2022, the bacon sector bettered its own record, which is all the more remarkable since the bacon plants had to deal with a labour shortage and reduced production capacity, as well as price volatility in the flank market and selling prices entirely determined by a formula.

Fresh poultry

The primary poultry processing sector posted positive results that more than doubled since the previous year. Along with the sharp increase in the meat margin, this remarkable performance was driven in particular by the higher selling prices and the increase in the number of kilos sold, while the price of livestock rose for the fourth consecutive year. As in other sectors, the fresh poultry sector had to cope with inflation in raw material, equipment and energy costs, as well as rising recruitment and training expenses. However, very strong demand for fresh chicken products continued to drive up selling prices, generating an exceptional contribution to fiscal 2022 results.

Note that a new marketing agreement is pending for this sector.

Olymel's interests in Sunnymel, New Brunswick and in Volaille Giannone, Québec generated positive contributions to fiscal 2022 results, higher than in the previous year for both cases.

The turkey sector had one of its best years with positive results driven in large part by the improved meat margin, higher sales volumes and sound inventory management. These positive results are all the more creditable as the Unidindon plant experienced a labour shortage throughout the year. The quality of male turkeys is still an issue in this sector.

Fiscal 2022 also saw the spread of avian flu across Canada and the efforts made by the industry and its partners to promote enhanced biosecurity measures around farms. Most experts expect this virus, carried by migrating birds, to re-emerge in spring 2023.

Further processed poultry

The processed poultry sector reported positive results for fiscal 2022, higher than in fiscal 2021. Despite higher raw material prices, the margin improved, driven by the increase in selling prices. Unlike fiscal 2021, which was heavily impacted by the pandemic and weak food services sales, Olymel benefitted from the resumption of restaurant activities nationwide. In fiscal 2022, it was mainly the labour shortage that disrupted operations on some production lines. In fiscal 2023, this sector will have to deal with the dual challenges of controlling costs amid widespread inflation, and training and integrating large groups of foreign workers.

Review of business model

Fiscal 2022 was my first full year at Olymel's helm. Given the economic context and turbulence affecting the organization over the past two years, we had to make heartbreaking choices at times, introduce and apply difficult measures, all to ensure Olymel's continuity.

I would like to thank all our employees for their trust and dedication, regardless of their role. They are our strength and contribute to our organization's resilience in the face of adversity.

I would also like to express my deep gratitude to all members of management who shared this essential responsibility to review our business model and optimize our overall operations.

Reviewing our business model means demonstrating that we have the agility necessary to adapt to changing circumstances and questioning ourselves. It's a mindset that applies to all our activities and is focused on innovation. Whether it's human resources, welcoming and integrating employees we want to retain, our manufacturing processes, animal well-being, respect for the environment or the quality of our products, this ability to review our ways of doing things is essential.

Sollio: 100 years of history

For more than 30 years, Olymel has taken pride in large part from being part of the large Sollio Cooperative Group family. Inspired by what Sollio and its partners have sown over the years in the poultry and the meat processing sectors, Olymel has derived its growth and passion for, as our mission dictates, feeding the world. Undoubtedly, the support of generations of agricultural producers and entrepreneurs, committed to this great cooperative organization for a century, is an integral part of our success. At the dawn of a second century of activities and on behalf of all Olymel employees, I wish Sollio Cooperative Group a bright and prosperous future.

In conclusion, I would like to express my gratitude to Pascal Houle, Chief Executive Officer of Sollio Cooperative Group, for his consistent support. I would also like to express my warmest appreciation for Ghislain Gervais, Chair of our Board of Directors, as well as to all Board members for their support.

Yanick Gervais, M. Fisc. CPA
President and Chief Executive Officer

Our Brands

Sollio
Cooperative Group

Financial position


Ferme Lait'xcellence
Finalist
Sollio Next Generation Award
2022-2023
100 years and counting.

Alexandre St-Jacques Burke, FRM
Chief Financial Officer

Setting up a plan to lower borrowing costs

As at October 29, 2022, the consolidated balance sheet of Sollio Cooperative Group [the "Cooperative"] showed assets totalling $4.58 billion compared with $5.0 billion as at the end of the previous fiscal year.

The decrease in total assets is largely due to the remeasurement of the Food Division goodwill linked to the unfavourable market conditions the Division has been facing for two years. In response to these external factors, the Cooperative implemented a comprehensive restructuring and streamlining plan for the balance sheet over the fiscal year. Some disposals were made in 2022, which also accounts for the lower total assets.

The Cooperative reported a consolidated debt/equity ratio of 41:59 at the end of fiscal 2022 compared with 35:65 as at the end of the previous fiscal year. Other disposals associated with the streamlining plan are expected to take shape in the next fiscal year, enabling us to anticipate long-term debt reduction.

This expected decrease in our long-term debt, combined with a recovery of profitability supported by the optimization plans underway, will reduce the average interest rate on our long-term debt.

Share capital, contributed surplus and reserve totalled $1.7 billion as at the fiscal year-end compared with $2.1 billion as at the previous fiscal year-end. These items represented 37.9% of total assets in fiscal 2022 compared with 42.3% as at the previous fiscal year-end.

Liquidity and capital resources

As at October 29, 2022, the Cooperative had access to the capital resources it needed through agreements with Canadian financial institutions. Our primary agreement with a syndicate of financial institutions comprises an overall credit facility of $1.261 billion, maturing in June 2023. Drawdowns amounted to $858.9 million at the end of fiscal 2022 compared with $792.0 million in fiscal 2021.

An amendment to the agreement with the bank syndicate was signed on January 27, 2023, reducing the credit facility ceiling to $1.100 billion and postponing the maturity date to June 30, 2024.

During the fiscal year, a temporary loan of $100 million was obtained to mitigate an expected increase in working capital resulting mainly from import tariffs on fertilizer, as well as the volatility of commodities. This temporary loan was repaid in full in September 2022.

Additionally, on November 30, 2022, the Cooperative's Board of Directors approved the creation of a new series of preferred investment shares. Issuing this series has enabled the Cooperative to settle most of the dividends payable on October 29, 2022, and reach an agreement about the underlying terms.

Despite the lower-than-expected financial results, the Cooperative made sure, throughout the fiscal year, to meet the conditions agreed to with its various financial partners.

Risks and uncertainties

In the course of business, the Cooperative is exposed to risks and uncertainties that could have an unfavourable impact on the achievement of its objectives, reputation, performance, financial position and its ability to pay patronage refunds to its members.

It is implementing various measures to mitigate the key risks presented below.

Economic conditions and competition

Since the economic situation is currently marked by inflation, recession indicators and rising interest rates could adversely affect the Cooperative's results.

Geopolitical conflicts impact the Cooperative. The health situation in China remains unstable and could disrupt supply and demand for the Cooperative's products. Export logistics has become more complicated following the COVID-19 pandemic.

The Cooperative operates in various competitive markets, where the arrival of new major players and pressure from existing competitors could negatively impact its results.

Knowledge of markets, optimized operations and costs, digital transformation, strategic partnerships, cooperative mergers and an extended value chain are our key assets in meeting this challenge.

Financial strategy

The marked rise in interest rates in the current inflationary conditions is increasing pressure that could limit the Cooperative's discretionary cash flows and affect its ability to access additional capital, use liquidities for operational purposes, pay patronage refunds and make acquisitions and investments to support its strategy and operations.

The Cooperative has developed a plan to achieve financial and operational optimization. It periodically assesses its debt ratio and ensures it is maintained at an acceptable level according to specific targets, while continuing to meet its financial commitments.

Human resources

Disruptions to the workforce exacerbated by the COVID-19 pandemic continue to create operational difficulties and lost opportunities for sales and to improve margins.

Work stoppages related to negotiations over employment conditions could have a negative impact on the Cooperative's results. Other factors, such as foreign worker integration and the Cooperative's reputation, can affect the Cooperative's ability to attract, retain and best use the required talent. The Cooperative puts the well-being of employees first by continuing to enhance its different programs in order to adapt to new realities and to meet their needs.

As part of its occupational health and safety management, the Cooperative is taking action to limit the occurrence and impact of work-related accidents.

Regulation and legal matters

The Cooperative is subject to policies, laws and regulations of different levels of government and foreign and international entities. Changes to this framework can significantly affect operations and the Cooperative's business model, as well as its financial performance. Procedures are in place to identify, monitor and take appropriate action in response to potential changes.

Information technology, cybersecurity and data protection

The Cooperative depends on various IT and industrial control systems that are key to its operations. Breaches of these systems, including by cyber attacks, could compromise their availability, integrity and data privacy.

In addition to allocating resources to improve and enhance the efficiency of its tools and methods, the Cooperative has implemented security measures to protect itself, in particular, against cyber attacks and fraudulent activities.

A working committee has been established to ensure that the Cooperative conforms to the requirements set out in Law 25 on the protection of personal information.

Ferme Badat 2016
Finalist
Sollio Next Generation Award
2022-2023

Crisis and business continuity

Unplanned events, such as IT system disruptions, fires, strikes or health crises, can have a major impact on the Cooperative's operations, its employees and its partners. When incidents occur, the Cooperative mobilizes its crisis cell and implements a response and communications plan to restore its activities and minimize the impact on operations.

Food security

The Cooperative is exposed to food safety risks. Costs, lost sales and damage to its reputation can result from incidents, recalls, production disruptions and complaints. In addition to insurance policies, the Cooperative adheres to the regulations in place and implements rigorous processes that qualify it for the available industry certifications.

Animal health

The measures governments take to prevent the spread of certain animal diseases can impact costs, animal production, supply, demand, prices and market access. In Canada, African swine fever has never been detected, whereas confirmed cases of avian influenza have appeared in farmed birds.

Environmental and climate change

The potential impacts of climate change, such as crop fluctuations, could have consequences for the Cooperative's operations. These concerns put public pressure on farming practices. For instance, the federal government wants to reduce greenhouse gas emissions due to nitrogen fertilizers. The Cooperative has updated its environmental policy and is implementing a corporate and cooperative responsibility strategy, including initiatives on greenhouse gas emissions and water consumption.

Reputation

A negative impact on the Cooperative's reputation could arise from its media exposure related to different subjects such as labour disputes, cybersecurity incidents, pork market management, food security, animal well-being and environmental issues. The Cooperative promotes organizational ethics and values via its code of conduct and corporate and cooperative responsibility strategy. In 2022, it began rolling out Ligne-Alliance, an anonymous and confidential hotline.

Ferme M&M
Finalist
Sollio Next Generation Award
2022-2023

100 years and counting.

Ferme Karibel
Finalist
Sollio Next Generation Award
2022-2023

Consolidated financial statements

As at October 29, 2022

Management report

The consolidated financial statements and other financial information included in the Annual Report of Sollio Cooperative Group [the "Group"] for the year ended October 29, 2022 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 internal 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 the Group'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 independent 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.

