



CO-OPERATE
NOURISH
THE EARTH
AND FEED
THE WORLD



915
members

365
auxiliary members

137
employees
in 2019

PERFORMANCE HIGHLIGHTS

Business development

2016-2017

\$149 211 369

2017-2018

\$151 525 581

2018-2019

\$159 868 622



OUR BOARD OF DIRECTORS





SYLVAIN BRAULT
President

Let's be proud!

PRESIDENT'S MESSAGE

Yes, let's be proud! Here are the first words that come to mind when I think about the year 2019! Let's be proud of our co-op of course, of what it has become in the last three years and what it is about to become with our strategic plan Vision 2020. But beyond Unifrontières, let's be proud of our community, our businesses and our mission to feed the world! Let's also be proud of our resilience, which has allowed us to get through the vagaries of the weather in 2019 and the various crises around the world that have had a direct impact on our revenues, and let's hope things will be better in 2020! Despite what we may hear sometimes, we know full well that our equipment and practices continually improve from year to year and contribute to providing a quality product to consumers, under exemplary conditions and with a long-term vision for the future of our farms. Our co-operative, which is an extension of our farms, contributes to this improvement by offering quality advice and inputs at the most competitive prices and conditions.

So, yes, we can be proud of our co-operative in 2019. Three years after the merging of Uniforce and des Frontières and the arrival of Agriest the following year, the expected synergies from the consolidation can be seen. For example, improving input delivery logistics brings benefits and helps us in complicated periods, such as the seeding period last spring. And even though it's not yet perfect, employees are busy every day working to improve the different facets of our business model. Whether it be customer service, IT, inventory management, billing, as well as many others; they are dedicated to providing the service you deserve. I would like to take this opportunity to thank and congratulate all of our co-operative's employees for their excellent work in 2019. The rigour and enthusiasm you show every day makes the difference between a good and a very good year!

Great things happened again in 2019 for Unifrontières. The major event of the year was, I believe, the integration of Norseco into our vegetable seeds sector. The pooling of seed orders, the team of representatives, and recently some warehouses has been bringing us significant savings, expertise, as well as opportunities that strengthen us even more as a leader in the vegetable market throughout Quebec.

Our grain sector is also undergoing a major transformation as we join seven other co-operatives and Sollio Groupe Coopératif (formerly La Coop fédérée) in a new entity: Sollio & Grains Québec. Although you will probably not see any change in your day-to-day grain transactions, the concerted efforts of the administration and logistics should make us even more competitive and thus benefit everyone.

For our animal and crop production sectors, it is with the negotiations of Vision 2020 that the changes will come. As you probably know, we are currently in negotiations with Sollio Groupe Coopératif for the implementation of a model for these two sectors. The challenges are great, but so are the opportunities! Be sure that our main concern is that the model that will emerge from it benefits our co-op and its members. I remind you that the timeline for the implementation of the model is 2021.

As for our hardware stores, the context remains difficult, as demonstrated by the various closures of competitors in recent months. The challenge therefore remains constant. However, we see elements that can distinguish us from our competitors that allow us to look to the future with a certain optimism. We continue to believe in the need to maintain agricultural hardware services for our members and can assure you that any initiatives or opportunities that could bring us closer to our profitability objectives for this sector are continually being analyzed.

With all the structural changes we have made in the last few years and those still to come, our administrative department continues to be as busy as ever, but still responds very well to demand. We sometimes tend to forget this when we talk about the co-op, but the work done daily by this department is so important in achieving our goals!

On the associative level, it has been another great year. The third edition of our summer party was a success in attracting nearly 300 visitors to the Domaine Labranche in Saint-Isidore. Our Christmas lunches were also very popular with nearly 300 producers and employees who came to wish each other a happy holiday season through these six events at our various points of service.

A visit to our farms by Unifrontières employees with doughnuts and coffee during Co-operation week in October was also very much appreciated and will certainly be repeated.

Since it is also important for our co-operative to get involved and give back to its community, the co-operative contributed approximately \$25,000 throughout its territory in 2019. This amount was distributed through scholarships, sponsorships at local or regional events and also in our "Fonds coopératif d'aide à la relève agricole".

