

2018 Annual Report



**COOPERATE
NOURISH
THE EARTH
AND FEED
THE WORLD**



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

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OUR BOARD OF DIRECTORS



Sylvain Brault
President
Ferme Brault & frères inc.



Jean Bissonnette
1st Vice President
Ferme Val-Bisson inc.



Daniel Guérin
2nd Vice President
Jardins A. Guérin & fils inc.



Marc Quesnel
Executive Committee Member
Ferme LCM Quesnel inc.



André Giroux
Administrator
Ferme Grand Roux inc.



Éric Gratton
Administrator
Ferme Delurenic Itée



Louise Isabelle
Administrator
Isabelle inc.



Hugo Landry
Administrator
Ferme M. Landry inc.



Jean-Pierre Lavigne
Administrator
Ferme Lavigne inc.



Daniel Lemieux
Administrator
Serres Daniel Lemieux



Luc Leroux
Administrator
Ferme Lherousson inc.



Marc-André Van Winden
Administrator
Fermes Hotte et Van Winden

The Executive Committee is composed of:

- Sylvain Brault, President
- Jean Bissonnette, 1st Vice President
- Daniel Guérin, 2nd Vice President
- Marc Quesnel

The Governance, Ethics and Cooperative Life Committee is composed of:

- Jean Bissonnette, Chairperson
- Sylvain Brault
- Daniel Guérin
- Marc-André Van Winden
- Marc Quesnel

The Audit Committee is composed of:

- Jean Bissonnette, Chairperson
- Sylvain Brault, invité
- Daniel Guérin
- Hugo Landry
- Daniel Lemieux
- Jean-Pierre Lavigne

The Protection Committee (Insurance, Environment, SST) is composed of:

- Luc Leroux, Chairperson
- Sylvain Brault
- André Giroux
- Éric Gratton
- Louise Isabelle



SYLVAIN BRAULT

President



After two big years of consolidation, La Coop Unifrontières is now ready to get going and, with a record surplus under its belt, to continue its historic journey.

Indeed, Unifrontières has brought the 2018 year to a close with a consolidated surplus of just over \$6 million. Of course, the patronage dividend from La Coop fédérée explains a very large part of the profit that has been earned, but the mutual trust that the three former cooperatives have shared while merging their activities is already paying dividends. The ability to receive patronage dividends, combined with significant net worth on the balance sheet representing \$55 million in assets, puts Unifrontières in a position to seize the best opportunities on the market.

But La Coop fédérée's patronage dividend should not overshadow the excellent work done by each and every employee in our cooperative. We have accomplished a considerable feat within our business sites because to convince people who have sometimes devoted themselves for more than thirty years to their small hardware store, their fertilizer plant or their office, to now think of the common good and the interest of Unifrontières, has not been an easy task. But slowly, the vision the directors brought forward three years ago is unfolding and taking shape. The planned synergies will secure and improve the conditions for our employees and provide them with a fulfilling work environment that will then be reflected in the service offered to our members. A sincere thank you to each and everyone of you, and congratulations to the management team as well as to the management committee for a job well done.

A number of events in 2018 stood out for our cooperative. The most important of these was the transfer of authority at the management level. After almost 40 years with our co-op, including nearly 25 in management,

Bruno Dubuc handed over the reins of Unifrontières to Jean-Sébastien Leblanc as the new general manager on July 16th. Now that the transition is almost complete, we can say "mission accomplished" because I can assure you that our cooperative remains in good hands. I would like to sincerely thank Bruno for all the years of service he has rendered as well as for his exemplary collaboration during the management transition. I would also like to take this opportunity to wish Jean-Sébastien the best of luck for the years to come and a lot of success in his new position!

The second milestone event for 2018 was surely the centralization of our hardware business in the Naperville area. It was not an easy decision because even though we have now positioned ourselves very well in the neighbouring hardware store at our head office, and our service offer has risen to the level that our members deserve, we have had to close three satellite sites which also involved the loss of eight jobs. The cooperative is still committed to helping affected employees relocate. As of today, four employees have found employment within our cooperatives. At the same time, I cannot ignore the departure of Alain Dubuc as manager of hardware stores on March 1st. Alain had been with us for 30 years, initially as a counter clerk at the Ste-Martine coop, and he rose through the ranks to become general manager of La Coop des Frontières before the merger with Uniforce. Following that, he was manager of our hardware and agri-forestry sectors until the end of his mandate. Alain leaves us with the memory of a person of integrity, loyalty and dedication. We wish him the best of luck in his new projects. And as

one departs, another arrives. I would like to welcome Diane Proulx as the new manager for our hardware stores and for the twenty or so Matco employees who joined our team last December.

Beyond the hardware sector, our global service offer to our members and customers continued to improve in 2018. Whether for our product range with the addition of Maizex Seeds which are now available through our expert-consultants, or our Facebook group for grain trading that allows producers to find out about not only today's price but also for the next few months, or the AgConnexion portal which gives access to invoices, account statements and other information to the people assigned to do the accounting on the farm. More than ever, Unifrontières is making every effort to meet the expectations that its members deserve. Even the delivery of bagged dairy feed every two weeks, if at first it may have seemed like a nuisance, it also benefits everyone. By bringing this service back into our enterprise, we are making sure deliveries will be made in the face of a transportation issue that could affect us in the near future. In addition, each client who disciplines themselves to order feed every two weeks allows the coop to save considerable amounts on delivery runs and, as the cooperative belongs to its members, everyone ends up benefiting.

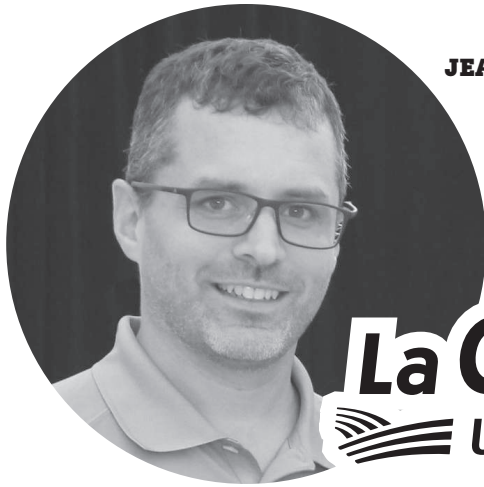
Better products and better services increase the chances of success for our members, but at Unifrontières we believe that training and interaction between our producers is also a big contributor as well. This is why a budget item is allocated to organize information sessions on specific topics for groups of producers who are always looking to improve their performance and be aware of the latest trends in their production sector. More «social» days will also be organized to promote interaction between our members. From my experience on the board, I can tell you that a dairy farmer from Quebec can find a lot to talk about with another from Ontario, or even a market gardener from Napierville! As entrepreneurs, we face challenges every day and having the opportunity to chat with people outside of our immediate environment can sometimes bring us more than what we get from one big day of conference speakers! We want to encourage this interaction at Unifrontières and our milestone event in 2018 was surely the second edition of our summer party last July at Lavigne Farm in Ontario with more than 350 tickets sold. To see this farm at the cutting edge of technology has certainly made more than one of us reflect on things and our summer event this coming year will be located in the Napierville region. More details will be sent to you in the coming weeks but we can already confirm that it will take place on July 12th, so you can mark that on your calendar!

The strength of our cooperative life has also been reflected in our annual RIC campaign (cooperative investment plan) this year. A million and a half dollars have been subscribed by our members, including almost \$500,000 in new contributions. Thank you all very much for your confidence in our cooperative.

The 2019 year promises to be interesting for Unifrontières on several points but particularly with the beginning of negotiations between ourselves and La Coop fédérée as part of the Vision 2020 partnership project. You have heard about this topic for a few years, and the first cooperative started under this formula last fall and so far it is going very well. I would remind you that this partnership will take place in the livestock and crop sectors, yet it should not change much in your daily life since your expert-consultants will continue to follow your business and invoicing will continue to be carried out by Unifrontières. We are aware that the particular situation of our cooperative within the network will bring with it lots of bargaining, for example the fact that we are active on the Quebec side as much as in Ontario, or our role as a wholesaler to other co-ops for market gardeners. But rest assured that your board and managers will take decisions that will maintain the leadership and influence of members in their cooperative and that they will receive the service they are entitled to expect.