Pascal HOULE, CPA
Chief Executive Officer

Alexandre ST-JACQUES BURKE, FRM
Chief Financial Officer

Montreal, February 2, 2023

Independent auditor's report

To the members of
Sollio Cooperative Group

Opinion

We have audited the accompanying consolidated financial statements of Sollio Cooperative Group and its subsidiaries [the"Group"], which comprise the consolidated balance sheet as at October 29, 2022, and the consolidated statements of earnings (loss), reserve and 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 the Group as at October 29, 2022, and its consolidated results of operations and 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 the Group 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 these consolidated financial statements in accordance with Canadian accounting standards for private enterprises, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group'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

Independent auditor's report

guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements 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 the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management 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 the Group'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 the Group 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 the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group's 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.

Montreal, Canada
February 2, 2023

Ernst & Young LLP [1]

[1] CPA auditor, public accountancy permit no. A122471

A member firm of Ernst & Young Global Limited

Consolidated balance sheet

As at October 29, 2022 and October 30, 2021

[in thousands of dollars]	Notes	**2022 $**	2021 $
ASSETS	20		
Current assets			
Cash and cash equivalents	7	**6,121**	20,160
Accounts receivable	8, 27	**523,896**	515,038
Inventories	9	**1,262,210**	1,161,636
Income taxes receivable		**36,189**	81,452
Prepaid expenses		**54,388**	93,029
Derivative financial instruments	26, 27	**28,213**	32,834
Government assistance receivable – current portion		**829**	381
Investments – current portion	12, 27	**10,731**	6,099
Property, plant and equipment held for sale	13	**6,061**	13,246
		1,928,638	1,923,875
Non-current assets			
Interests in joint arrangements	10	**350,322**	298,511
Investments in entities subject to significant influence	11	**148,096**	152,508
Investments	12, 27	**70,022**	67,830
Government assistance receivable		**18,790**	19,619
Property, plant and equipment	13	**1,306,230**	1,424,004
Property, plant and equipment held for sale	13	**45,883**	27,128
Derivative financial instruments	26	**1,281**	2,865
Defined benefit asset	22	**35,575**	71,273
Intangible assets	14	**402,071**	440,028
Future income tax asset	6	**10,518**	26,557
Goodwill	3, 15	**259,942**	515,262
		2,648,730	3,045,585
		4,577,368	4,969,460
LIABILITIES AND EQUITY			
Current liabilities			
Bank borrowings	17	**17,932**	—
Accounts payable and accrued liabilities	18, 27	**916,761**	974,425
Deferred revenues	27	**240,354**	277,048
Income taxes payable		**13,641**	7,113
Derivative financial instruments	26, 27	**29,598**	35,768
Dividends and interest payable on preferred shares	23	**71,045**	4,036
Redeemable preferred shares – current portion	23	**7,096**	6,336
Obligations under capital leases – current portion	19	**7,025**	—
Long-term debt – current portion	20	**46,009**	41,434
		1,349,461	1,346,160
Non-current liabilities			
Obligations under capital leases	19	**14,877**	—
Long-term debt	20	**1,136,004**	1,066,655
Deferred credit	21	**5,681**	1,291
Other liability	10	**22,451**	—
Defined benefit liability	22	**72,298**	79,273
Future income tax liability	6	**77,701**	130,530
		1,329,012	1,277,749
Total liabilities		**2,678,473**	2,623,909
EQUITY			
Share capital	23	**1,152,402**	1,150,048
Contributed surplus		**22,079**	22,079
Reserve	4, 11	**551,939**	921,520
Equity of the Group		**1,726,420**	2,093,647
Non-controlling interests	4, 11	**172,475**	251,904
Total equity		**1,898,895**	2,345,551
		4,577,368	4,969,460

Commitments and contingencies [*note 24*]
Subsequent event [*note 28*]

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

On behalf of the Board,

Ghislain GERVAIS, Director

Patrick SOUCY, Director

Consolidated statement of earnings (loss)

Years ended October 29, 2022 and October 30, 2021

[in thousands of dollars]	Notes	**2022** **$**	2021 $
Revenues	27	**8,876,043**	7,925,637
Operating expenses	5		
Cost of sales and selling and administrative expenses	27	**9,019,554**	7,940,842
Net financial expenses		**84,030**	35,734
		9,103,584	7,976,576
Operating loss		**(227,541)**	(50,939)
Other income and expenses			
Share of results of joint arrangements		**59,985**	57,381
Share of results of entities subject to significant influence		**12,442**	13,797
Investment income	27	**2,757**	2,017
Net losses on disposal and remeasurement of assets	10, 11, 14, 15, 16, 21	**(161,385)**	(12,554)
Gains on remeasurement of interest rate swaps	26	**22,293**	26,280
Gains arising from insurance benefits		**2,087**	6,857
		(61,821)	93,778
Earnings (loss) before patronage refunds, income taxes and discontinued operations		**(289,362)**	42,839
Income tax recovery	6	**(666)**	(11,138)
Earnings (loss) before discontinued operations		**(288,696)**	53,977
Net loss related to discontinued operations	16	**(48,183)**	(64,299)
Net loss		**(336,879)**	(10,322)
Attributable to:			
Members of the Group		**(278,379)**	(4,292)
Non-controlling interests		**(58,500)**	(6,030)
		(336,879)	(10,322)

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

Consolidated statement of reserve

Years ended October 29, 2022 and October 30, 2021

[in thousands of dollars]	Notes	**2022** **$**	2021 $
Reserve, beginning of year		**921,520**	840,371
Premium on redemption of a non-controlling interest	4	**(4,582)**	—
Premium on issuance of non-controlling interests	4, 11	**—**	146,203
Adjustment – change in accounting policies	2	**(21,386)**	—
Dividends on common shares		**—**	(7,400)
Dividends on preferred investment shares		**(65,234)**	(53,170)
Refundable dividend tax on hand		**—**	(192)
Net loss attributable to members of the Group		**(278,379)**	(4,292)
Reserve, end of year		**551,939**	921,520

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

Consolidated statement of cash flows

Years ended October 29, 2022 and October 30, 2021

[in thousands of dollars]	Notes	2022 $	2021 $
OPERATING ACTIVITIES			
Earnings (loss) before discontinued operations		**(288,696)**	53,977
Non-cash items:			
Amortization	5	**164,096**	158,183
Amortization of transaction costs	5	**5,775**	2,706
Net losses on disposal and remeasurement of assets		**161,385**	12,554
Unrealized losses (gains) on derivative financial instruments		**13,444**	(26,602)
Future income taxes	6	**(11,259)**	(11,170)
Change in defined benefits		**(3,335)**	(25,560)
Share of results of joint arrangements		**(59,985)**	(57,381)
Share of results of entities subject to significant influence		**(12,442)**	(13,797)
		(31,017)	92,910
Net change in non-cash working capital items		**(210,188)**	52,967
Cash flows related to operating activities		**(241,205)**	145,877
INVESTING ACTIVITIES			
Business acquisitions	3	**—**	(5,119)
Disposals of subsidiaries	10	**6,887**	—
Acquisition of units from a subsidiary's non-controlling interest	4	**(23,500)**	—
Acquisitions of investments		**(14,395)**	(3,526)
Acquisitions of interests in joint arrangements		**(3,560)**	(1,807)
Acquisitions of investments in entities subject to significant influence		**—**	(12,177)
Proceeds from disposal of investments		**11,202**	10,201
Proceeds from disposal of interests in joint arrangements		**950**	13
Proceeds from disposal of investments in entities subject to significant influence	11	**9,861**	542
Dividends received from joint arrangements		**41,593**	32,819
Dividends received from entities subject to significant influence		**7,781**	7,937
Additions to property, plant and equipment, net of insurance recoveries		**(86,243)**	(100,061)
Proceeds from disposal of property, plant and equipment		**80,090**	22,289
Additions to intangible assets		**(7,067)**	(11,360)
Proceeds from disposal of intangible assets	14, 16	**60,893**	—
Cash flows related to investing activities		**84,492**	(60,249)
FINANCING ACTIVITIES			
Net change in bank borrowings		**17,932**	(3,090)
Proceeds from obligations under capital leases		**22,604**	—
Repayment of obligations under capital leases		**(702)**	(1,427)
Proceeds from issuance of long-term debt		**217,292**	24,512
Repayment of long-term debt		**(115,105)**	(160,711)
Proceeds from issuance of preferred shares		**6,628**	9,774
Redemption of preferred shares		**(2,974)**	(6,384)
Dividends on preferred investment shares		**—**	(49,134)
Proceeds from issuance of common shares		**17**	25
Redemption of common shares		**(373)**	(20,026)
Dividends on common shares		**—**	(3,529)
Proceeds from issuance of units of a subsidiary to third parties	4	**4,824**	151,336
Dividends paid to non-controlling interests		**(2,692)**	(10,092)
Cash flows related to financing activities		**147,451**	(68,746)
Increase (decrease) in cash and cash equivalents		**(9,262)**	16,882
Net decrease in cash and cash equivalents related to discontinued operations	16	**(4,777)**	(22,487)
Cash and cash equivalents, beginning of year		**20,160**	25,765
Cash and cash equivalents, end of year		**6,121**	20,160

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

Notes to consolidated financial statements

Years ended October 29, 2022 and October 30, 2021

[All amounts are in thousands of dollars.]

1) Business description

Sollio Cooperative Group [the "Group"] was established under a special act of the Province of Québec. It operates through three divisions: Food, Agriculture and Retail. The Food Division focuses on pork production and the processing and marketing of pork and poultry products. The Agriculture Division provides farmers with goods and services to support their farming operations. The Retail Division brings together distribution and marketing operations for hardware products, construction 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 for Canadian non-publicly accountable entities, and include the significant accounting policies described below.

Principles of consolidation

The Group 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 Sollio Cooperative Group and its subsidiaries, the most significant of which are as follows:

Filiales consolidées

Name	Description	Interest
Olymel L.P.	Production, processing and marketing of pork and poultry	84.2%
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%
Entreprise Agricole AMQ s.e.c.	Distribution and marketing of animal nutrition products	100%
Maizex Seeds Inc.	Production and marketing of seeds	87.5%
OntarioGrain.AG L.P.	Marketing of grains and supply of services	77.5%
Sollio Agriculture L.P.	Supply of agriculture-related goods and services	100%
Standard Nutrition Inc.	Distribution and marketing of animal nutrition products	100%
TerminalGrains.Ag s.e.c.	Operation of a grain terminal	80%
Groupe BMR inc.	Distribution and marketing of hardware products and construction materials	100%
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	51%

Interests in joint arrangements

The Group uses the equity method to account for its interests in jointly controlled enterprises.

Investments in entities subject to significant influence

The Group uses the equity method to account for all entities in which it exercises significant influence over the strategic operating, investing and financing policies.

When the value of investments subject to significant influence or interests in joint arrangements is negative, the Group recognizes the excess of its share of losses of the entity over the value of the investment when one of the following conditions is met:

i. The Group has guaranteed the obligations of the investee;
ii. The Group is otherwise committed to provide further financial support to the investee; or
iii. The investee seems assured of imminently returning to profitability.