Our co-operative Investment Plan had another very successful year with approximately \$1.3 million subscribed by members and employees. Thank you for your confidence in your co-operative.

For the year 2020, two major events are already on the agenda on the associative level. The first will take place at the Annual General Meeting when a proposal for a name change will be submitted. This is an opportunity we have because we already need to change our logo, following La Coop fédérée's new brand image, which has now become Sollio Groupe Coopératif. At the same time, we wanted to refresh the name "Unifrontières" which is less in line with the reality of our co-operative, considering the addition of La Coop Agriest the year following the merger and also have a slightly shorter name that is well pronounced in both official languages.

The second important event for the year 2020 is the Défi Vélo La Coop that we will have the honour of hosting in August. The Défi Vélo is the official cause to which Sollio Groupe Coopératif and the entire network has been contributing since 2017. It consists of cycling 160 kilometres over two days for some 150 participants from the network. The event usually collects close to \$300,000 that is given to, among others, local or regional organizations of the host co-op. More information will be forwarded to you in the coming weeks.

In conclusion, I would like to thank once again all Unifrontières employees for their contribution as well as our various partners for their trust. I would also like to take this opportunity to thank the directors of the board for their professionalism and their dedication. Finally, a big thank you to you, members and clients, for the trust you are showing us through your participation in La Coop Unifrontières.

Sylvain Brault
President



EXECUTIVE COMMITTEE





JEAN-SÉBASTIEN LEBLANC
General Manager

MANAGEMENT REPORT

A word from the general manager

Managing an agricultural co-operative the size of Unifrontières requires several resources, both human and financial. On a daily basis, more than 100 employees are dedicated to serving you in one of our locations or accompanying you in your business' management for your various productions. Your co-operative is becoming even more modern and it is in this regard that it is becoming a more responsible corporate citizen, for example by reducing its use of paper. In parallel with this modernization, some major projects were carried out during the last year or initiated for delivery in the next few months.

From an agricultural point of view, 2019 will go down in history for all the wrong reasons, especially given that bad weather conditions for the periods of seeding and harvesting, not to mention extreme heat over the summer. These climate challenges played also a role in our operations and tainted our results.

Considering the highly unstable geopolitical context, new emerging trends in the markets and the increasingly precarious profitability in the agricultural world, the optimism at the beginning of last year had to be replaced by realism, if not some skepticism in certain sectors. Nevertheless, your co-operative reports consolidated results judged satisfactory, under the circumstances.

Let's look at them in more detail.



Livestock Sector

After a strong year in 2018, 2019 was marked by a \$283,589 drop in sales, which represents a 1.8% decrease from the previous year. This decrease is in line with the drop in the CFE (complete feed equivalent) which dropped to 46,091 MT from 47,107 MT. On the other hand, the number of tonnes increased (17,716 MT vs 17,034 MT). With the growth in robotic customers, the volume of complete feed (1 MT equivalent to 1 MT of CFE) is on the rise while supplements (1 MT equivalent to 3 CFE on average) are declining. The gross margin is higher with 17% compared to 15% in 2018.

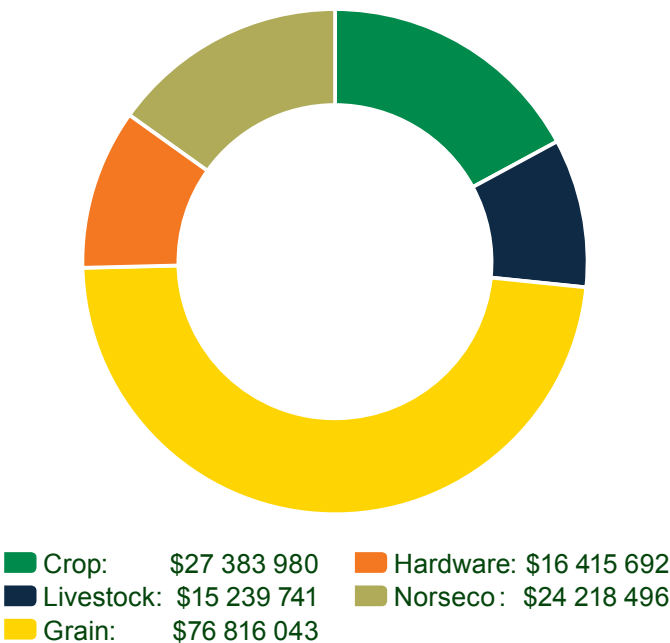
The past year has seen a significant change in the bag delivery system. Decisions by our external partners forced us to completely review our operations. Thus, the co-op decided to purchase delivery equipment that could support our entire operation volume, including the supply of our hardware stores in animal feed products. The learning curve has been longer than expected, but we will be able to appreciate the benefits of these choices in 2020.