In closing, I would like to again thank all of the cooperative's employees for their contribution this year. A big thank you also to all our partners and other stakeholders for your confidence in us. I would also like to thank the directors on the board for the courage they have exhibited in their decision-making during the year, and for their dedication. I am aware that every time directors come to a board meeting, they make a small sacrifice at work or in their family life. This is for the common good of the cooperative, and therefore it is all to their credit! And finally, a big thank you to all of you, our members, who trust us year after year, and who continue to do business with us even if everything is not always perfect. Thank you also for your participation in our many activities because, as I said before, a cooperative does not exist only for its members, it also exists because of its members.

Sylvain Brault
President



JEAN-SÉBASTIEN LEBLANC

General Manager



The 2017-2018 fiscal year, which ended on November 24, 2018, was punctuated by several decisions that had the effect of changing the appearance of your co-op.

It was alongside a renewed management committee that I was fortunate to complete a second year at La Coop Unifrontières as General Manager of your organization. After a first year, which was described as a transitional, the second year was used to lay the foundation for a cooperative that aims to be a top performer and responsive. But before starting to speculate on the future, let's take a few moments to look back over the various sectors during the last year. It is important to mention that we are comparing a full year (2017-2018) to a previous year when the integration of AgriEst's activities took place in the middle of the fiscal year (2016-2017).

Livestock Sector

Dairy production has been a hot topic across North America with the renegotiation of NAFTA, resulting in a new agreement, the USMCA, and unfortunately new concessions on Canadian dairy production rights. At our level, feed sales are increasing in terms of both dollars (35%) and volume (11%). The difference between the two percentages is explained by price inflation for the different products. A total of 47,385 MT of CFE (complete feed equivalent) was marketed in the last year.

As for the sales team, it is now completely integrated into the beautiful Unifrontières family. The Regroupement des Frontières SENC was dissolved early in the fall but some of the expert-consultants continue to serve neighbouring cooperatives. The next year will be used to restructure the transportation component in

this sector following decisions announced by two of our contract providers.

Crop Sector

In terms of fertilizers, the number of tonnes traded was up by 9%, and the average sale price per tonne around 3.6%. The increase in tonnes comes from the addition of new customers in Quebec and Ontario. The gross margin was, however, lower than last year. This growth, combined with the fact that the planting season is becoming shorter in our region, will lead your board of directors to position itself, as part of a strategy to ensure the cooperative's sustainability, as a partner of choice for fertilizer distribution.

In 2018, sales of crop protection products were \$435,000 higher. This increase is attributable to the sales growth in Dupont products throughout the territory and the addition of a major customer in Ontario. On the other hand, the gross margin was lower, at 12% compared to 15% for 2017. Noteworthy is the fact that a portion of the manufacturers' rebates for 2016 on the Uniforce side were received in 2017, although they were appropriately delineated from those for 2017. In 2018, these same discounts were correctly accounted for. We are still evaluating the actual impact associated with the various regulatory changes surrounding the prescription and use of these products. One thing is certain, your cooperative is very aware of this situation. The use of the «Smart Farm» platform in the AgConnexion portal would have been easier given the circumstances.

Cash crop seed sales decreased by \$172,000 compared to 2017. There were decreases for both corn and soybeans. The decrease was caused by the loss of customers including one who usually bought 2,000 bags of soybeans alone. On the other hand, the gross margin was higher, rising from 15% to 17% in 2018. There were more sales for cereal grains, inoculants and silage preservatives, which have a higher margin and which explains the increase. The evolution of orders during the last sales season shows encouraging signs and upward trends for the main crops. The addition of Maizex products in the summer of 2018 and the performance of some soybean hybrids supported these increases.

We completed two more PAEFs than in 2017, for a total of 272. A large portion of these PAEFs were completed on behalf of other network cooperatives. The hiring of Akim Soulé as Sales Manager, formerly an agri-environmental expert-consultant, ensured that remaining personnel could dedicate their time to completing the PAEFs for members and clients of your co-op. The coming months will be used to evaluate the possibility of adding a new staff member to the team and possibly developing our relationship with our partner Viridis.

Regarding custom work, the cooperative continues to offer you the opportunity to have your crop protection products sprayed, lime spread and, on a smaller scale, fertilizer applied. We are constantly looking for reliable and rigorous business partners to offer you services that meet your expectations. The profit margin for these services remains quite modest, and even negative in some cases.

Horticultural Sector

The market garden sector lost some momentum between 2017 and 2018. The decrease of approximately \$1 million in sales comes mainly from the decrease in sales to one major customer. The gross margin is also slightly lower than last year. However, this decrease includes a significant amount of dated inventory, a net loss of \$174,000 over the two years. The different seed companies have imposed increasingly tighter market conditions. The entire industry is currently restructuring and seems to be entering a phase that I would call indirect consolidation. For example, many seed companies are abandoning some retailers, such as ourselves, to focus on other outlets. So far, the match has been a draw and the real effects of these decisions, which are beyond our control, will only be felt in 2020. Now is the time to realize possible synergies with our Norseco subsidiary.

Grain Sector

The centre of the grain sector is the soybean micronization facility in St. Albert. Sales of this product have

been growing for the last year and we are very proud to be able to offer this distinctive product to our clients. For grain marketing, we recorded a decrease in tonnes traded, now down to 9,586 tonnes. The decline was both for corn and soybeans. To a certain extent, the US-led trade wars, such as the one against China, have had repercussions that reach back to us because the grain that is no longer exported abroad must be sold in domestic markets. The gross margin, with a sharp increase over last year, also includes the redistribution of Grain Elite SEC overpayments, which was 50% higher than last year. At the end of the year, La Coop fédérée announced a major grain export terminal project for the Quebec City region. These new facilities will allow your co-op to have access to new marketing opportunities for local grain within a few years.

Agri-Forestry Sector

There has been a decrease in sales as project subsidies ended in 2018. The involvement in this sector will be reconsidered by your board of directors during the next year.

Retail Sector

Sales for 2018 were up \$1,384,678 over 2017. Part of the increase comes from \$715,743 in sales for the additional four months (in the fiscal year) by the two hardware stores in Ontario. The overall profitability of this sector is still precarious and this has led to the closing of three outlets (Napierville, Sherrington and Saint-Michel) given that a business opportunity arose in the acquisition of BMR Matco in Napierville. The gross margin for 2017 was 27.5%, but it is down this year, only reaching 19.9%. The closure of the three outlets and, as a result, the write-down of remaining inventories, caused the decrease in the gross margin. For these three outlets, the gross margin was negative by an amount of \$22,905.

Convenience store sales increased 25.8%, primarily in the alcohol, lottery and tobacco family of products. In terms of sales at the service station, the number of litres sold increased by 28.7%. The increase in convenience store sales was due in part to the closure of another convenience store in the same village during the year. For the gross margin, it is slightly higher than last year for the convenience store.

Other Sectors

For the poultry and petroleum sectors, no economic activity took place this year at the level of the cooperative. The petroleum sector is now entirely considered as an investment and this is detailed in the notes to the financial statements which will be presented to you a little further on.

Financial Situation

The consolidated balance sheet for La Coop Unifrontières has total assets of \$55.33 million as of November 24, 2018, compared to \$53.02 million at the end of the previous year. The increase in total assets is mainly attributable to the increase in year-end inventories and the increase in investments related to the portion of La Coop fédérée's patronage dividend transferred as shares. It is important to note that accounts receivable decreased significantly between the two fiscal years, due to lower accounts receivable in the grain sector and transactions not affecting cash related to AgriEst.