Non-controlling interests

Non-controlling interests represent the portion of the combined net earnings and net assets of a subsidiary that is not wholly owned by the Group. Non-controlling interests are presented in equity, separately from the Group's equity. Any change in the ownership interest in a subsidiary that does not affect the control of the Group gives rise to an adjustment between the Group and the non-controlling interests to reflect their respective interests. Any difference between the adjustment and the consideration paid is presented separately in the Group's equity.

Business combinations

Business combinations are accounted for using 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 disposal and remeasurement of assets in the consolidated statement of earnings (loss).

Acquisition-related costs are recognized in earnings 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 the Group or options to sell the same shares are held by third parties, the Group recognizes a liability when such options are exercised.

The Group measures non-controlling interests in acquired businesses at fair value as at the date of acquisition.

Notes to consolidated financial statements

Years ended October 29, 2022 and October 30, 2021

2) Significant accounting policies

Cash and cash equivalents

Cash and cash equivalents include bank account balances as well as derivative financial instruments secured by cash and are recorded at fair value.

Inventories

Raw materials and supply inventories are valued at the lower of cost under 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.

The Group 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 (loss) and of related inventories in the consolidated balance sheet when it is probable that such discounts will be received.

Investments

Investments include shares and other securities of cooperatives measured at cost since they have no quoted market price in an active market. Notes receivable, also included in investments, are initially recognized at fair value and subsequently at amortized cost.

Property, plant and equipment

Property, buildings and equipment

Property, plant and equipment are initially recognized at cost or at fair value if acquired as part of a business combination. Grants related to property, plant and equipment are recognized as a reduction of those assets.

Assets under capital leases are capitalized when substantially all the benefits and risks incident to ownership of the leased property have been transferred to the Group. 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 carrying amount or fair value less costs to sell and are not amortized.

The cost of property, plant and equipment is amortized on a straight-line basis over their estimated useful life or the lease term:

Pavement	10 to 15 years
Buildings	10 to 30 years
Machinery and equipment	3 to 20 years
Automotive equipment	3 to 15 years
Leasehold improvements	Lease term
Assets under capital leases	Lease term

Breeding livestock

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

Intangible assets

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

Trademarks

Trademarks with finite lives are amortized over periods of 10 to 20 years. The Group also has trademarks with indefinite useful lives, which are not amortized.

Client lists

Client lists are amortized over periods of 10 to 21 years [five to 21 years in 2021].

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 10 years [five to 20 years in 2021].

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 eight years. Amortization of information technology development projects begins at project completion.

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

Financial support

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

Notes to consolidated financial statements

Years ended October 29, 2022 and October 30, 2021

2) Significant accounting policies

Research and development

Research costs are expensed in the consolidated statement of earnings (loss) in the year in which they are incurred. Development costs are capitalized under intangible assets when the costs incurred will result in future economic benefits.

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 the Group, there is reasonable doubt that losses on accounts receivable and notes receivable have occurred taking into consideration all circumstances known at the review date, or there is a reasonable doubt as to the ultimate collectability of a portion of the principal and interest. When there are indications of possible impairment, the Group determines if there has been a significant adverse change to the expected timing or amounts of future cash flows expected from the financial asset. The amount of the impairment loss is determined by comparing the carrying amount of the financial asset with the greatest of the following three amounts:

i. The present value of the cash flows expected to be generated from the asset, discounted using a current market rate of interest appropriate to the asset;
ii. The amount that could be realized by selling the asset at the consolidated balance sheet date;
iii. The amount the Group expects to realize by exercising its right to any collateral held to secure repayment of the asset, net of all costs necessary to exercise those rights.

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 the form of shares and other securities of cooperatives, interests in joint arrangements and interests in entities subject to significant influence are written down if analyses of entities' financial reports show they are experiencing financial difficulties. At the end of each period, the Group assesses each investment for any indications of impairment. When there are indications of possible impairment, the Group determines if there has been, during the period, a significant adverse change to the expected timing or amounts of future cash flows expected from the investment. If the investment is impaired, the Group reduces the carrying amount of the investment to the higher of the following:

i. The present value of the cash flows expected to be generated from the investment, discounted using a current market rate of interest appropriate to the asset;
ii. The amount that could be realized by selling the financial asset at the consolidated balance sheet date.

Reversals are permitted but the adjusted carrying amount of the financial asset shall be no greater than the amount that would have been reported at the date of the reversal had the impairment not been recognized previously.

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 (loss) 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.

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.

Notes to consolidated financial statements

Years ended October 29, 2022 and October 30, 2021

2) Significant accounting policies

Disposal of assets and discontinued operations

The assets or groups of assets and liabilities that make up the disposal groups are classified as held for sale when they are available for immediate sale in their current condition and their sale is highly probable. The Group classifies an asset or disposal group as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. To that end, management must be actively engaged in a plan to sell the assets or disposal groups and must expect the sale to occur within 12 months of the date they are classified as held for sale. Liabilities are classified as held for sale and are presented separately as such in the consolidated balance sheet if they are directly associated with a disposal group. Assets or disposal groups classified as held for sale are presented separately in the consolidated balance sheet and are measured at the lower of fair value less costs to sell and carrying amount.

Assets classified as held for sale are not reclassified as current assets, unless the Group has sold the assets prior to the date of completion of the financial statements and the proceeds of the sale will be realized within a year of the balance sheet date. If the assets have been classified as current assets due to their subsequent sale, any liabilities to be assumed by the purchaser or required to be discharged on disposal of the assets are classified as current liabilities.

Assets and disposal groups are classified as discontinued operations if the operations and cash flows can be clearly distinguishable, operationally and for financial reporting purposes, from the rest of the Group and they represent a separate major line of business or geographical area of operations, are part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or are a subsidiary acquired exclusively for resale.

Net earnings (loss) from discontinued operations, including the components of prior year net earnings (loss), is presented as a single amount in the consolidated statement of earnings (loss). This amount includes net earnings (loss) after tax from discontinued operations as well as net earnings (loss) after tax from the measurement and disposal of assets classified as held for sale.

Information on discontinued operations for the prior year relates to all operations that were discontinued as of the closing date of the most recent period presented.

If a long-lived asset no longer meets the criteria to be classified as held for sale, it shall be reclassified as held and used. A long-lived asset that is reclassified shall be measured individually at the lower of:

i. The carrying amount before it was classified as held for sale, adjusted for any amortization expense that would have been recognized had it been continuously classified as held and used; or
ii. The fair value at the date of the subsequent decision not to sell.

Any required adjustment to the carrying amount of a long-lived asset that is reclassified as held and used is included in net gains (losses) on disposal and remeasurement of assets in earnings before discontinued operations in the period of the subsequent decision not to sell. If a component of the Group is reclassified as held and used, the results of operations of the component previously reported under discontinued operations are reclassified and included in earnings before discontinued operations for all periods presented.

Deferred revenues

Deferred revenues are amounts invoiced for goods whose sale has not yet been recognized. Certain prepayment agreements between the Group and its clients bear interest.

Revenue recognition

Revenues are recognized when the significant risks and rewards of ownership of the goods sold are transferred to the buyer, revenues 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.

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 under cost of sales and selling and administrative expenses.

Employee future benefits

The Group 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. Calculations are based on long-term assumptions relating to salary escalation, retirement and termination ages of employees and estimated health care cost growth.

The Group uses insurance contracts for the payment of certain employee future benefits. These contracts are excluded from plan assets and the amount of benefits provided under these contracts is deducted from the defined benefit liability when there is a transfer of significant risks to the Group.

Notes to consolidated financial statements

Years ended October 29, 2022 and October 30, 2021

2) Significant accounting policies

Employee future benefits [cont'd]

Remeasurements of the net defined benefit asset or liability are recognized immediately in the consolidated statement of earnings (loss). 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. Obligations for funded plans are calculated using the most recent actuarial valuations prepared for funding purposes. Obligations for unfunded plans are calculated using separate actuarial valuations prepared for accounting purposes, and the discount rates are determined by reference to market interest rates on high-quality debt instruments with cash flows that match the timing and amount of expected benefit payments for these plans.

The Group also offers other post-retirement benefits to certain retired employees. Other post-retirement benefits offered by the Group 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 unfunded defined benefit pension plans. The related expenses are settled by the Group 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 (loss) 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.

Financial instruments

The Group 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, the Group measures its financial instruments as follows:

Accounts receivable (excluding government receivables) and notes receivable 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.

Bank borrowings, accounts payable and accrued liabilities (excluding government remittances), dividends and interest payable on preferred shares, redeemable preferred shares and long-term debt are measured at amortized cost.

Interest income and expense from financial assets and liabilities are recognized under net financial expenses in the consolidated statement of earnings (loss). 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, the Group 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 and interest-rate risk. Derivative financial instruments consist of foreign exchange contracts, currency swaps, interest rate swaps as well as commodity and currency forward contracts, swaps and options. The Group does not use derivative financial instruments for speculative purposes.

Hedge accounting is used where the Group documents its 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 the Group chose to designate as 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 reported as an adjustment to the revenues from or the expenses of the related hedged item. Where derivative financial instruments are used to hedge commodity price risks, the portion of gains and losses on the hedging item is recognized as an adjustment to the carrying amount of the hedged item. Realized gains and losses on these contracts are presented in cost of sales and selling and administrative expenses.

Foreign exchange contracts

The Group often sells and buys commodities outside Canada, mainly in US dollars, Japanese yen, Australian dollars and euros. To manage foreign exchange risk, the Group uses foreign exchange forward contracts.

Currency swaps on debt

The Group draws down a portion of its credit facility in the form of LIBOR and SOFR 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 discontinuation of the hedge 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 (loss). If the occurrence of a hedged future transaction ceases to be probable or if the hedged item ceases to exist, any gain or loss is recognized in the consolidated statement of earnings (loss).

Derivative financial instruments that are not designated as hedges are measured at fair value, which is the approximate amount that might be obtained in the 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 (loss).

Notes to consolidated financial statements

Years ended October 29, 2022 and October 30, 2021

2) Significant accounting policies

Commodity and currency forward contracts and swaps

The Group often buys and sells grain, sells hogs and buys fertilizer and uses foreign exchange contracts to cover certain future price risks for these commodities. The Group does not use hedge accounting for commodity and currency 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 and currency options

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

Interest rate swaps

The Group uses interest rate swaps to manage the risk of changes in interest rates on debt. The Group does not use hedge accounting for interest rate swaps. Therefore, gains and losses on these contracts, realized or not, are presented in gains on remeasurement of interest rate swaps.

Income taxes (recovery)

The Group 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 expected to apply to taxable income in the years during which temporary differences are expected to reverse. The effect on future income tax assets and liabilities of a change in tax rates is included in earnings in the period that includes the enactment date. A valuation allowance is provided to the extent that, in the opinion of management, it is more likely than not that future income tax assets will not be realized.

Year-end

The Group's year-end is the last Saturday of October. The years ended October 29, 2022 and October 30, 2021 include 52 weeks.