Crop sector

There is an increase in sales of cash crop seeds of \$435,631 compared to 2018. Corn (3,895 bags vs 3,407 bags) and soybeans (16,755 bags vs 12,578 bags) benefited from this sales growth. The late spring created an opportunity for the co-op, because we had reserved bags of early corn varieties, which set us apart from the competition, which was out of stock for these varieties. On the other hand, the margin is lower, from 13% in 2018 to 12% in 2019. There are more corn and soybean sales with a low margin, combined with lower sales of inoculants that have a higher margin. In addition, the seed replacements increased the cost of transport in a significant way.

In 2019, sales of crop protection products were \$139,961 higher. There was an increase in sales in cash crop chemicals and a decrease for vegetable crops. In 2018, the season allowed us to sell more insecticides in the muck soils, while this situation was not repeated in 2019. Also, a new representative on the team made sales to new customers. Moreover, the gross margin is higher at 13% compared to 11% in 2018. This can be explained by the fact that gross margin is higher in cash crop chemistry products, compared to those in the vegetable production sector.

Sales \$ in 2019 by sector



The fertilizer segment experienced an increase in sales of \$2,207,282 which is related to the increase in tonnage and selling price per tonne. Indeed, the number of tonnes sold in 2019 is 21,110 MT vs 18,183 MT in 2018, an increase of 16.1%. As for the selling price, it is also up to \$501/MT (\$460/MT in 2018). The increase in the number of tonnes sold is mainly due to a significant rebate on the purchase of liquid fertilizer that allowed us to take a commercially advantageous position on the local market. The gross margin is higher than last year.

At the level of specialized services, we can say that we have been able to control expenses and have been able to focus on what's important. We have stopped subcontracting PAEFs for neighbouring co-ops (140 PAEFs in 2019 vs 272 PAEFs in 2018). In terms of custom spraying, we've seen a drop of acres covered, but still managed to charge the real cost of this service to the producers who benefit from it. The tractor-drawn sprayer was sold at the beginning of the year, so only contract partners were used in 2019. There was also an increase in the number of tonnes sold for lime, as well as an increase in the associated gross margin. Finally, there was an increase in sales and margin for custom fertilizer application. Starting in 2020, a new variable-rate spreading service will be offered by your co-operative, in partnership with a custom operator.

Horticultural Sector

The increase in sales of vegetable seeds is of \$1,075,720. This increase is due to the inventories transferred to Norseco last August, which represent \$1,709,311. Without this transfer, it's more like a decrease in sales that took place in 2019 in the amount of \$633,591. This decrease was anticipated because the co-op lost some of its national programs at major suppliers, which leads to a loss of competitiveness in the market. Also, the co-op refused certain sales with small margin, which was not done in the past. Looking at the gross margin, it is lower due to the transfer of inventory to Norseco which was done at cost. The impact on the gross margin is high (13% vs. 18%). Without this transaction, it would be 2% higher than the previous year.