Working capital shows a balance of \$13.92 million, compared to \$11.56 million in 2017. As for the Coop's consolidated working capital ratio, it stood at 1.85 at the end of 2018, compared to 1.59 at the previous year-end.

Equity stands at 58.1% at the end of fiscal 2018, compared to 48.9% at the end of the previous fiscal year. This significant variation can be explained by the excellent financial performance of Norseco and the record La Coop fédérée patronage dividend received last year.

Human Resources

The announced retirement of general manager Bruno Dubuc was the first in a series of changes experienced amongst the employee group during the past year. Since my arrival at the end of last July, two-thirds of the Executive Committee has been replaced. This wind of change will, I am sure, be highly beneficial for all of the cooperative's activities. I would like to sincerely thank the people who have chosen to put their trust in me and embark on this adventure together.

Your cooperative is going to go through a major transformation initiative through the establishment of a potential regional partnership with La Coop fédérée as part of the Vision 2020 project. Employees are and will be at the heart of our preoccupations and by focusing on them we will be able to succeed in the implementation of these projects. Training, professional development and mobilization of personnel will be the factors that will allow us to become an employer of choice and have a strong employer brand that will enable us to recruit the best talent in the future.

Conclusion

Your co-op is in excellent financial health and is well positioned to face the many challenges that confront the farming community. Rest assured that our primary goal is to contribute to your success by providing you with products and services that meet your needs in a constantly changing marketplace.

Thank you to our financial partners: Desjardins, La Financière agricole du Québec, Farm Credit Canada and our main supplier, La Coop fédérée.

To all our employees, sincere thanks in a context of significant transformation where everything is speeding up and for your constant involvement in achieving our mission. Without you, the cooperative could not operate on a daily basis and your work really makes a difference for several hundred farming families in the area.

Thank you to Sylvain Brault and the Board of Directors of La Coop Unifrontières who have accompanied me since I started at the cooperative last July and who have also demonstrated an openness to new ideas and changes.

Finally, thanks to you, members of La Coop Unifrontières, for the confidence shown throughout the year by choosing your cooperative as the privileged partner for your different needs in products and services.

Jean-Sébastien Leblanc, agr.
General Manager

Executive Committee and Our Employees

EXECUTIVE COMMITTEE

- Jean Sébastien Leblanc, General Manager
- Akim Soulé, Sales Manager – Crop Sector
- Diane Proulx, Director - Retail Sector
- Frédéric Laporte, Director of Operations
- Isabelle Faille, Director - Finance and Administration
- Claude Dubuc, Coordinator - Grain Sector
- Dominic Bélanger, Sales Manager – Ruminant Sector
- Geneviève Messier, Human Resources Senior Advisor

OUR EMPLOYEES

Napierville

Alain Olivier, Annie Daigneault, Bruno Dubuc, Carole Coallier, Chantal L'Écuyer, Chantale Dauphinais, Dany Ricard, Denis Doré, Érica Lewin, Frédéric Laporte, Geneviève Messier, Gilles Riendeau, Guylaine Sedillot, Idanuel Vallejos, Isabelle Derome, Isabelle Faille, Jean-Sébastien Leblanc, Julien Pié, Louis Godin, Mélanie Leclerc Beaulieu, Patrick Dineen, Pierrette Guérin, Robert Bombardier, Serge Gilbert, Sylvain Poupart, Tania Champagne, Timotei Faille

Napierville (BMR)

Alain Therrien, Audrey L'Écuyer, Camille Sanschagrin, Charles Pomerleau, Diane Proulx, Elisabeth Béchar, Emmy Beaudin, Jean-Marc Fortin, Johan Ochoa, Johanne McNamara, Josée Shuragaillo, Marie-Claude Lemieux, Martin Gravel, Maxence Landry, Michael Schikler, Michel Ricard, Micheline Benoit, Serge Gravel, Valerie Maigar-Racicot, Xavier Brabant, Zachary St-Jean

Saint-Albert ON

Éric Charlebois, Shawn Kusz

Saint-Isidore ON

Daniel Ranger, Ginette Carrière, Jocelyn Dupont, Michael Lavoie, Michel Lamoureux, Miguel Ranger, Patrick Ranger, Paul Taillefer, Pierre Major, Stéphane Fortin, Sylvie Lousseize

Saint-Louis-de-Gonzague

Laurence Thériault, Laurie Dumouchel, Louana-Lynn Blinco, Louis-Philippe Veilleux-Rodrigue, Majorie Vincent, Manon Laprade, Robyn Daoust, Sylvain Thériault

Saint-Polycarpe

Karl Malenfant, Luc Séguin, Julien Paiement

Sainte-Barbe

Audrée Gosselin, Chantal Viau, Marc-Olivier Sévigny, Patrick Loiselle, Tyrone Fuhrott

Sainte-Martine

Dany Turgeon, Julien Provost, Laure-Anne Gervais, Marie-Andrée Grégoire, Mario Lazure, Michelle Marcil-Campion, Maxime Beaudin, Pierre Allen, Richard Beauchamp, Serge Gervais

Animal feed

Dominic Bélanger, François Jacques, Gaëlle Thouny, Kelley Allen, Kim Lamoureux, Marie-Philip Brisson, Patrick Vincent, Simon-Pierre Loiselle

Grain Sector

Claude Dubuc, Manon Paquet, Richard Bériault, Sylvia Gioffre

Crop Sector

Akim Soule, Catherine St-Aubin, Felip Duval, Jonathan Messerli, Kamel Hamidouche, Marc Rochette, Yvan Hudon

Horticultural Sector

Akim Soule, Alexandre Bisson, Christian Provençal, Marie-Pierre Grimard, Marie-Hélène Monchamp, Martin Boivin

Agri-Forestry Sector

Alain Dubuc

2017-2018 Employee Recognition

THE YEAR 2017-2018 WAS A YEAR WHERE SEVERAL EMPLOYEES STOOD OUT!



Expert-consultant of the year:
Marie-Hélène Monchamp



Grain marketing agent of the year:
Claude Dubuc



Expert-consultant of the year, ruminant sector:
Simon-Pierre Loiselle
(for a second year in a row!)

We would not like to overlook the employees who were finalists for different prizes:

- Sylvia Gioffre: finalist grain marketing agent of the year
- Marie-Pierre Grimard: finalist expert-consultant of the year, horticultural sector
- Marie-Philip Brisson: finalist as revelation of the year, ruminant sector
- Équipe laitier: finalist for best performance, ruminant team

Overview of Social Activities

YOUR COOPERATIVE IS ACTIVE FOR ITS MEMBERS, CUSTOMERS, EMPLOYEES, AND ITS COMMUNITY.

At the year-end, it is always interesting to take a moment and reflect on the different activities that we have organized or in which we participated. It makes us realize why we sometimes run out of time!

Activities for Members and Customers

- Christmas dinners at different outlets
- 2017 Annual General Meeting (La Coop Uniforce and La Coop des Frontières)
- Forum Coopératif Féminin
- Hockey (producers)
- Tournée du président
- Summer party at Ferme Lavigne
- Meeting of ambassadors

Activities for Employees

- Christmas dinner

Professional Activities

- Kiosk at the Journées Horticoles & Grandes Cultures in St-Rémi
- American Seed Trade Association Congress
- Member and financial partner in the Fondation Laitue
- Member of the Association des producteurs maraîchers du Québec
- Member of the Association Québécoise de la distribution de fruits et légumes
- Member of Pôle d'excellence en lutte intégrée du CLD de Napierville
- Exhibits dairy animals from our clients at Ormstown Fair and other agricultural fairs

Donations and sponsorships

- Preparing for children's dinner at the twilight meeting in Glengarry, Prescott, Stormont counties.
- CVR bursary
- Friendly athletic competition in Napierville
- Fête des Moissons in Ste-Martine
- Fête familiale in St-Louis de Gonzague
- Bird feed supplier at Réserve faunique Lac St-François
- Gala Agristar (with La Coop Comax & La Coop des Montérégiennes)
- Gala des agricultrices
- Involvement with different local organizations
- Involvement with l'ARAMO
- Comité Culturel Barberivain partnership
- Festival de la Curd
- Riceville Agricultural Society
- Festival du Canard et de la Plume



INDEPENDENT AUDITOR'S REPORT

To members of
LA COOP UNIFRONTIÈRES

We have audited the accompanying consolidated financial statements of **LA COOP UNIFRONTIÈRES**, which comprise the consolidated balance sheet as at November 24, 2018, and the consolidated statements of income, reserve and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the financial reporting provisions of section 131 of the Québec Cooperatives Act, 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.