Changes in accounting policies

Future income taxes

Effective October 31, 2021, the Group adopted the amendments to Section 3465 of Part II of the *CPA Canada Handbook – Accounting, Income Taxes*. The amended standard requires disclosure of the amount of future income tax assets and future income tax liabilities in respect of each type of temporary difference for each period presented. These amendments also include requiring that future income tax assets and future income tax liabilities be classified as non-current and removing the corresponding requirement to not offset any current portion of future income tax balances with any future income tax balances classified as non-current. The Group adopted the amendments to Section 3465 retrospectively. As a result, all current future income tax assets and future income tax liabilities as at October 30, 2021 have been reclassified as non-current.

Employee future benefits

Effective October 31, 2021, the Group early adopted the amendments to Section 3462 of Part II of the *CPA Canada Handbook – Accounting, Employee Future Benefits*. The amended standard clarifies the measurement of the defined benefit obligation for plans with a legislative, regulatory or contractual requirement to prepare a funding valuation and removes the accommodation to allow the use of a funding valuation for defined benefit plans without a funding valuation requirement.

As such, as part of the transitional provisions included in these amendments, the Group used the most recently completed funding valuations and applied a roll-forward technique for the funded plans, and used actuarial valuations prepared for accounting purposes as required by the new requirements of Section 3462 for the unfunded plans. The cumulative effect of applying the amendments was recorded as a reduction of the opening balance as at October 31, 2021 of the reserve, for an amount of $29,026, and the non-controlling interests, for an amount of $3,032. The reserve opening balance was also increased by $7,640 to reflect the tax impact of applying the amendments. The adoption of these amendments had no impact on the consolidated financial statements of the Group for the year ended October 29, 2022.

Notes to consolidated financial statements
Years ended October 29, 2022 and October 30, 2021

3) Business acquisitions

During fiscal 2021, the Group acquired, via one of its subsidiaries in the Food Division, two businesses operating in the pet food sector. On December 16, 2020, the Group acquired 100% of the shares of a business for a consideration of $4,469, net of cash acquired. On September 22, 2021, the Group acquired, via the business acquired on December 16, 2020, 100% of the assets of another business for a consideration of $650.

The total value of net assets acquired and the considerations paid for the two businesses were as follows:

	Total $
Net assets acquired	
Current assets	587
Property, plant and equipment	1,198
Intangible assets	1,234
Goodwill	3,185
Total assets acquired	6,204
Current liabilities	491
Non-current future income tax liability	594
Total liabilities assumed	1,085
Total net assets acquired	5,119
Considerations paid	
Cash consideration, net of cash acquired of $182	5,119

4) Adjustments relating to non-controlling interests

On April 21, 2022, a group of non-controlling shareholders holding 45% of the shares of a Retail Division subsidiary, exercised its option to sell 15% of its interests in that subsidiary for an amount of $24,580. This transaction resulted in a $20,008 decrease in the carrying amount of the non-controlling interest and a $4,582 decrease in the reserve. An amount of $1,090 was still payable as at October 29, 2022.

On April 30, 2021, a new limited partner invested $150,000 in a subsidiary of the Group, as consideration for a 5.8% interest. This transaction resulted in a $66,007 increase in the carrying amount of the non-controlling interest and an $83,993 increase in the reserve.

Notes to consolidated financial statements

Years ended October 29, 2022 and October 30, 2021

5) Operating expenses

Operating expenses include the following items:

	2022 $	2021 $
Cost of sales and selling and administrative expenses		
Cost of inventories	**6,995,325**	6,178,558
Salaries and employee benefits	**1,036,902**	895,954
Research and development tax credits	**(1,028)**	(942)
Government assistance credited to earnings	**(2,112)**	(28,756)
Amortization of property, plant and equipment	**126,004**	134,926
Amortization of intangible assets	**39,383**	38,504
Amortization of deferred credits	**(1,291)**	(15,247)
Other expenses	**826,371**	737,845
	9,019,554	7,940,842
Net financial expenses		
Interest on bank borrowings	**505**	230
Interest on obligations under capital leases	**—**	18
Interest on long-term debt	**72,588**	33,966
Interest on preferred shares	**3,160**	1,261
Interest on deferred revenues	**4,556**	30
Amortization of transaction costs	**5,775**	2,706
Interest income	**(2,554)**	(2,477)
	84,030	35,734

Government assistance credited to earnings comprises the Canada Emergency Wage Subsidy (CEWS), which is a non-repayable grant to support businesses to retain workers following the outbreak of COVID-19 pandemic. The Group recognizes government assistance when the related expenses are incurred and recovery is reasonably assured. Government assistance is accounted for using the cost reduction method, that is, as a reduction of the expense or asset to which it relates. The CEWS is subject to a government audit.

Notes to consolidated financial statements

Years ended October 29, 2022 and October 30, 2021

6) Income taxes (recovery)

The significant components of the income taxes (recovery) recorded in the consolidated statement of earnings (loss) are as follows:

	2022 **$**	2021 $
Current	**10,593**	(3,768)
Future	**(11,259)**	(7,370)
Income tax recovery	**(666)**	(11,138)

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

	2022 **$**	2021 $
Property, plant and equipment	**(106,593)**	(103,928)
Investments	**(31,268)**	(9,559)
Intangible assets	**(7,429)**	(41,967)
Losses carried forward	**31,295**	32,600
Non-deductible provisions and reserves for tax purposes	**22,651**	15,375
Employee future benefits	**8,659**	1,610
Deferred research and development costs	**7,439**	—
Other	**8,063**	1,896
	(67,183)	(103,973)
Future income tax asset	**10,518**	26,557
Future income tax liability	**(77,701)**	(130,530)
	(67,183)	(103,973)

As at October 29, 2022, non-capital losses amounting to $301,025 for federal purposes ($340,877 for provincial purposes) have been accumulated in the Group and certain subsidiaries for which no future income tax asset has been recorded. These losses expire in 2035, 2041 and 2042.

7) Cash and cash equivalents

Cash and cash equivalents include an amount of $7,915 [$19,010 in 2021] used to secure positions relating to derivative financial instruments.

8) Accounts receivable

	2022 **$**	2021 $
Trade receivables	**521,332**	506,289
Allowance for doubtful accounts	**(18,270)**	(11,222)
	503,062	495,067
Government receivables	**20,834**	19,971
	523,896	515,038

On September 23, 2021, a subsidiary of the Group renewed an agreement for the assignment of a portion of the accounts receivable portfolio for a period of two years.

Notes to consolidated financial statements

Years ended October 29, 2022 and October 30, 2021

9) Inventories

Inventories are as follows:

	2022 $	2021 $
Inventories – Food Division	**525,042**	496,489
Inventories – Agriculture Division	**556,193**	451,616
Inventories – Retail Division	**180,975**	213,531
	1,262,210	1,161,636

10) Interests in joint arrangements

	2022 $	2021 $
Food Division - 50% and 67.7% interests	**28,535**	71,789
Agriculture Division - 50% interest	**197,064**	141,612
Retail Division - 50% interest	**1,210**	1,011
Oil sector company - 50% interest	**101,062**	84,099
	327,871	298,511
Other liability	**22,451**	—
	350,322	298,511

The Group holds interests in joint arrangements whose share of results exceeds 10% of the Group's earnings (loss) before the share of results of joint arrangements and income taxes. The Group holds 50% of the units of these joint arrangements whose carrying amount, recorded in other liability, totalled $22,451 as at October 29, 2022 [carrying amount of $84,099 in 2021].

Food Division

For the period ended October 29, 2022, one interest in a joint arrangement held by a subsidiary of the Group recorded a negative share of results exceeding its carrying amount at that date. As the subsidiary of the Group has committed to provide financial support to this entity, the excess of its share of losses over the carrying amount of the investment of $22,451 was recorded in other liability.

Agriculture Division

On February 18, 2022, a subsidiary of the Group sold 50% of the shares of one of its subsidiaries, reducing its interest to 50% and leading to a loss in control over it, for a selling price of $8,887. Two notes receivable totalling $2,000, bearing interest and due by 2032 based on the terms of the contract, were issued in connection with the transaction.

Following this transaction, $52,439 in current assets, $17,962 in non-current assets, $44,047 in current liabilities and $8,167 in non-current liabilities were derecognized. The retained interest, now considered as an interest in a joint arrangement, was accounted for using the equity method. A loss on sale of the shares and a loss on remeasurement of the remaining interest, totalling $413, were recorded as net loss on disposal and remeasurement of assets in the consolidated statement of earnings (loss).

Notes to consolidated financial statements

Years ended October 29, 2022 and October 30, 2021

11) Investments in entities subject to significant influence

	2022 $	2021 $
Food Division - 6.8%–47.2% interests [6.8%–56.8% in 2021]	**102,574**	103,986
Agriculture Division - 7.6%–46.5% interests	**15,594**	24,181
Retail Division - 20%–40% interests	**29,928**	24,341
	148,096	152,508

As at October 29, 2022, the Group did not hold any interest in entities subject to significant influence whose share exceeded the 10% threshold [the Group held 15% of the units of an entity subject to significant influence with a carrying amount of $103,341 whose share exceeded the threshold as at October 30, 2021].

Food Division

On December 31, 2020, the Group acquired, via a subsidiary, 15% of the shares of a business operating in the area of slaughterhouse by-product valorization. This transaction, valued at $95,034, was settled with the issuance of shares of the Group's subsidiary, thereby giving rise to a 3.04% interest in the subsidiary. This transaction resulted in a $32,824 increase in the carrying amount of the non-controlling interest and a $62,210 increase in the reserve.

On June 6, 2021, the Group lost control of the subsidiary following the fulfillment of a clause stipulated in the terms of the shareholders' agreement. Following this transaction, $4,502 in current assets, $31,728 in non-current assets, $4,577 in current liabilities, $30,438 in non-current liabilities, and a $1,215 non-controlling interest were derecognized. The retained interests, now considered as interests in entities subject to significant influence, were accounted for using the equity method as a credit amount of $287.

Agriculture Division

On August 1, 2022, the Group sold all of its shares held in an entity subject to significant influence for a consideration of $9,600. This transaction resulted in a gain of $1,290 which was recorded as net gain (loss) on the disposal and remeasurement of assets in the consolidated statement of earnings (loss).

On February 12, 2021, the Group acquired a 46.5% interest in a business operating in the poultry industry for a consideration of $6,441.