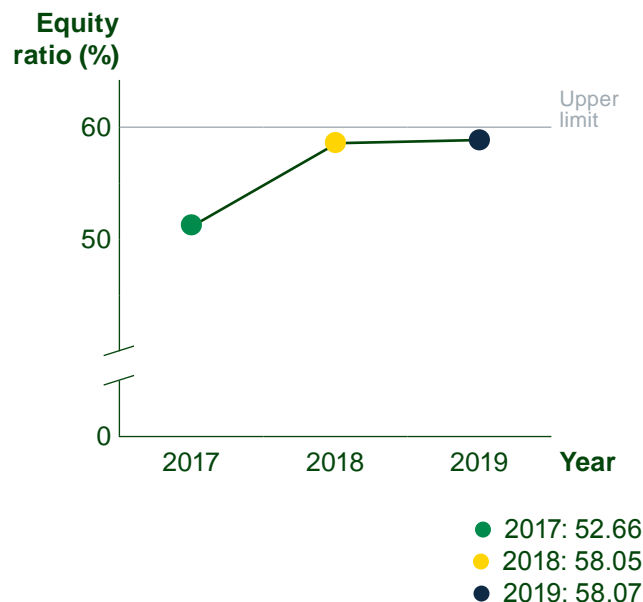
NORSECO

For the first year, the summary results of Norseco will be explicitly presented to you. From the acquisition in 2014, the results have never ceased to show a positive growth, with a peak in 2019 of \$24,229,458. The same applies to the profitability of this subsidiary. This performance, combined with the increasing pressures of vegetable seed suppliers have encouraged your Board of Directors to announce the implementation of a limited partnership, still under the trade name of Norseco.

Grain Sector

Despite a miserable harvest season, the number of MTs is stable between 2018 and 2019, but is composed of a different product mix. There are 7,628 MT less corn and 5,882 MT more soybeans. Given that the selling price of soybeans is higher than corn's, this increase leads to higher sales than last year (\$76,032,285 vs. \$73,391,828). Also, 2018 sales include the redistribution of \$167,128 from Elite Grains, while no redistribution was received this year. In terms of gross margin, it is higher in corn, but lower in soybeans, which represents an average gross margin lower than last year. The average selling price of per metric tonne traded this year is \$230/MT for corn (\$209/MT in 2018) and \$449/MT for soybeans (\$513/MT in 2018). In the grains sector, it is the Sollio & Grains Québec project that was the focus of internal discussions and whose deployment is scheduled to begin shortly. At the crop producer level, very little change will be perceptible, because the payment will always come from the co-operative and it will be the same people who will continue to serve you.

Evolution of the equity ratio



GRAIN CENTER

The grain center includes the micronization of soybeans. Sales in 2019 decreased to \$783,758 (\$967,113 in 2018). This decline in dollar terms corresponds to a decline in MT; there were 1,137 MT this year compared to 1,389 MT in 2018. Still, the gross margin is up to 33% compared to 32% in 2018.

HARDWARE

Sales in 2019 are \$10,449,600 compared to \$8,884,493 in 2018 (an increase of \$1,565,107). Part of the increase comes from sales of \$3,431,908 for the integration of a new hardware store in Napierville. It should be noted that the closure of the Napierville, Sherrington and Saint-Michel stores reduced total sales by \$2,383,520. The gross margin for 2018 was 19.9%. This lower gross margin is due to the obsolescence charge recorded for the three closed hardware stores, representing approximately \$339,000. This year's gross margin is up to 26.8%. The integration of the new hardware store in Napierville explains the increase in gross margin. This increase is, however, decreased by the negative gross margin of \$132,859 of the three closed hardware stores. This negative margin is due to the loss at the Napierville auction as well as the loss of the transfer at a cost of 1% of the remaining inventory of Sherrington to the other stores.

CONVENIENCE STORE – GAS STATION

Convenience store sales increased slightly by 4.0% (\$68,162), mainly in the grocery and alcohol, lottery and tobacco categories. At the gas station level, the number of litres sold was down 10.7% from the previous year. Gasoline prices were higher than the competition for 3 months, which had a direct impact on the level of sales during this period. Gross margin was slightly higher than last year for the convenience store. It is 17.9% (17.6% in 2018).

Agri-Forestry

Funded projects ended in 2018. Only the ongoing projects were completed in 2019. This segment will not continue in subsequent years. The preferred shares issued to woodlot owners were all refunded to the holders.