Auditor's Responsibility

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

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SOCIÉTÉ DE COMPTABLES
PROFESSIONNELS AGRÉÉS

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **LA COOP UNIFRONTIÈRES** as at November 24, 2018, and the results of their operations and their cash flows for the year then ended in accordance with the financial reporting provisions of section 131 of the Québec Cooperatives Act.

LLG CPA inc.¹

Saint-Rémi, February 14, 2019

¹ By CPA auditor, CA, public accountancy permit No. A129101

Saint-Rémi

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LA COOP UNIFRONTIÈRES
CONSOLIDATED INCOME
YEAR ENDED NOVEMBER 24, 2018

	November 24 2018	November 25, 2017
SALES	\$ 151,525,581	\$ 149,211,369
COST OF GOOD SOLD (Schedule A)	<u>134,831,398</u>	<u>133,182,655</u>
GROSS PROFIT	<u>16,694,183</u>	<u>16,028,714</u>
OPERATING EXPENSES		
Operating and sales expenses	10,584,383	9,669,367
Administration expenses	2,806,712	2,836,398
Interest on long-term debt	283,734	300,545
Interest and bank charges	376,619	384,052
Interest on preferred shares	216,104	328,092
Interest income	(247,749)	(170,452)
Amortization of property, plant and equipment and assets under capital leases	<u>629,645</u>	<u>563,535</u>
	<u>14,649,448</u>	<u>13,911,537</u>
EARNINGS	<u>2,044,735</u>	<u>2,117,177</u>
OTHER REVENUES		
Patronage refunds - Coopérative fédérée du Québec	5,616,372	2,923,104
Patronage refunds - others	5,857	4,502
Unrealized profit (loss) on derivative financial instruments	119,448	(931)
Gain on the disposal of property, plant and equipment	6,246	38
Devaluation on property, plant and equipment held for sale	(82,127)	-
Earnings for Research and development tax credit	<u>2,226</u>	<u>4,035</u>
	<u>5,668,022</u>	<u>2,930,748</u>
SURPLUS EARNINGS FOR THE YEAR BEFORE SUBSIDIARY'S INCOME TAX	<u>7,712,757</u>	<u>5,047,925</u>
INCOME TAXES		
Current	853,461	806,837
Future	<u>57,716</u>	<u>23,311</u>
	<u>911,177</u>	<u>830,148</u>
NET SURPLUS EARNINGS FOR THE YEAR	<u>\$ 6,801,580</u>	<u>\$ 4,217,777</u>
ATTRIBUTABLE		
TO THE MEMBERS OF THE COOPERATIVE (Note 5)	\$ 6,055,324	\$ 3,541,942
TO NON-CONTROLLING INTERESTS	<u>746,256</u>	<u>675,835</u>
	<u>\$ 6,801,580</u>	<u>\$ 4,217,777</u>

LA COOP UNIFRONTIÈRES
CONSOLIDATED RESERVE
YEAR ENDED NOVEMBER 24, 2018

	November 24 2018	November 25, 2017
BALANCE, BEGINNING OF YEAR	\$ 11,070,941	\$ 9,710,670
Net surplus earnings from the previous financial year	<u>3,541,942</u>	<u>1,903,756</u>
	<u>14,612,883</u>	<u>11,614,426</u>
Patronage refunds from the previous year		
Cash	(419,256)	(650,104)
Membership shares	(12,257)	(16,138)
Future income taxes related to the previous year's surplus earnings (Note 4)	<u>(447,181)</u>	<u>122,757</u>
	<u>(878,694)</u>	<u>(543,485)</u>
BALANCE, END OF YEAR	<u>\$ 13,734,189</u>	<u>\$ 11,070,941</u>

LA COOP UNIFRONTIÈRES
CONSOLIDATED CASH FLOW
YEAR ENDED NOVEMBER 24, 2018

	November 24 2018	November 25, 2017
OPERATING ACTIVITIES (Note 3)		
Inflows relating to year consolidated earnings	\$ 2,670,527	\$ 2,467,097
Net changes in non-cash working capital items	<u>419,218</u>	<u>(3,261,814)</u>
	<u>3,089,745</u>	<u>(794,717)</u>
INVESTING ACTIVITIES		
Acquisition of investments	(102,484)	(415,716)
Proceeds from disposal of investments	1,457,595	1,191,486
Acquisition of property, plant and equipment	(629,092)	(608,264)
Acquisition of property, plant and equipment held for sale	(79,864)	(1,000)
Proceeds from the disposal of property, plants and equipment	<u>10,464</u>	<u>90,273</u>
	<u>656,619</u>	<u>256,779</u>
FINANCING ACTIVITIES		
Net change in bank loans	(1,116,500)	3,946,501
Long-term loans	1,260,500	-
Repayment of long-term debt	(2,019,281)	(1,559,494)
Repayment of obligations under capital lease	(13,741)	(11,702)
Patronage refunds paid	(419,256)	(650,104)
Repayment of preferred shares	(21,000)	-
Issuance of member shares and preferred shares	767,500	906,100
Redemption of member shares and preferred shares	(266,162)	(780,449)
Dividends	<u>(30,000)</u>	<u>-</u>
	<u>(1,857,940)</u>	<u>1,850,852</u>
INCREASE IN CASH AND CASH EQUIVALENTS	1,888,424	1,312,914
INSUFFICIENT CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR	<u>(1,138,156)</u>	<u>(2,451,070)</u>
CASH AND CASH EQUIVALENTS (INSUFFICIENT) AT THE END OF YEAR	<u>\$ 750,268</u>	<u>\$ (1,138,156)</u>

Cash and cash equivalents consist of cash and bank overdraft.


LA COOP UNIFRONTIÈRES
CONSOLIDATED BALANCE SHEET
NOVEMBER 24, 2018

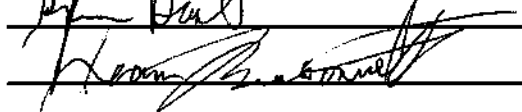
	November 24 2018	November 25, 2017
ASSETS		
CURRENT		
Cash	\$ 750,268	\$ -
Accounts receivable (Note 6)	7,650,710	10,765,470
Income taxes receivable	450,300	363,291
Future income taxes	64,160	119,770
Inventories (Note 7)	17,240,155	16,093,199
Deposits on inventories	3,522,220	3,461,490
Prepaid expenses	393,555	484,525
Derivative financial instruments (Note 8)	<u>134,629</u>	<u>10,382</u>
	30,205,997	31,298,127
INVESTMENTS (Note 9)	14,407,986	10,989,181
FUTURE INCOME TAXES	30,979	33,085
PROPERTY, PLANT AND EQUIPMENT AND ASSETS UNDER CAPITAL LEASES (Note 10)		
	6,936,744	7,037,211
PROPERTY, PLANT AND EQUIPMENT HELD FOR SALE	265,184	171,750
GOODWILL	<u>3,486,965</u>	<u>3,486,965</u>
	<u>\$ 55,333,855</u>	<u>\$ 53,016,319</u>