12) Investments

	2022 $	2021 $
Shares and other securities of cooperatives	**17,209**	14,956
Note receivable, non-interest bearing, with no maturity	**32,940**	17,282
Note receivable, bearing interest as defined under the terms of the agreement, that is 8.41% in 2022 [5.53% in 2021], with no maturity	**8,205**	10,205
Note receivable, non-interest bearing, repayable by annual instalments of $3,000 and a final payment of $4,000, maturing in October 2024	**6,583**	9,214
Other notes receivable, bearing interest at rates varying from 0% to 15%	**15,816**	22,272
	80,753	73,929
Investments – current portion	**10,731**	6,099
	70,022	67,830

Notes to consolidated financial statements

Years ended October 29, 2022 and October 30, 2021

13) Property, plant and equipment

	2022		
	Cost $	Accumulated amortization $	Net carrying amount $
Land	**152,687**	**—**	**152,687**
Pavement	**45,436**	**19,554**	**25,882**
Buildings	**1,023,443**	**321,446**	**701,997**
Machinery and equipment	**1,126,451**	**775,810**	**350,641**
Automotive equipment	**60,899**	**49,580**	**11,319**
Leasehold improvements	**21,937**	**5,538**	**16,399**
Breeding livestock	**38,128**	**15,603**	**22,525**
Assets under capital leases			
Buildings	**2,597**	**563**	**2,034**
Machinery and equipment	**23,737**	**991**	**22,746**
	2,495,315	**1,189,085**	**1,306,230**
Property, plant and equipment held for sale			
Current			**6,061**
Non-current			**45,883**

	2021		
	Cost $	Accumulated amortization $	Net carrying amount $
Land	158,647	—	158,647
Pavement	47,292	18,774	28,518
Buildings	1,088,779	316,083	772,696
Machinery and equipment	1,200,028	793,129	406,899
Automotive equipment	62,855	44,393	18,462
Leasehold improvements	21,973	7,826	14,147
Breeding livestock	35,689	13,650	22,039
Assets under capital leases			
Buildings	2,597	480	2,117
Machinery and equipment	1,630	1,151	479
	2,619,490	1,195,486	1,424,004
Property, plant and equipment held for sale			
Current			13,246
Non-current			27,128

In the normal course of operations, to optimize its business locations, the Group decided to sell property, plant and equipment with a total net carrying amount of $51,944 [$40,374 in 2021]. Of this amount, $6,061 [$13,246 in 2021] was presented as current property, plant and equipment held for sale and $45,883 [$27,128 in 2021], as non-current property, plant and equipment held for sale.

During the fiscal year, the Group received government assistance of $843 [$10,553 in 2021] as support for investments in property, plant and equipment. No specific conditions are attached to these amounts once they are received.

The Group's property, plant and equipment under construction are not subject to amortization. Their net carrying amount totalled $41,853 [$44,657 in 2021].

Notes to consolidated financial statements

Years ended October 29, 2022 and October 30, 2021

14) Intangible assets

		2022	
	Cost **$**	**Accumulated amortization** **$**	**Net carrying amount** **$**
Trademarks	**122,749**	**16,909**	**105,840**
Client lists	**258,766**	**85,528**	**173,238**
Exclusive supply rights	**92,833**	**48,943**	**43,890**
Production rights	**44,922**	**—**	**44,922**
Software and information technology development projects	**64,764**	**35,637**	**29,127**
Financial support	**7,717**	**2,663**	**5,054**
	591,751	**189,680**	**402,071**

		2021	
	Cost $	Accumulated amortization $	Net carrying amount $
Trademarks	124,294	15,835	108,459
Client lists	264,753	69,512	195,241
Exclusive supply rights	98,362	43,110	55,252
Production rights	44,922	—	44,922
Software and information technology development projects	61,029	28,293	32,736
Financial support	4,833	1,415	3,418
	598,193	158,165	440,028

The carrying amount of trademarks with indefinite lives, not subject to amortization, was $94,292 in 2022 and 2021.

On February 22, 2022, a subsidiary of the Food Division sold intellectual property and certain other intangible asset items related to research activities for a consideration of $25,000. As the carrying amount of these assets was nil, a gain of the same amount was recorded as net gain (loss) on the disposal and remeasurement of assets in the consolidated statement of earnings (loss).

During the month of October 2022, the Group, via its Agriculture Division, sold production rights and farm assets with a carrying amount of $532 for a net consideration of $37,746. As a result, a gain of $37,214 was recorded as net gain (loss) on the disposal and remeasurement of assets.

15) Goodwill

For a second consecutive year, unfavourable market conditions resulted in significant losses in the Food Division.

As a result, the Group determined that there were indicators that the carrying amount of the reporting unit to which goodwill is assigned may have exceeded the fair value of the reporting unit. Accordingly, the Group undertook a goodwill impairment test, which was based on a discounted cash flow analysis.

Based on the results of the goodwill impairment test, the Group determined that the estimated fair value of this reporting unit was less than the carrying amount. As a result, a goodwill impairment loss of $200,000 was recorded in a subsidiary of the Group. Other assets held by the Group were consequently written down namely $43,629 in additional goodwill, $1,808 in intangible assets and $2,434 in property, plant and equipment. A total impairment loss of $247,871 was then recorded and presented as net loss on the disposal and remeasurement of assets in the consolidated statement of earnings (loss).

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16) Disposal of assets and discontinued operations

During fiscal 2021, to reduce business volatility, the Group decided to withdraw from certain grain export operations of the Agriculture Division and to that end, management signed a commitment letter with a broker on October 29, 2021 for the sale of infrastructure relating to these operations.

As at October 29, 2022, this infrastructure was no longer part of an active plan of sale. As a portion of these operations no longer met the criteria to be classified as assets held for sale and liabilities related to assets held for sale, they were reclassified as held and used as of October 1, 2022, and so were the related results previously classified as discontinued operations. Following the reclassification, the Group remeasured the non-current asset and recorded an adjustment of $6,892 as net loss on disposal and remeasurement of assets in the consolidated statement of earnings (loss).

On August 31, 2022, the Board of Directors approved the discontinuance of the operations of a subsidiary in the Agriculture Division operating in the grain marketing business in Ontario. The non-current assets are part of an active plan of sale, which also includes the sale of infrastructure relating to these operations. The current assets, current liabilities and financial obligations will be collected or settled in the normal course of business until full discontinuance of these operations. As at October 29, 2022, this subsidiary reported current assets of $110,367, non-current assets of $19,281, current liabilities of $86,993 and non-current liabilities of $43,055.

As a result, certain comparative balances have been reclassified.

The following table provides a breakdown of the net loss relating to discontinued operations:

	2022 **$**	2021 $
Revenues	**680,142**	921,883
Operating expenses		
Cost of sales and selling and administrative expenses	**734,844**	995,001
Net financial expenses	**9,030**	6,351
	743,874	1,001,352
Operating loss	**(63,732)**	(79,469)
Other income and expenses		
Net losses on disposal and remeasurement of assets	**(991)**	—
Loss before income taxes	**(64,723)**	(79,469)

Income tax recovery related to discontinued operations amounted to $16,540 in 2022 [$15,170 in 2021], which reduced the loss related to discontinued operations to $48,183 [$64,299 in 2021].

17) Bank borrowings

Bank borrowings consist of subsidiaries' demand credit facilities.

For one of the subsidiaries, the demand credit facility, renewable annually, authorized for bank borrowings, advances, letters of credit and standby letters of credit, totalled $17,000, subject to a maximum of $6,000 for letters of credit and standby letters of credit. An amount of $16,684 was drawn as at October 29, 2022 [no amount was drawn as at October 30, 2021]. The credit facility bears interest at the prime rate of 5.95% in 2022 [2.45% in 2021]. The Group is joint and several guarantor for all amounts owing under this agreement.

18) Accounts payable and accrued liabilities

	2022 **$**	2021 $
Trade payables and accrued liabilities	**901,048**	952,923
Government remittances	**11,260**	19,688
Accrued interest on long-term debt	**4,453**	1,814
	916,761	974,425

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Years ended October 29, 2022 and October 30, 2021

19) Obligations under capital leases

	2022 $	2021 $
Obligation under a capital lease bearing interest at a fixed rate of 6.84%, repayable in blended monthly instalments of $505, maturing in October 2025	**15,977**	—
Obligation under a capital lease bearing interest at a fixed rate of 6.99%, repayable in blended monthly instalments of $99, maturing in October 2025	**3,138**	—
Obligation under a capital lease bearing interest at a fixed rate of 6.55%, repayable in blended monthly instalments of $88, maturing in October 2025	**2,787**	—
	21,902	—
Obligations under capital leases – current portion	**7,025**	—
	14,877	—

Minimum lease payments in upcoming fiscal years are as follows:

	$
2023	**7,025**
2024	**7,519**
2025	**7,358**

20) Long-term debt

	2022 $	2021 $
Credit facility,[1] drawn under margin loans at the prime rate of 5.95% plus a variable rate determined by a quarterly financial ratio and under LIBOR advances at rates ranging from 7.98% to 8.38% as at October 29, 2022 [in the form of LIBOR advances at rates ranging from 4.48% to 4.50% in 2021], maturing in June 2024	**858,868**	791,988
Credit facility[2] of a subsidiary, drawn under Canadian and U.S. margin loans at the prime rate of 5.95% plus a variable rate determined by a quarterly financial ratio and under bankers' acceptances at the rate of 8.52% as at October 29, 2022 [2.71% in 2021], maturing on October 30, 2023	**43,564**	52,475
Term credit of a subsidiary, secured by an immovable hypothec on certain assets with a carrying amount of $139,537 in 2022 [$144,733 in 2021], drawn under bankers' acceptances at the variable one-month CDOR rate of 3.74% plus 2.55%, representing a rate of 6.29%, and in the form of margin loans at the prime rate plus 1%, representing a rate of 6.95% in 2022 [3.45% in 2021], repayable in quarterly principal payments of $1,034 [$625 in 2021] and a final payment of $96,186 on October 29, 2023	**100,322**	82,500
Term credit, secured by movable and immovable hypothecs on most of the assets, comprising two tranches bearing interest at fixed rates of 6.50% [5.00% in 2021] for a notional amount of $60,000 and 4.64% for a notional amount of $40,000, repayable in seven annual principal payments of $8,571 and $5,714, respectively, starting on November 1, 2023	**100,000**	100,000
Term credit of a subsidiary, secured by an immovable hypothec on the universality of the property of this subsidiary with a carrying amount of $97,680 [$110,566 in 2021], bearing interest at a fixed rate of 6%, repayable in five instalments, including four equal quarterly principal payments of $608, plus interest, starting in December 2022, and repayment of the remaining balance on December 31, 2023	**36,500**	36,500

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20) Long-term debt [cont'd]

	2022 $	2021 $
Term credit of a subsidiary, secured by an immovable hypothec on the universality of the property of this subsidiary with a carrying amount of $97,680 [$110,566 in 2021] at a fixed rate of 7%, repayable in five instalments, including four equal quarterly principal payments of $50, plus interest, starting in December 2022, and repayment of the remaining balance on December 31, 2023	**3,000**	3,000
Loan, bearing interest at the fixed rate of 3.5% in 2022 [variable one-month CDOR rate of 0.43% in 2021], repayable on demand	**15,147**	11,681
Note payable of a subsidiary, bearing interest at the variable rate of 5.00% adjustable based on the Bank of Canada rate, maturing in December 2022	**12,169**	—
Note payable of a subsidiary, without interest or repayment terms	**6,000**	6,000
Note payable of a subsidiary, bearing interest at the prime rate plus 0.75%, representing a rate of 3.20% in 2021, repaid in January 2022	**—**	7,625
Note payable of a subsidiary, bearing interest at the rate of 2.45%, repaid in December 2021	**—**	7,113
Mortgage loans of a subsidiary, secured by movable and immovable hypothecs, drawn in the form of bankers' acceptances at the rate of 4.18% and of a margin loan bearing interest at the prime rate less 0.25%, representing a rate of 5.70% [2.30% in 2021], maturing between November 2022 and June 2023	**5,263**	6,265
Mortgage loan of a subsidiary, secured by a hypothec on a building and land of the subsidiary with a carrying amount of $11,845 in 2021, bearing interest at a fixed rate of 7.76%, repaid early in February 2022	**—**	3,732
Other borrowings, bearing interest at rates ranging from 0% to 5.95% in 2022 [from 0% to 5.00% in 2021], maturing between December 2022 and January 2026 [between February 2022 and January 2026 in 2021].	**3,655**	4,079
	1,184,488	1,112,958
Transaction costs	**(2,475)**	(4,869)
	1,182,013	1,108,089
Long-term debt – current portion	**46,009**	41,434
	1,136,004	1,066,655