FINANCIAL SITUATION

The consolidated balance sheet of La Coop Unifrontières had on November 30th, 2019, total assets of \$59.55 million compared to \$55.33 million of dollars at the end of the previous fiscal year. The increase of total assets is mainly due to the increase in cash, deposits on inventory and investments related to the portion of La Coop fédérée's patronage dividend transferred as shares. Working capital shows a balance of \$13.21 million, compared to \$13.92 million in 2018. The co-op's consolidated working capital ratio stood at 1.66 at the end of fiscal 2019, compared with 1.85 at the end of the previous year. Equity stood at 58.07% at the end of 2019 fiscal year, compared to 58.05% at the end of the previous fiscal year. Despite the change in certain balance sheet items, we have managed to keep this ratio below the 60%, an essential criterion for the continued eligibility of the Co-operative Investment Plan.

HUMAN RESSOURCES

A few long-term employees left the organization in 2019. Unfortunately, all of these changes were planned, following decisions of the Board of Directors or the reorganization. We can't say this enough, but your co-op's employees are the most important asset of the company. Around a solid core, some new elements joined the team and we can now say that all of the co-operative employees form a strong and united team. We face many challenges, but we have the competence, the commitment and the resilience necessary to overcome them.

CONCLUSION

Like last year, your co-op is in excellent financial health and is well positioned to meet the many challenges that lie ahead. Rest assured that our primary objective is to contribute to your success by providing products and services that meet your needs in an ever changing market.

Thank you to our financial partners: Desjardins, La Financière agricole du Québec, Farm Credit Canada and our main supplier; Sollio Groupe Coopératif.

To all our employees, sincere thanks in a context of major transformation where everything is moving faster and faster and for your constant involvement in carrying out our mission. Without you, the co-operative could not operate and your work makes it possible to really make a difference for several hundred local agricultural families.

Thank you to Mr. Sylvain Brault and the Board of directors of La Coop Unifrontières who recently renewed their confidence in me.

Finally, thank you, members of La Coop Unifrontières, for the trust shown throughout the year by choosing your co-operative as a privileged partner for your different product and service needs.

A TOP-NOTCH TEAM!

Every year, employees of La Coop Unifrontières distinguish themselves through their performances, their dedication to the co-operative and their teamwork. Here are a few of them who have been recognized in 2019.

Grain marketing

Sylvia Gioffre and Claude Dubuc, both finalists for the "Marketing Agent of the Year" award for the grain sector at the 2019 Expert advisors' Meeting.



Animal Production

Patrick Vincent, nominated for the Goodwill Award at the 2019 Expert advisors' Meeting.

Crop production

Christian Provencal, winner of the Horticultural Consultant of the Year Award at the 2019 Expert advisors' Meeting.



Marc Rochette, winner of the award for best fertilizer sales performance and finalist for the Crop production Expert advisor Award at the 2019 Expert advisors' Meeting.

Marc Rochette, recipient of La Coop Unifrontières' Golden Boot for 2019, in recognition of his professionalism, his generosity and his constant concern to raise standards with both his clients and his co-workers.



Patrick Dineen, finalist in the agri-environment category at the 2019 Expert advisors' Meeting.

Hardware stores

Award received by BMR Express Sainte-Martine at the BMR 2019 Gala for the "Best increase in the Agrizone product line".



Serge Gervais

Manager
BMR Express Sainte-Martine

ASSOCIATIVE LIFE

In 2019, La Coop Unifrontières' members have had several opportunities to get together! Here are a few memories...

Forum coopératif féminin

April 2nd 2019
in Beloeil



Summer Party

July 12th 2019 at Domaine Labranche in Saint-Isidore, Qc.

Co-operation Week

Visit of about 30 members from October 14th to 19th.

Christmas lunches

from December 16th to 20th 2019 –
in Napierville,
Saint-Albert (Ont.),
Sainte-Martine,
Sainte-Barbe,
Saint-Polycarpe &
Saint-Isidore (Ont.)