LA COOP UNIFRONTIÈRES
CONSOLIDATED BALANCE SHEET
NOVEMBER 24, 2018

	November 24 2018	November 25, 2017
LIABILITIES		
CURRENT		
Bank overdraft	\$ -	\$ 1,138,156
Bank loan (Note 11)	4,150,000	5,266,500
Accounts payable (Note 12)	7,320,207	8,293,562
Advance payments	2,333,110	2,851,573
Derivative financial instruments (Note 8)	15,181	11,313
Obligations under capital leases - current portion (Note 13)	14,742	16,678
Long-term debt - current portion (Note 14)	573,769	1,165,478
Long-term debt - current renewable portion (Note 14)	425,279	-
Preferred shares - current portion (Note 15)	<u>1,453,795</u>	<u>990,942</u>
	16,286,083	19,734,202
OBLIGATIONS UNDER CAPITAL LEASES (Note 13)	47,585	59,390
LONG-TERM DEBT (Note 14)	4,523,330	5,115,681
PREFERRED SHARES REDEEMABLE (Note 15)	727,000	1,000,000
FUTURE INCOME TAXES	<u>1,627,053</u>	<u>1,179,872</u>
	<u>23,211,051</u>	<u>27,089,145</u>
EQUITY		
PREFERRED SHARES (Note 16)	8,772,877	8,472,694
MEMBERS' EQUITY		
Social capital (Note 16)	776,333	773,772
COOPERATIVE EQUITY		
Income for the year (Note 5)	6,055,324	3,541,942
Reserve	<u>13,734,189</u>	<u>11,070,941</u>
	29,338,723	23,859,349
NON-CONTROLLING INTERESTS	<u>2,784,081</u>	<u>2,067,825</u>
	<u>32,122,804</u>	<u>25,927,174</u>
	<u>\$ 55,333,855</u>	<u>\$ 53,016,319</u>

ON BEHALF OF THE BOARD


_____, Director


_____, Director

1. STATUTES OF INCORPORATION AND NATURE OF ACTIVITIES

The cooperative, established under the Cooperatives Act, resulting from a merger between La Coop Uniforce and La Coop des Frontières, agricultural cooperative, is an organization created to procure goods and services for its members which they then use for operating their enterprises. It operates hardware stores, sells a variety of products mainly in the agricultural sector, and markets grain.

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements were prepared in accordance with Canadian accounting standards for private enterprises (ASPE), with the exception of certain situations arising from the requirements of the Cooperatives Act and its related regulations, and includes the following significant accounting policies:

Patronage refunds and income taxes

The net surplus earning for the year presented in the consolidated income statements is established before patronage refunds and income taxes on net surplus earnings of the cooperative. The amount of the patronage refunds is established by members at the Annual General Meeting. The net surplus earnings for the year, the patronage refunds and income taxes on net surplus earnings will be entered against the consolidated reserve during the next financial year.

Interest on preferred shares

Interest on preferred shares and related income taxes are indicated in the consolidated income statement.

Basis of consolidation

The consolidated financial statements include the accounts of the cooperative and its subsidiary. On consolidation, all intercompany transactions and balances have been eliminated.

Norseco inc. is a 70%-held subsidiary which operates as a seed distributor.

Revenue recognition

Sales of services are registered when the services are rendered to the client as long as there is proof a sales agreement, that the price has been determined or is possible to establish, and that the probability of collecting the payment is reasonably good.

Volume discounts are registered as a reduction in the sales figure as the sale is recorded.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash discounts given to customers are registered as a reduction in the sales figure as the sale is recorded.

Cash considerations received from suppliers constitute a reduction in the price of the suppliers' products or services and is recorded as a reduction in the cost of goods sold and of related inventories when referred to the consolidated financial statements of a cooperative. Certain exceptions apply when the cash consideration received represents either a reimbursement of the costs incurred by the cooperative to sell the products of the supplier, or a payment for goods delivered or services provided to suppliers.

Use of estimates

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and the reported amounts of revenues and expenses for the periods covered. The most important estimates are the net value of inventories, the impairment of financial assets and useful life of property, plant and equipment and assets under capital leases.

Cash and cash equivalents

The cooperative's policy is to present bank balances under cash and cash equivalents, including bank overdrafts when bank balances that fluctuate frequently from being positive to overdrawn.

Financial instruments

Initial and subsequent measurement

The cooperative initially measures its financial assets and liabilities at fair value, except for certain related party transactions that are measured at the carrying amount or exchange amount, as appropriate.

The cooperative subsequently measures all its financial assets and liabilities at cost or amortized cost, except for forward contracts and foreign exchange contracts.

Financial assets measured at amortized cost include cash, accounts receivable and loans.

Preferred shares investments of private companies and membership shares are recorded at cost.

Financial liabilities measured at amortized cost on a straight-line basis include bank overdraft, bank loan, accounts payable, advance payments and long-term debt.

Financial assets measured at fair value include forward contracts and foreign exchange contracts.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment

For financial assets measured at cost or amortized cost, the cooperative determines whether there are indications of possible impairment. When there is an indication of impairment, and the cooperative determines that a significant adverse change has occurred during the period in the expected timing or amount of future cash flows, a write-down is recognized in net income. A previously recognized impairment loss may be reversed to the extent of the improvement. The carrying amount of the financial asset may not be greater than the amount that would have been reported at the date of the reversal had the impairment not been recognized previously. The amount of the reversal is recognized in net income.

Transaction costs

Transaction costs related to financial instruments that will be subsequently measured at fair value are recognized in net income in the period incurred. Transaction costs related to financial instruments subsequently measured at amortized cost are included in the original cost of the asset or liability and recognized in net income over the life of the instrument using straight-line method.

Derivative financial instruments

In accordance with its risk management strategy, the cooperative uses derivative financial instruments to manage the risks associated with fluctuations in the cost of grain and the foreign exchange risks arising from its future commercial transactions abroad. Derivative financial instruments include forward price contracts and foreign exchange contracts.

Derivative financial instruments, for those not designated as hedge funds, are recorded at their estimated fair value as an asset or liability, which is the approximate amount that can be obtained from the settlement of these instruments at market prices or rates. Gains or losses resulting from the revaluation at the end of each year are recorded in the earnings. For forward contracts, fair value is determined by dealers using quoted market prices, whereas for foreign exchange contracts it is determined by the Caisse centrale Desjardins.

Derivative financial instruments, designated as funds that are hedged for future operations, are not recorded before due date. When a hedging instrument comes due before the hedging operation is recorded, all gains or losses are recorded as a separate line as equity until the anticipated transaction is recorded.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are measured at the lower of cost and net realizable value. The weighted average cost is determined using the first-in, first-out method, except for fertilizer center the weighted average cost is calculated on all purchase for the year.

For stock of seeds of the subsidiary, they are measured at the lower of cost and net realizable value. The cost is determined according to the specific cost method.

The cost of inventories includes all purchase costs and other costs incurred to bring inventories to their present location and condition. Purchase costs include the purchase price, import duties and non-recoverable taxes, as well as transportation, handling, and other costs directly attributable to the acquisition of the products.

Property, plant and equipment and assets under capital leases

Property, plant and equipment and assets under capital leases are accounted for a cost and reduced by any governmental assistance. They are amortized on the basis of their useful life using the declining balance methods at the following rates:

Buildings	4 % and 10 %
Office furniture	20 %
Computer equipment	30%
Rolling stock	30 %
Pavement and sidings	8 %
Truck scales	20 %
Machinery and equipment	20 %
Leasehold improvements	10 % and 20 %

Property, plant and equipment held for sale

Property, plant and equipment held for sale consists of a building and land located in Sainte-Barbe and a location at Sherrington. These are recorded at the lower of their book value and fair value less selling costs and are not amortized.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

Goodwill represents the future economic benefits arising from assets acquired in a business combination that are not individually identified and separately recognized. Goodwill is not amortized and is tested for impairment whenever events or changes in circumstances indicate that the fair value of the reporting unit to which the goodwill is assigned may be less than its carrying amount. When the carrying amount of a reporting unit exceeds its fair value, a goodwill impairment loss is recognized in net income in an amount equal to the excess.