1. The Group had an overall revolving credit facility of $1,261,246 in 2022 [$1,350,000 in 2021], secured by movable and immovable hypothecs on most of the assets, that it can use as follows: Canadian-dollar margin loans [$82,021 and $41,202 used in 2022 and 2021, respectively] and/or US-dollar margin loans [US$1,356 and US$634 used in 2022 and 2021, respectively], SOFR advances in US dollars [US$563,909 used in 2022 in the form of LIBOR advances and US$598,300 used in 2021] and standby letters of credit. The interest rate is based on a rate schedule that varies based on a financial ratio calculated quarterly on a consolidated basis. On December 29, 2021, the Group entered into an amendment to its credit facility agreement to obtain temporary relief from certain of its financial terms. The weighted rate as at October 29, 2022 was 8.38% [4.56% as at October 30, 2021]. On January 27, 2023, the Group renewed its overall credit facility agreement for one additional year, reducing its maximum drawdown available to $1,100,000.

2. A subsidiary of the Group had a revolving credit facility of $105,000 in 2022 and 2021, that it can use as follows: Canadian-dollar margin loans [$6,979 and $7,015 used in 2022 and 2021, respectively] and/or US-dollar margin loans [US$505 and US$365 used in 2022 and 2021, respectively], bankers' acceptances [$36,000 and $10,000 used in 2022 and 2021, respectively], SOFR advances [US$27,800 used in 2021 in the form of LIBOR advances in US dollars] and standby letters of credit. The interest rate is based on a rate schedule that varies based on a financial ratio calculated quarterly on a consolidated basis. Under the same credit agreement, the Group has a term credit of $20,000 that can be used to issue letters of credit. This credit facility is subject to compliance with certain financial ratios based on the statutory financial statements of the Group's subsidiary. Having obtained certain waivers prior to year-end, the Group entered into an amendment to its credit facility agreement on May 6, 2022 to remedy certain defaults observed during the fiscal year. The weighted rate as at October 29, 2022 was 8.69% [2.65% as at October 30, 2021].

The Group's long-term debt is subject to compliance with certain financial ratios based on the Group's consolidated financial statements. As at October 29, 2022, the Group was in compliance with these financial ratios.

The principal repayments required over the next five fiscal years are as follows:
2023 – $47,774; 2024 – $1,050,329; 2025 – $14,859; 2026 – $14,384; 2027 and thereafter – $57,142.

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21) Deferred credit

On February 8, 2022, a subsidiary of the Group entered into buy-and-lease transactions for a total consideration of $58,500. The excess of the gain from the sale over the present value of the minimum lease payments, totalling $30,188, was recorded as net gain (loss) on disposal and remeasurement of assets and the difference of $7,974 is deferred and amortized over the term of the lease. As at October 29, 2022, the balance of deferred credit related to these transactions amounted to $5,681 [$1,291 in 2021].

22) Employee future benefits

The Group measures its defined benefit plan 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 made as at October 29, 2022 for three plans, as at December 31, 2021 for two plans, as at January 1, 2020 for two plans and as at December 31, 2019 for two plans. The next required actuarial valuations will be as at December 31, 2022 for two plans, as at January 1, 2023 for two plans, as at December 31, 2024 for two plans and as at October 29, 2025 for three plans.

The most recent actuarial valuations of the other post-retirement benefit plans were made as at October 29, 2022 for two plans, as at June 30, 2022 for one plan and as at March 31, 2020 for two plans. The next required actuarial valuations will be as at March 31, 2023, March 31, 2025 and October 31, 2025.

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

2022	**Pension plans $**	**Other post-retirement benefits $**	**Total $**
Defined benefit obligations	**238,030**	**26,697**	**264,727**
Fair value of plan assets	**228,004**	**—**	**228,004**
Net defined benefit liability	**(10,026)**	**(26,697)**	**(36,723)**

2021	Pension plans $	Other post-retirement benefits $	Total $
Defined benefit obligations	225,305	27,506	252,811
Fair value of plan assets	244,811	—	244,811
Net defined benefit asset (liability)	19,506	(27,506)	(8,000)

The net defined benefit asset and liability presented in the Group's consolidated balance sheet are as follows:

2022	**Pension plans $**	**Other post-retirement benefits $**	**Total $**
Defined benefit asset	**35,575**	**—**	**35,575**
Defined benefit liability	**(45,601)**	**(26,697)**	**(72,298)**
Net defined benefit liability	**(10,026)**	**(26,697)**	**(36,723)**

2021	Pension plans $	Other post-retirement benefits $	Total $
Defined benefit asset	71,273	—	71,273
Defined benefit liability	(51,767)	(27,506)	(79,273)
Net defined benefit asset (liability)	19,506	(27,506)	(8,000)

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22) Employee future benefits

The cost of defined benefit pension plans is as follows:

2022	**Pension plans** **$**	**Other post-retirement benefits** **$**	**Total** **$**
Current service cost	**5,685**	**2,629**	**8,314**
Interest cost (income)	**(1,056)**	**1,204**	**148**
Remeasurements and other items	**13,226**	**(10,951)**	**2,275**
Employee future benefit cost (income)	**17,855**	**(7,118)**	**10,737**

2021	Pension plans $	Other post-retirement benefits $	Total $
Current service cost	5,560	1,710	7,270
Interest cost	494	1,237	1,731
Remeasurements and other items	(28,142)	402	(27,740)
Employee future benefit cost (income)	(22,088)	3,349	(18,739)

23) Share capital

[The amounts in the description of share capital are in dollars.]

The Group'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 the Group or if the contract commitments are not renewed.

Preferred investment shares

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

Series 2 – CRCD preferred investment shares with a par value of $100, non-voting and redeemable at their par value upon a decision of the Board of Directors since October 24, 2022, with an annual dividend, payable semiannually, 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 since October 24, 2022, with an annual dividend, payable semiannually, 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 since October 24, 2022, with an annual dividend, payable semiannually, 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 since October 24, 2022, with an annual dividend, payable semiannually, 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 since June 1, 2020, with an annual dividend, payable semiannually, cumulative and preferential except for the interest on Cooperative Investment Plan shares.

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Years ended October 29, 2022 and October 30, 2021

23) Share capital

Preferred investment shares [cont'd]

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 since November 1, 2022, with an annual dividend, payable semiannually, cumulative and preferential except for the interest on Cooperative Investment Plan shares.

Series 8 – 2020 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 1, 2023, with an annual dividend, payable semiannually, 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 the Group in accordance with the Cooperative Investment Plan, bearing interest at a rate determined by the Board of Directors, redeemable at their par value by the Group 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-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.

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 1–284 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.

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Years ended October 29, 2022 and October 30, 2021

23) Share capital

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

	Number		Amount	
	2022	2021	**2022** $	2021 $
Preferred shares				
Class A	**436,318**	378,511	**437**	379
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**	3,000,000	**300,000**	300,000
Series 8 – 2020 investment shares	**1,500,000**	1,500,000	**150,000**	150,000
Cooperative Investment Plan				
Series 2016, redeemable as of 2022, 3.5%	**—**	633,567	**—**	6,336
Series 2017, redeemable as of 2023, 3.5%	**709,610**	710,610	**7,096**	7,106
Series 2018, redeemable as of 2024, 3.75%	**762,255**	763,255	**7,622**	7,632
Series 2019, redeemable as of 2025, 3.5%	**805,234**	806,234	**8,052**	8,062
Series 2020, redeemable as of 2026, 3.5%	**985,530**	986,530	**9,855**	9,865
Series 2021, redeemable as of 2027, 4.0%	**1,002,954**	—	**10,030**	—
	12,751,901	12,328,707	**848,092**	844,380
Transaction costs	**—**	—	**(7,302)**	(7,302)
	12,751,901	12,328,707	**840,790**	837,078
Preferred shares reported as a financial liability	**(709,610)**	(633,567)	**(7,096)**	(6,336)
	12,042,291	11,695,140	**833,694**	830,742
Common shares				
Class A	**30,742**	31,278	**769**	782
Class AA	**2,680**	2,730	**67**	68
Class B-1	**42,321,752**	42,387,600	**42,322**	42,388
Class D-1	**243,224,888**	243,312,568	**243,224**	243,312
Class P-1	**4,788,356**	4,820,947	**4,788**	4,821
Class P-2	**262**	267	**7**	7
Class P-100	**22,781,225**	23,002,032	**22,781**	23,002
Class P-200	**4,737,281**	4,912,561	**4,737**	4,913
AUXILIARY MEMBERS	**510**	500	**13**	13
	317,887,696	318,470,483	**318,708**	319,306
	329,929,987	330,165,623	**1,152,402**	1,150,048

Notes to consolidated financial statements

Years ended October 29, 2022 and October 30, 2021

23) Share capital

Transactions during the year were as follows:

	Number		Amount	
	2022	2021	**2022** **$**	2021 $
Preferred shares				
Balance, beginning of year	**12,328,707**	11,968,432	**837,078**	833,652
Issued:				
Cooperative Investment Plan – Series 2021 [Series 2020 in 2021]	**1,002,954**	986,530	**10,030**	9,865
Transaction costs	**—**	—	**—**	(91)
	1,002,954	986,530	**10,030**	9,774
Transferred:				
Class A	**57,807**	35,564	**58**	36
Redeemed:				
Class A	**—**	(26,004)	**—**	(26)
Cooperative Investment Plan – Series 2015	**—**	(635,715)	**—**	(6,357)
Cooperative Investment Plan – Series 2016	**(633,567)**	(100)	**(6,336)**	(1)
Cooperative Investment Plan – Series 2017	**(1,000)**	—	**(10)**	—
Cooperative Investment Plan – Series 2018	**(1,000)**	—	**(10)**	—
Cooperative Investment Plan – Series 2019	**(1,000)**	—	**(10)**	—
Cooperative Investment Plan – Series 2020	**(1,000)**	—	**(10)**	—
	(637,567)	(661,819)	**(6,376)**	(6,384)
	12,751,901	12,328,707	**840,790**	837,078
Cooperative Investment Plan – Series 2016 [Series 2015 in 2021] – current portion	**(709,610)**	(633,567)	**(7,096)**	(6,336)
Balance, end of year	**12,042,291**	11,695,140	**833,694**	830,742
Common shares				
Balance, beginning of year	**318,470,483**	335,643,171	**319,306**	336,484
Issued:				
Class A	**656**	802	**16**	20
Class AA	**20**	170	**1**	5
Class D-1	**—**	13	**—**	—
Class P-2	**2**	17	**—**	—
Class P-200	**—**	3,871,392	**—**	3,871
AUXILIARY MEMBERS	**10**	20	**—**	1
	688	3,872,414	**17**	3,897
Transferred:				
Class B-1	**(37,391)**	(8,535)	**(37)**	(9)
Class D-1	**(20,416)**	(27,029)	**(21)**	(27)
	(57,807)	(35,564)	**(58)**	(36)

Notes to consolidated financial statements

Years ended October 29, 2022 and October 30, 2021

23) Share capital

Common shares [cont'd]

	Number		Amount	
	2022	2021	**2022**	2021
			$	$
Consolidation adjustments:				
Class AA	**—**	(20)	**—**	(1)
Class B-1	**—**	(23,364)	**—**	(23)
Class D-1	**—**	(101,245)	**—**	(101)
Class P-1	**—**	(162,242)	**—**	(162)
Class P-2	**—**	(2)	**—**	—
Class P-100	**(31,383)**	(601,959)	**(31)**	(602)
Class P-200	**(152,657)**	(124,975)	**(153)**	(124)
	(184,040)	(1,013,807)	**(184)**	(1,013)
Redeemed:				
Class A	**(1,192)**	(1,264)	**(29)**	(32)
Class AA	**(70)**	—	**(2)**	—
Class B-1	**(28,457)**	(6,355)	**(29)**	(6)
Class D-1	**(67,264)**	(19,987,971)	**(67)**	(19,988)
Class P-1	**(32,591)**	—	**(33)**	—
Class P-2	**(7)**	—	**—**	—
Class P-100	**(189,424)**	—	**(190)**	—
Class P-200	**(22,623)**	(141)	**(23)**	—
	(341,628)	(19,995,731)	**(373)**	(20,026)
Balance, end of year	**317,887,696**	318,470,483	**318,708**	319,306

On September 2, 2021, the Board of Directors authorized a preferred share issue pursuant to the Cooperative Investment Plan, Series 2021, as of November 30, 2021, under which 1,029,540 preferred shares were issued for a cash consideration of $10,030. On September 2, 2021, the Board of Directors also resolved to redeem, on or after November 30, 2021, 633,567 preferred shares issued under the Cooperative Investment Plan, Series 2016, for a cash consideration of $6,336.

On September 1, 2022, the Board of Directors authorized a preferred share issue pursuant to the Cooperative Investment Plan, Series 2022, as of November 30, 2022, under which 890,677 preferred shares were issued for a cash consideration of $8,907. On September 1, 2022, the Board of Directors also resolved to redeem, on or after November 30, 2022, 709,610 preferred shares issued under the Cooperative Investment Plan, Series 2017, for a cash consideration of $7,096.

On November 30, 2022, the Board of Directors approved the creation of a new series of preferred investment shares (the "Series 9 – 2022 investment shares"). These shares have a par value of $100, are non-voting and are redeemable at their par value upon a decision of the Board of Directors starting the day of their issuance. They carry an annual dividend, payable semiannually, cumulative and preferential except for the interest on Cooperative Investment Plan shares.

The fiscal 2022 dividends on the preferred investment shares were declared on November 30, 2022 and will be settled by the issuance of Series 9 – 2022 investment shares for an amount of $61,770 and by a cash payment of $7,500. An amount of $4,036 relating to fiscal 2021 was presented as dividends and interest payable on preferred shares as at October 30, 2021.

Notes to consolidated financial statements

Years ended October 29, 2022 and October 30, 2021

24) Commitments and contingencies

a) Contracts related to operations

The Group has entered into long-term operating leases for buildings and equipment. The future minimum lease payments of the Group under these operating leases totalled $205,148 and are as follows for the coming fiscal years: 2023 – $48,436; 2024 – $39,349; 2025 – $29,015; 2026 – $22,341; 2027 and thereafter – $66,007.

The Group also has commitments under computer equipment and software leases. The future minimum lease payments of the Group under these leases totalled $30,990 and are as follows for the coming fiscal years: 2023 – $11,776; 2024 – $9,904; 2025 – $3,102; 2026 – $3,343; 2027 – $2,865.

In the normal course of business, the Group commits to suppliers through supply agreements. The Group's commitments under these contracts do not exceed one year in duration.

b) Repurchase of the units of non-controlling unitholders

Food Division

A non-controlling unitholder of one of the Group's subsidiaries, holding 5.8% of the units of said subsidiary has an option to sell, on or after April 30, 2028, all of its units to the Group's subsidiary, which is obligated to repurchase such units or transfer this obligation to its limited partners. The Group is ultimately responsible for the total repurchase of units in the event of refusal by the other limited partners. The sale of the units and the payment of their sale price may be made in a maximum of three equal and consecutive annual instalments or sooner, according to the terms of the agreement.

Another non-controlling unitholder of one of the Group's subsidiaries, holding 2.9% of the units of said subsidiary, has an option to sell, on or after December 31, 2027, all of its units to the Group, 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 three equal and consecutive annual instalments or sooner, according to the terms of the agreement.

A group of non-controlling unitholders of one of the Group's subsidiaries, holding 2.6% of the units of said subsidiary, has an option to sell, on or after December 31, 2023, all of its units to the Group, 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 its units in a partnership for units of the Group's subsidiary. The units so acquired in the Group'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.

Another group of non-controlling unitholders of one of the Group's subsidiaries, holding 4.6% of the units of said subsidiary, has an option to sell all or 50% of its units to the Group, 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.

Agriculture Division

A group of non-controlling shareholders holding 12.5% of the shares of a subsidiary, has an option to sell all of its shares to the Group, up to the option expiry date of July 4, 2023. The Group is obligated to repurchase the shares at the time the option is exercised or at the option expiry date of July 4, 2023. The repurchase price is based on the value of the subsidiary, with a floor price.

Retail division

A group of non-controlling shareholders holding 30% of the shares of a subsidiary has an option to sell, after the fiscal year ending in 2026, all or a portion of its interests to the Group via a subsidiary. 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.

Via its subsidiary, the Group has an option to purchase all or a portion of the interests, on or after October 31, 2026, under the terms of the agreement.

c) Claims and lawsuits

In the normal course of business, various claims and lawsuits are brought against the Group. Legal proceedings are often subject to numerous uncertainties, and it is not possible to predict the outcome of individual cases. In management's opinion, the Group 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 the Group's financial position.

Notes to consolidated financial statements

Years ended October 29, 2022 and October 30, 2021

25) Guarantees

In the normal course of business, the Group has entered into agreements that contain features which meet the definition of a guarantee.

These agreements may require the Group 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.

Guarantee contracts

The Group is committed under comfort letters with financial institutions regarding guarantees for interests in joint arrangements and third parties. The balance of amounts due as at October 29, 2022 totalled $63,926 [$76,787 in 2021]. The Group's commitment under these guarantee contracts is limited to the repurchase of inventory.

26) Financial instruments

a) Derivative financial instruments

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

Derivative financial instruments for which hedge accounting is applied

Foreign exchange contracts

The following table sets out the amounts relating to foreign exchange contracts with maturities of less than one year:

Type	Country	Foreign currency notional	Average exchange rate	
			2022	2021
Sale	United States	**US$112,000** [US$140,600 in 2021]	**1.3493**	1.2414
Sale	Japan	**¥4,233,771** [¥2,323,010 in 2021]	**0.009410**	0.011139
Sale	Australia	**A$1,438** [A$2,499 in 2021]	**0.8751**	0.9237

Currency swaps on debt

To manage risks related to changes in foreign exchange rates, the Group uses derivative financial instruments to set the Canadian-dollar amount of instalments on debt denominated in U.S. dollars. As at October 29, 2022, a debt amounting to US$563,919 [US$598,300 in 2021] was hedged using foreign currency debt agreements. These financial instruments serve to hedge the impact of changes in foreign exchange rates of this debt on the equivalent Canadian dollar amount of $775,000 [$750,000 in 2021].

Derivative financial instruments for which hedge accounting is not applied

Commodity and currency forward contracts, options and swaps

The Group has entered into forward purchase and sale contracts with its suppliers and clients to set various grain prices. The following table shows the amounts relating to these contracts:

	2022		2021	
	Notional $	**Gain $**	Notional $	Gain (loss) $
Sale contracts	**199,421**	**1,830**	443,715	(14,357)
Purchase contracts	**123,813**	**13,011**	307,734	22,253
Net position – Sale	**75,608**	**14,841**	135,981	7,896

The Group also entered into forward contracts for various grains and currencies as well as currency and commodity swaps with financial institutions and in the markets to reduce its exposure to fluctuations in various grain prices. The following table shows the amounts relating to these contracts:

	2022		2021	
	Notional $	**Gain (loss) $**	Notional $	Gain (loss) $
Commodity swaps and sale contracts	**144,804**	**(1,804)**	248,010	(15,425)
Commodity purchase contracts	**26,988**	**(358)**	38,124	466
Foreign currency sale contracts	**163,661**	**(4,203)**	283,524	3,299
Foreign currency purchase contracts	**5,931**	**24**	7,449	(56)
Net position – Sale	**275,546**	**(6,341)**	485,961	(11,716)

Notes to consolidated financial statements

Years ended October 29, 2022 and October 30, 2021

26) Financial instruments

a) Derivative financial instruments [cont'd]

The Group has entered into commodity and foreign currency forward contracts, swaps and options to hedge the risk of fluctuation in hog, fertilizer and construction materials prices as well as the foreign exchange risk related to sales outside of Canada. The following table shows the amounts relating to these contracts:

	2022		2021	
	Notional $	**Gain (loss) $**	Notional $	Gain (loss) $
Commodity swaps and sale contracts	**94,918**	**(1,346)**	90,667	(2,588)
Commodity purchase contracts	**45,209**	**3,636**	20,431	1,750
Foreign currency sale contracts	**835,822**	**(16,591)**	203,990	4,991
Foreign currency purchase contracts	**198,118**	**4,416**	148,079	(1,634)
Net position – Sale	**687,413**	**(9,885)**	126,147	2,519

The Group has not entered into pork and currency options to manage price fluctuation risk in 2022. The Group recognized a gain of $905 in the consolidated statement of earnings (loss) in 2021. The fair value of those options resulted in a $1,633 increase in financial liabilities in 2021.

The above tables present the notional amounts of derivative financial instruments. These amounts correspond to the contractual amount used as a reference to calculate payment amounts. Notional amounts are generally not exchanged by counterparties and do not reflect the Group's exposure in the event of default.