Currency conversion

Transactions in foreign currencies are converted into Canadian dollars. Monetary items on the balance sheet are converted at the exchange rate in effect at the end of the year, while non-monetary items are converted at the exchange rate in effect on the date of the transaction. Income and expenses are converted at the exchange rate in effect on the date of the transactions. Gains and losses resulting from the conversion are included in the earnings.

Research and development tax credits

Credits are recognized when assessed by government authorities and eligible expenses are not known at the time of the consolidated financial statements are produced.

Income Tax on the surplus of earnings

The cooperative uses the tax liability method to calculate the income tax due on the surplus earnings. Future income tax assets and liabilities on the surplus earnings are recognized to take into account temporary differences in the future tax consequences between the accounting value of assets and liabilities and their tax value. Future income tax assets and liabilities on the surplus earnings are measured using the rates applicable in the year in which the differences are expected to reverse.

For its part, the subsidiary uses the future income tax method to record income taxes on its profits.

3. CASH FLOW

Inflows related to the consolidated income of the year are detailed as follows:

	November 24 2018	November 25, 2017
Net surplus earnings for the year	\$ 6,801,580	\$ 4,217,777
Items not affecting cash		
Future income taxes	57,716	23,311
Depreciation of property, plant and equipment and assets under capital leases	629,645	563,535
Gain on disposal of property, plant and equipment	(6,246)	(38)
Devaluation on property, plant and equipment held for sale	82,127	-
Loss (gain) on derivative financial instruments	(931)	146,219
Unrealized loss (gain) on derivative financial instruments	(119,448)	931
Patronage refunds converted into shares	<u>(4,773,916)</u>	<u>(2,484,638)</u>
	<u>\$ 2,670,527</u>	<u>\$ 2,467,097</u>

The net changes in non-cash working capital items are as follows:

	November 24 2018	November 25, 2017
Accounts receivable	\$ 3,114,760	\$ (2,108,784)
Income taxes receivable	(87,009)	(91,913)
Inventories	(1,146,956)	1,484,356
Deposits on inventories	(60,730)	737,924
Prepaid expenses	90,970	(89,768)
Accounts payable	(973,354)	(2,357,391)
Advance payments	<u>(518,463)</u>	<u>(836,238)</u>
	<u>\$ 419,218</u>	<u>\$ (3,261,814)</u>

4. INCOME TAXES ON SURPLUS EARNINGS

The reconciliation between income tax expenses and the amount obtained by multiplying the year-end surplus earnings by the income tax rates provided for in the Income Tax Act can be summarized as follows:

The significant components of the income taxes on surplus earnings are as follows:

	November 24 2018	November 25, 2017
Current	\$ 853,461	\$ 806,837
Future	57,716	23,311
Future related to the financial year surplus earnings	<u>445,500</u>	<u>447,181</u>
Income taxes on surplus earnings	<u>\$ 1,356,677</u>	<u>\$ 1,277,329</u>
Surplus earnings for calculation of the income tax expense	<u>\$ 7,712,757</u>	<u>\$ 5,047,925</u>
Income taxes at combined federal and provincial rate of 26.5%	2,043,881	1,337,700
Patronage refunds	(807,624)	(114,351)
Effect of non-deductible expenses	60,574	74,207
Other items	<u>59,846</u>	<u>(20,227)</u>
Income taxes on surplus earnings	<u>\$ 1,356,677</u>	<u>\$ 1,277,329</u>

Future income tax consists of the surplus earnings of the book value for property, plant and equipment as well as fiscal losses carried forward on the tax value and patronage refunds received as preferred shares for an amount of \$ 2,072,553 in liabilities (\$ 1,627,053 in liabilities in 2017).

5. SURPLUS EARNINGS FOR THE YEAR - RECOMMENDATION ON DISTRIBUTION

At its meeting on February 14, 2019, the Board of Directors decided to recommend to its members that they distribute a patronage refunds of \$ 3,047,638 for the financial year ending November 24, 2018.

Considering that at the general meeting, the members approved the aforementioned recommendation, the income taxes on surplus earnings that will be recorded in the reserve for the following year, in accordance with the Application Regulations for the Cooperatives Act, are as follows:

	November 24 2018	November 25, 2017
Surplus earnings for the year	\$ 6,055,324	\$ 3,541,942
Recommended patronage refunds	<u>(3,047,638)</u>	<u>(431,513)</u>
	3,007,686	3,110,429
Income taxes on surplus earnings		
Future payment related to the surplus earnings for the year (Note 4)	<u>(445,500)</u>	<u>(447,181)</u>
Amount to be allocated to the reserve	<u>\$ 2,562,186</u>	<u>\$ 2,663,248</u>

6. ACCOUNTS RECEIVABLE

	November 24 2018	November 25, 2017
Customers		
Grains	\$ 823,084	\$ 2,371,230
Members	2,689,887	2,251,806
Allowance for doubtful accounts	(312,844)	(951,753)
Sales Taxes	14,287	40,554
Broker deposits	67,748	214,372
Others	<u>4,368,548</u>	<u>6,839,261</u>
	<u>\$ 7,650,710</u>	<u>\$ 10,765,470</u>

7. INVENTORIES

	November 24 2018	November 25, 2017
Animal feed	\$ 181,421	\$ 203,426
Agroforestry	-	5,746
Packaging materials	111,919	106,153
Hardware Stores	2,962,184	3,984,813
Grains	1,864,910	985,602
Fertilizer center	1,394,616	1,048,660
Crop protection products and seeds	<u>10,725,105</u>	<u>9,758,799</u>
	<u>\$ 17,240,155</u>	<u>\$ 16,093,199</u>

The provision for depreciation of inventories at their net realizable value amounts to \$ 553,729 (\$ 687,980 in 2017), the expenses was recognized as a cost of goods sold.

8. DERIVATE FINANCIAL INSTRUMENTS

The fair value of derivative financial instruments reflects the estimated amounts that the cooperative should receive (or pay) to terminate open-ended contracts at the end of the year. The fair value of derivative financial instruments as of November 24, 2018, is as follows:

	Nominal Contractual Value	Balance Sheet	Fair value asset (liability) November 24, 2018	Fair value asset (liability) November 25, 2017
Forward contracts	\$ 504,189	Current assets (liabilities)	\$ (15,181)	\$ 10,382
Foreign exchange contracts	\$ 5,148,300	Current assets (liabilities)	<u>134,629</u>	<u>(11,313)</u>
			<u>\$ 119,448</u>	<u>\$ (931)</u>

9. INVESTMENTS

	November 24 2018	November 25, 2017
La Coop fédérée - Class A common shares 732 shares (746 shares in 2017)	\$ 18,300	\$ 18,650
La Coop fédérée - Class B common shares 2,113,337 shares (1,498,527 shares in 2017)	2,113,337	1,498,527
La Coop fédérée - Class D common shares 11,208,359 shares (6,017,861 shares in 2017)	11,208,359	8,502,499
Other cooperatives	2,309	2,309
11.28 % interest (5.26 % in 2017) in Solutions 3R inc.	126,169	23,684
0.4963 % interest in Énergie RC S.E.C	217,287	217,287
9.16 % interest in 9043-4998 Québec inc.	415,625	415,625
Membership shares		
Coopérative Beauharnois en santé - coop de solidarité	500	500
Centre Coopératif de grains - Membership shares	5,000	5,000
Coopérative de développement régional du Québec	100	100
Loan receivable from company, without interest or terms of repayment	300,000	300,000
0 % interest (60 % in 2017) in Regroupement des Frontières	-	3,000
5.55 % interest (6.66 % in 2017) in Optiboef S.E.N.C	<u>1,000</u>	<u>2,000</u>
	<u>\$ 14,407,986</u>	<u>\$ 10,989,181</u>

10. PROPERTY, PLANT AND EQUIPMENT AND ASSETS UNDER CAPITAL LEASES

			November 24 2018	November 25, 2017
	Cost	Accumulated amortization	Net book value	Net book value
Land	\$ 1,159,069	\$ -	\$ 1,159,069	\$ 1,167,730
Buildings	6,102,476	2,181,737	3,920,739	4,111,435
Office furniture	85,359	60,368	24,991	31,246
Computer equipment	632,946	410,921	222,025	225,289
Rolling stock	1,895,713	1,205,833	689,880	658,193
Pavement and sidings	567,689	208,079	359,610	266,024
Truck scales	264,303	238,089	26,214	32,767
Machinery and equipment	1,645,001	1,187,937	457,064	444,641
Leasehold improvements	58,684	32,219	26,465	27,476
Rolling stock under capital lease	<u>87,770</u>	<u>37,083</u>	<u>50,687</u>	<u>72,410</u>
	<u>\$ 12,499,010</u>	<u>\$ 5,562,266</u>	<u>\$ 6,936,744</u>	<u>\$ 7,037,211</u>

During the financial year, the cooperative did not acquire asset under a capital lease (\$ 87,700 in 2017).

11. BANK LOAN

The cooperative has an authorized line of credit of \$ 15,000,000 of which \$ 10,850,000 had not been used as at November 24, 2018. This bank loan is secured by a first ranked moveable mortgage on the universality of present and future receivables, tangible and intangible inventories for an amount of \$ 15,000,000 and is renewable annually. Accounts receivable and inventories have a net value of \$ 17,979,299 (\$ 20,748,438 in 2017).

The cooperative also has an authorized line of credit of \$ 5,000,000 of which no amount had been used as at November 24, 2018. This loan is secured by a second ranked moveable mortgage on the universality of present and future receivables, inventories, property, plant and equipment and intangible assets for a capital amount of \$ 5,000,000 plus interest. Accounts receivable and inventories have a net value of \$ 17,979,299 (\$ 20,748,438 in 2017).

The subsidiary has an authorized line of credit of \$ 4,000,000 for the period from February 1st to July 31, and \$ 3,000,000 for the period from August 1st to January 31, of which no amount is used as at November 24, 2018. In addition, it has a \$700,000 foreign exchange facility, of which no amount is used as at November 24, 2018. It is secured by a first ranked moveable mortgage of \$ 7,000,000 on the universality of moveable assets, receivables, and inventories, having a net value of \$ 6,196,307. The agreement is renewable annually.

12. ACCOUNTS PAYABLE

	November 24 2018	November 25, 2017
Members	\$ 591,165	\$ 744,545
La Coop fédérée	2,373,304	3,614,177
Government remittances	35,486	23,243
Other suppliers and accrued liabilities	<u>4,320,252</u>	<u>3,911,597</u>
	<u>\$ 7,320,207</u>	<u>\$ 8,293,562</u>

13. OBLIGATIONS UNDER CAPITAL LEASES

	November 24 2018	November 25, 2017
Capital lease for rolling stock, 8.24 % maturing in May 2022, capital and interest repayable in monthly instalments of \$ 1,012	\$ 43,100	\$ 51,577
Capital lease for rolling stock, 5.12 % maturing in May 2022, capital and interest repayable in monthly instalments of \$ 535	<u>19,227</u>	<u>24,491</u>
	62,327	76,068
Obligations under capital leases - current portion	<u>14,742</u>	<u>16,678</u>
	<u>\$ 47,585</u>	<u>\$ 59,390</u>

The minimum future payments due on capital leases over the next five years are as follows:

2019	\$ 18,557
2020	18,557
2021	18,557
2022	<u>15,035</u>
	70,706
Interest included in minimum payments	<u>8,379</u>
	<u>\$ 62,327</u>

14. LONG-TERM DEBT

	November 24 2018	November 25, 2017
Loans from Caisse Desjardins des Seigneuries de la frontière, 3.39 % to 3,70 %, with varying terms to maturity between November 2018 and September 2032 secured by property, plant and equipment with a net value of \$ 6,852,386 and guaranteed by La Financière Agricole, repayable in a total monthly instalments of \$ 11,246	\$ 1,382,639	\$ 1,024,235
Loans from Caisse Desjardins de l'Ouest de la Montérégie, 3.01 % to 4.45 %, with various terms of maturity between December 2018 and June 2028, secured by property, plant and equipment with a net value of \$ 6,852,386 and the universality of equipment, inventories and receivables repayable in total monthly instalments of \$ 27,126	1,287,262	1,579,593
Loan preferential rate plus 2.5 % maturing in February 2019, secured by a first ranking moveable hypothec of \$ 7,000,000 on the universality of moveable property, receivables, and inventories, having a net value of \$ 6,916,307 in monthly principal instalments of \$ 33,333	100,000	500,000
Loan 10.5 %, maturing in September 2024, principal repayable in monthly instalments of \$ 10,400	729,600	854,400
Loan 6.25 %, maturing in September 2021, principal repayable in monthly instalments of \$ 6,667	240,000	320,000
Loan 5.5%	-	156,250
Notes payable to La Coop fédérée, 4,70 %, maturing in April 2022, payable in full on the due date	<u>1,782,877</u>	<u>1,846,681</u>
	5,522,378	6,281,159
Long-term debt - current portion	573,769	1,165,478
Long-term debt - current renewable portion	<u>425,279</u>	<u>-</u>
	<u>\$ 4,523,330</u>	<u>\$ 5,115,681</u>

14. LONG-TERM DEBT (continued)

The estimated payments on the long-term debt during the next five years, established as follows:

2019	\$	592,784
2020	\$	488,459
2021	\$	641,783
2022	\$	143,760
2023	\$	373,956

15. PREFERRED SHARES REDEEMABLE

	November 24 2018	November 25, 2017
Class ESSOR preferred shares, 7.25 %, maturing in September 2022	\$ 979,000	\$ 1,000,000
Class F preferred shares	387,639	273,481
Class N preferred shares	-	717,461
Class O preferred shares	<u>814,156</u>	<u>-</u>
	2,180,795	1,990,942
Preferred shares - current portion	<u>1,453,795</u>	<u>990,942</u>
	<u>\$ 727,000</u>	<u>\$ 1,000,000</u>

The principal payments during over the next four years are as follows:

2019	\$	1,453,795
2020	\$	252,000
2021	\$	252,000
2022	\$	223,000

16. SOCIAL CAPITAL

The cooperative members' equity consists of social shares and preferred shares. The cooperative may issue an unlimited number of social shares with a nominal value of \$ 10 each. All members must hold 100 social shares at \$ 10 each for a total of \$ 1,000. A member only has the right to one vote, no matter how many social parts they hold. These shares are paid for the following way: \$ 250 at the time of subscription, the balance is payable out of future patronage refunds that will be declared. The member has the option of paying the balance in advance.

An auxiliary member must hold 5 social shares at \$ 10 each for a total of \$ 50. This type of member has no voting rights but has the right to patronage refunds.

Cooperative regulations authorize the board to issue various classes of preferred shares and to determinate the amount, privileges, interests, rights and restrictions, and the terms and conditions of payments, repayment, and redemption.

Preferred shares, nominal value of \$ 1, interest-free, redeemable from paid-up capital at the option of the Board of Directors.

Class C preferred Shares, \$ 1,500 nominal value.

Class E preferred Shares, unlimited number, nominal value of \$ 10 each, not entitled to any interest (patronage refund) and redeemable at the option of the Board of Directors.

Class F preferred shares, eligible for the Régime d'investissement coopératif, unlimited number, nominal value of \$ 1 each, maximum annual yield of 12 % determined by the Board of Directors and redeemable by decision of the Board of Directors five years after the date of issue.

Class G preferred shares, unlimited number, the member must acquire 1,000 parts at nominal value of \$ 1 each, giving no right to any interest (patronage refund), issued as part of the creation of the agroforestry sector.