Interest rate swaps

To manage risks related to changes in interest rates, the Group uses derivative financial instruments to set the initial variable interest rates as fixed interest rates. As at October 29, 2022, one interest rate swap under which the Group receives interest at the variable one-month CDOR rate of 4.15% in 2022 [0.43% in 2021] on a notional of $75,000 [$500,000 in 2021] was in effect. The Group pays interest at a fixed rate of 3.28% [rates ranging from 1.69% to 1.98% in 2021]. This swap provides for monthly net settlement of interest received and paid. This swap matures in August 2027 [from April 2026 to May 2027 in 2021].

A gain of $22,293 [gain of $26,280 in 2021] was recognized under gains on remeasurement of interest rate swaps in the consolidated statement of earnings (loss).

b) Fair value of derivative financial instruments

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

The fair value of derivative financial instruments was as follows:

Derivatives	**2022 $**	2021 $
Commodity and currency forward contracts, options and swaps – asset	**28,213**	32,834
Commodity and currency forward contracts, options and swaps – liability	**(29,598)**	(35,768)
Interest rate swaps – asset	**1,281**	2,865
	(104)	(69)

In fiscal 2022 and 2021, no amounts were recognized in the consolidated statement of earnings (loss) for the ineffective portion of hedging relationships for foreign exchange contracts, designated currency swaps and currency swaps on debt.

Notes to consolidated financial statements

Years ended October 29, 2022 and October 30, 2021

26) 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 the Group by failing to discharge its obligations. The maximum exposure to credit risk for the Group is equal to the carrying amount of the following financial instruments:

Trade receivables and notes receivable

In the normal course of business, the Group 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, the Group 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, the Group holds security on the assets and investments of certain clients in the event of default. The Group believes its credit risk exposure to trade receivables and notes 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. The Group is likely to incur losses if parties fail to meet their commitments related to these instruments. However, the Group 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 the Group will encounter difficulty in meeting its obligations associated with financial liabilities.

The Group 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 the Group'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

The Group often makes purchases and sales abroad. The Group'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, the Group uses foreign exchange forward contracts, currency swaps and currency options.

The Group'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 the Group'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 the Group may experience. The Group believes that notes receivable, bank borrowings and obligations under variable-rate long-term debt give rise to cash flow risk, as the Group 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. Furthermore, to protect its long-term debt against interest rate fluctuations, the Group uses interest rate swaps.

Other price risk

Commodity price risk

Input prices are determined by several external factors. Extreme price volatility results from constant changes in supply markets. The Group'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, the Group uses commodity forward contracts, swaps and options.

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Years ended October 29, 2022 and October 30, 2021

27) Related party transactions

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

	2022 $	2021 $
Consolidated statement of earnings (loss)		
Revenues	**1,533,985**	850,350
Cost of sales and selling and administrative expenses	**406,989**	275,570
Investment income	**1,658**	1,752

	2022 $	2021 $
Consolidated balance sheet		
Assets		
Accounts receivable	**82,922**	42,094
Derivative financial instruments	**405**	571
Investments	**38,498**	45,870
Liabilities		
Accounts payable and accrued liabilities	**17,760**	18,318
Deferred revenues	**156,743**	141,566
Derivative financial instruments	**115**	157
Note payable of a subsidiary, without interest or repayment terms	**6,000**	6,000

The investments with the joint arrangements are as follows:

	2022 $	2021 $
Note receivable, non-interest bearing, repayable on demand	**14,644**	15,635
Note receivable, non-interest bearing, repayable by annual instalments of $3,000 and a final payment of $4,000, maturing in October 2024	**6,583**	9,214
Note receivable, bearing interest at 15%, without terms of repayment	**5,171**	8,421
Note receivable, bearing interest at 5%, without terms of repayment	**500**	1,000
Note receivable, non-interest bearing, repayable under the terms of the agreement	**1,000**	1,000
Note receivable, bearing interest at the prime rate plus 0.5%	**600**	600
Preferred shares	**10,000**	10,000
	38,498	45,870

Notes to consolidated financial statements

Years ended October 29, 2022 and October 30, 2021

27) Related party transactions

The Group enters into transactions with its entities subject to significant influence in the normal course of business. Those transactions, measured at the exchange amount, are summarized as follows:

	2022 $	2021 $
Consolidated statement of earnings (loss)		
Revenues	**194,924**	318,669
Cost of sales and selling and administrative expenses	**457,289**	411,223

	2022 $	2021 $
Consolidated balance sheet		
Assets		
Accounts receivable	**8,587**	11,645
Note receivable, bearing interest as defined under the terms of the agreement, repayable on demand	**8,205**	10,205
Note receivable, non-interest bearing, without terms of repayment	**9,341**	2
Liabilities		
Accounts payable and accrued liabilities	**31,554**	19,409
Deferred revenues	**—**	1,640
Derivative financial instruments	**3**	—

28) Subsequent event

On November 15, 2022, a group of non-controlling unitholders exercised its option to exchange its units in a joint arrangement for units of a subsidiary of the Group, which will lead to a decrease of the Group’s interest in this subsidiary. As a result, control over the joint arrangement will be affected and the joint arrangement will be accounted for as a subsidiary.

Financial review – Unaudited

	2022	2021	2020	2019	2018
Operations					
[in thousands of dollars]					
Revenues	**$8,876,043**	$7,925,637	$7,259,446	$6,697,484	$6,461,345
Net financial expenses	**84,030**	35,734	53,796	47,629	22,601
Amortization (excluding transaction costs)	**164,096**	158,183	168,511	128,073	93,368
Earnings (loss) before patronage refunds, income taxes and discontinued operations	**(289,362)**	42,839	211,124	69,231	210,725
Patronage refunds	**—**	—	29,200	17,600	42,400
Income taxes (recovery)	**(666)**	(11,138)	30,850	13,149	32,914
Net earnings (loss) attributable to members of the Group	**(278,379)**	(4,292)	117,664	38,447	115,614
Earnings before patronage refunds, income taxes, discontinued operations, gross financial expenses, amortization and net gains (losses)	**96,945**	218,993	470,071	254,116	312,894
Financial position					
[in thousands of dollars]					
Working capital	**$579,177**	$577,715	$639,904	$395,499	$549,942
Property, plant and equipment, net carrying amount	**1,358,174**	1,464,378	1,567,259	1,215,381	1,020,130
Total assets	**4,577,368**	4,969,460	4,728,182	3,880,159	3,261,469
Preferred shares and equity of the Group	**1,733,516**	2,099,983	2,032,586	1,780,586	1,480,827
Financial ratios					
Working capital ratio	**1.4**	1.4	1.6	1.3	1.6
Interest coverage*	**(2.4)**	2.2	4.9	2.5	10.3
Debt/equity ratio	**41:59**	35:65	38:62	33:67	31:69
Earnings (loss) before patronage refunds, income taxes (recovery) and discontinued operations*/revenues	**(3.3%)**	0.5%	2.9%	1.0%	3.3%
Reserve and contributed surplus/preferred shares and equity of the Group	**33.1%**	44.9%	42.4%	44.0%	53.4%
Preferred shares and equity of the Group/total assets	**37.9%**	42.3%	43.0%	45.9%	45.4%
Number of employees	**15,930**	15,850	16,150	15,360	14,020

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

Sollio
Cooperative Group

Affiliated Cooperatives

Agiska Coopérative
Saint-Hyacinthe

Agriscar Coopérative
Trois-Pistoles

Agro Co-operative Assoc Ltd
Charlottetown
(Île-du-Prince-Édouard)

Antigonish Farm & Garden Co-op
Antigonish
(Nouvelle-Écosse)

Atlantic Co-operative Country Stores Moncton
(Nouveau-Brunswick)

Avantis Coopérative
Sainte-Marie

La Coop Chambord
Chambord

Citadelle, coopérative de producteurs de sirop d'érable
Plessisville

Covris Coopérative
Baie-du-Fèbvre

La Coop Dupuy et Sainte-Jeanne d'Arc
Dupuy

Eastern Farmers Co-op Society
Mount Pearl (Terre-Neuve)

Fermes du Nord Coopérative
Mont-Tremblant

Filière porcine coopérative
Montréal

La Coop Gracefield
Gracefield

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

Co-op Home & Farm Supply Fredericton
(Nouveau-Brunswick)

Kensington Co-operative Association Limited
Kensington
(Île-du-Prince-Édouard)

La Coop La Patrie
La Patrie

Société coopérative de Lamèque Ltée
Lamèque
(Nouveau-Brunswick)

Nutrinor coopérative
Saint-Bruno-Lac-Saint-Jean

Novago Coopérative
Joliette

O'Leary Farmers Co-op Assn.
O'Leary
(Île-du-Prince-Édouard)

Magasin CO-OP de Plessisville
Plessisville

La Coop Purdel
Rimouski

Scotian Gold Co-operative Limited
Coldbrook
(Nouvelle-Écosse)

South Eastern Farmers Co-op
Moncton
(Nouveau-Brunswick)

La Coop Squatec
Squatec

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

La Fromagerie coopérative Saint-Albert inc.
Saint-Albert (Ontario)

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

La Coop Sainte-Justine
Sainte-Justine

La Coop Sainte-Marthe
Sainte-Marthe

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

La Coop St-Fabien
Saint-Fabien

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

La Coop Saint-Méthode
Adstock

La Coop Saint-Pamphile
Saint-Pamphile

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

Coopérative de Saint-Quentin ltée
Saint-Quentin
(Nouveau-Brunswick)

La Coop Saint-Ubald
Saint-Ubalde

Magasin CO-OP de Saint-Victor
Saint-Victor

Section des marchands indépendants BMR
Montréal

Section des producteurs de porc de l'ouest
Montréal

Sussex & Studholm Agricultural Society No. 21
Sussex
(Nouveau-Brunswick)

Uniag Coopérative
Napierville

VIVACO groupe coopératif
Victoriaville

Coop de services agricole Le Partage
Lotbinière

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

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Mirabel

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Plessisville

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Saint-Cyprien

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Saint-Édouard-de-Lotbinière

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Saint-Jean-de-Dieu

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Weedon

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Sainte-Anne-de-la-Pérade

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Isle-Verte

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Saint-Anicet

Coopérative d'utilisation de machinerie agricole du Saguenay
Saguenay

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Saint-Joachim-de-Shefford

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L'Épiphanie

Coopérative d'utilisation de machinerie agricole Lamy
Saint-Hubert

Coopérative d'utilisation de machinerie agricole Les Ressources
Yamachiche

Coopérative d'utilisation de machinerie agricole Petite Montagne
Saint-Joseph-de-Beauce

Coopérative d'utilisation de machinerie agricole Porte de la Beauce
Saint-Isidore

Coopérative d'utilisation de machinerie agricole Tournesol
Sainte-Marie

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Saint-Gervais

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La Durantaye

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Mont-Saint-Michel

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

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

Coopérative d'utilisation de machinerie agricole de Leclercville
Leclercville

Coopérative d'utilisation de machinerie agricole de Matane
Saint-Luc

Coopérative d'utilisation de machinerie agricole de St-Éloi
Saint-Éloi

Coopérative d'utilisation de machinerie agricole de St-Sylvère
Deschaillons

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