Class N preferred shares, nominal value of \$ 1, non-cumulative interest of 3.2 % in 2017, reviewable annually, issued under the Régime d'investissement coopératif, redeemable at the nominal value by decision of the Board of Directors in December 2017.

Class O preferred shares, nominal value of \$ 1, non-cumulative interest of 3.2 % in 2017, reviewable annually, issued under the Régime d'investissement coopératif, redeemable at the nominal value by decision of the Board of Directors in December 2018.

Class P preferred shares, nominal value of \$ 1, non-cumulative interest of 3.2 % in 2017, reviewable annually, issued under the Régime d'investissement coopératif, redeemable at the nominal value by decision of the Board of Directors in December 2019.

16. SOCIAL CAPITAL (continued)

Class Q preferred shares, nominal value of \$ 1, non-cumulative interest of 3.2 % in 2017, reviewable annually, issued under the Régime d'investissement coopératif, redeemable at the nominal value by decision of the Board of Directors in December 2020.

Class R preferred shares, nominal value of \$ 1, non-cumulative interest of 3.2 % in 2017, reviewable annually, issued under the Régime d'investissement coopératif, redeemable at the nominal value by decision of the Board of Directors in December 2021 and December 2022.

Class LCF-2017 preferred shares, nominal value of \$ 1, without interest, issued in connection with the acquisition of assets, redeemable at the option of the Board of Directors.

	November 24 2018	November 25, 2017
Shares issued and paid, presented as members' equity:		
899 social shares (904 in 2017)	\$ 761,634	\$ 759,228
364 auxiliary member shares (365 in 2017)	<u>14,699</u>	<u>14,544</u>
	<u>\$ 776,333</u>	<u>\$ 773,772</u>
	November 24 2018	November 25, 2017

Preferred shares, presented as equity:

- Preferred shares	\$ 175,037	\$ 176,114
- Class C preferred shares	-	25,500
- Class E preferred shares	123,261	123,397
- Class F preferred shares	892,196	1,281,834
- Class G preferred shares	9,000	11,000
- Class O preferred shares	-	814,156
- Class P preferred shares	797,661	797,661
- Class Q preferred shares	972,983	972,983
- Class R preferred shares	2,966,739	1,434,049
- Class LCF-2017 preferred shares	<u>2,836,000</u>	<u>2,836,000</u>
	<u>\$ 8,772,877</u>	<u>\$ 8,472,694</u>

16. SOCIAL CAPITAL (continued)

During the year, the social capital and preferred shares varied as follows:

	November 24 2018	November 25, 2017
Balance at the beginning of year	\$ 9,246,466	\$ 7,259,619
Increase		
- Issued as cash	767,500	906,100
- Issued as shares	-	2,836,000
- Patronage refunds converted into shares	<u>12,257</u>	<u>16,138</u>
	<u>10,026,223</u>	<u>11,017,857</u>
Decrease		
- Redemption	266,161	780,449
- Preferred shares transferred as a financial liabilities	<u>210,852</u>	<u>990,942</u>
	<u>477,013</u>	<u>1,771,391</u>
	<u>\$ 9,549,210</u>	<u>\$ 9,246,466</u>

17. TRANSACTIONS WITH MEMBERS

During the year, the cooperative carried out 50.46% (46.40% in 2017) of its transactions with members as defined by the application regulations in the Cooperative Act. These transactions, were made in the normal course of business, and are measured at the exchange value, which is the amount of consideration established and agreed by the members.

18. CONTINGENCIES

As part of a lease agreement with La Coop fédérée, the cooperative signed a letter of guarantee in the amount of \$ 200,000.

19. CONTRACTUAL COMMITMENTS

The cooperative and its subsidiary signed rental agreements for buildings, vehicles, and equipment with various end dates between December 2019 and December 2024. Minimum future payments total \$ 1,583,611 and include the following payments for the next five years:

19. CONTRACTUAL COMMITMENTS (continued)

2019	\$	543,071
2020	\$	464,368
2021	\$	419,352
2022	\$	143,509
2023	\$	13,311

In addition, the cooperative entered into futures contracts for purchases and sales, setting the price for several grains with various maturities until September 2019. As at November 24, 2018 the net amounts committed are \$ 381,153 in U.S. dollars, representing 1,696 metric tonnes of grain, and \$ 24,764,913 in Canadian dollars, representing 123,734 metric tonnes of grain.

The cooperative also entered into a number of foreign exchange contracts with La Caisse centrale Desjardins between December 2018 and April 2019 for the purchase of \$ 4,000,000 U.S. dollars in exchange for \$ 5,148,300 Canadian dollars.

As the result of an agreement with La Coop fédérée, the cooperative has committed to purchasing 95 % of its feed products as well as hardware and materials from La Coop fédérée. In addition, they will pay a \$ 20,000 annual consulting fee to La Coop fédérée.

20. RELATED PARTIES TRANSACTIONS

Operations were carried out with companies of the members of the Board of Directors in the normal course of operations of the cooperative.

21. ECONOMIC DEPENDENCE

During the year, the cooperative made approximately 25 % (15 % in 2017) of its purchases from La Coop fédérée.

During the year, the cooperative made approximately 67 % (67 % in 2017) of its grains sales to two (three in 2017) major customers.

22. FINANCIAL INSTRUMENTS

Financial risks

The cooperative is exposed to various risks through its financial instruments, without being exposed to concentrations of risk. The main risks are broken down below.

Credit risk

Credit risk is the risk that one party to a financial asset will cause a financial loss for the cooperative by failing to discharge an obligation. The cooperative's credit risk is mainly related to accounts receivable and notes receivable.

The cooperative provides credit to its clients in the normal course of its operations. The cooperative assesses the financial condition of its clients on an ongoing basis and reviews the credit history of any new client. The cooperative establishes an allowance for doubtful accounts taking into account the credit risk of individual customers, historical trends and other information. As at November 24, 2018, approximately 14 % (31 % as at November 25, 2018) of the total accounts receivable is receivable from a major corporation.

Liquidity risk

Liquidity risk is the risk that the cooperative will encounter difficulty in meeting obligations associated with financial liabilities. The cooperative is exposed to this risk mainly in respect operational needs and using multiple sources of funding to maintain flexibility.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates. The cooperative is exposed to interest rate risk on its fixed and floating interest rate financial instruments. Fixed interest rate instruments subject the cooperative to fair value risk as it varies inversely with changes in market interest rates. Floating rate instruments subject the cooperative to fluctuations in future cash flows. However, a 1 % change in the prime rate would not have a material impact on the cooperative's consolidated results and financial position.

22. FINANCIAL INSTRUMENTS (continued)

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The cooperative realizes sales and purchases in foreign currency. Consequently, some assets and liabilities are exposed to foreign exchange fluctuations. As at November 24, 2018, assets and liabilities denominated in foreign exchange and converted into Canadian dollars are the following:

	November 24 2018		November 25, 2017	
	Euros €	American dollars \$	Euros €	American dollars \$
Cash	-	426,141	-	716,816
Accounts receivable	18,977	831,561	-	468,793
Stocks	-	942,728	-	746,854
Accounts payable	4,414	971,036	3,164	867,735

23. COMPARATIVE FIGURES

Certain figures for 2017 have been reclassified to make their presentation identical to that adopted in 2018.

LA COOP UNIFRONTIÈRES
CONSOLIDATED ADDITIONAL INFORMATION
YEAR ENDED NOVEMBER 24, 2018

	November 24 2018	November 25, 2017
SCHEDULE A - COST OF GOOD SOLD		
Inventories at beginning of year	\$ 16,093,199	\$ 15,052,862
Purchases	135,708,771	134,263,486
Freight charges	403,834	-
Decrease in inventories depreciation	<u>(134,251)</u>	<u>(40,494)</u>
	152,071,553	149,275,854
Inventories at the end of year	<u>17,240,155</u>	<u>16,093,199</u>
	<u>\$ 134,831,398</u>	<u>\$ 133,182,655</u>

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