INDEPENDENT AUDITOR'S REPORT

To members of
LA COOP UNIFRONTIÈRES

Opinion

We have audited the consolidated financial statements of **LA COOP UNIFRONTIÈRES** (the Group), which comprise the consolidated balance sheet as at November 30, 2019, and the consolidated statements of income, reserve and cash flow 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 November 30, 2019, and the results of its consolidated operations and its consolidated cash flows for the year then ended in accordance with the financial reporting provisions of section 131 of the Quebec Corporatives Act.

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 the consolidated financial statements in accordance with the financial reporting provisions of section 131 of the Quebec Corporatives 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.

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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 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 and related disclosures made by management.

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- 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 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.

LLG CPA inc.¹

Saint-Rémi, February 26, 2020

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

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LA COOP UNIFRONTIÈRES
CONSOLIDATED INCOME
YEAR ENDED NOVEMBER 30, 2019

| | November 30 2019 | November 24, 2018 |
|--|---------------------|----------------------|
| SALES | \$ 159,868,622 | \$ 151,525,581 |
| COST OF GOOD SOLD (Schedule A) | <u>141,236,416</u> | <u>134,831,398</u> |
| GROSS PROFIT | <u>18,632,206</u> | <u>16,694,183</u> |
| OPERATING EXPENSES | | |
| Operating and sales expenses | 12,461,715 | 10,584,383 |
| Administration expenses | 2,831,314 | 2,806,712 |
| Interest on long-term debt | 296,682 | 283,734 |
| Interest and bank charges | 403,566 | 376,619 |
| Interest on preferred shares | 238,994 | 216,104 |
| Interest income | (130,454) | (247,749) |
| Amortization of property, plant and equipment and assets under capital leases | <u>794,192</u> | <u>629,645</u> |
| | <u>16,896,009</u> | <u>14,649,448</u> |
| EARNINGS | <u>1,736,197</u> | <u>2,044,735</u> |
| OTHER REVENUES | | |
| Patronage refunds - La Coop fédérée | 2,499,960 | 5,616,372 |
| Patronage refunds - others | 1,740 | 5,857 |
| Unrealized profit on derivative financial instruments | 113,959 | 119,448 |
| Gain (loss) on the disposal of property, plant and equipment | (3,544) | 6,246 |
| Gain on the disposal of property, plant and equipment held for sale | 77,755 | - |
| Devaluation on property, plant and equipment held for sale | - | (82,127) |
| Earnings for Research and development tax credit | - | 2,226 |
| | <u>2,689,870</u> | <u>5,668,022</u> |
| SURPLUS EARNINGS FOR THE YEAR BEFORE SUBSIDIARIES INCOME TAXES | <u>4,426,067</u> | <u>7,712,757</u> |
| INCOME TAXES | | |
| Current | 1,029,596 | 853,461 |
| Future | <u>(113,094)</u> | <u>57,716</u> |
| | <u>916,502</u> | <u>911,177</u> |
| NET SURPLUS EARNINGS FOR THE YEAR | <u>\$ 3,509,565</u> | <u>\$ 6,801,580</u> |
| ATTRIBUTABLE | | |
| TO THE MEMBERS OF THE COOPERATIVE (Note 5) | \$ 2,744,335 | \$ 6,055,324 |
| TO NON-CONTROLLING INTERESTS | <u>765,230</u> | <u>746,256</u> |
| | <u>\$ 3,509,565</u> | <u>\$ 6,801,580</u> |

LA COOP UNIFRONTIÈRES
CONSOLIDATED RESERVE
YEAR ENDED NOVEMBER 30, 2019

| | November 30 2019 | November 24, 2018 |
|--|----------------------|----------------------|
| BALANCE, BEGINNING OF YEAR | \$ 13,734,189 | \$ 11,070,941 |
| Net surplus earnings from the previous financial year | <u>6,055,324</u> | <u>3,541,942</u> |
| | <u>19,789,513</u> | <u>14,612,883</u> |
| Patronage refunds from the previous year | | |
| Cash | (906,567) | (419,256) |
| Membership shares | (21,307) | (12,257) |
| Preferred shares | (2,125,806) | - |
| Future income taxes related to the previous year's surplus earnings (Note 4) | (450,341) | (447,181) |
| Income taxes related to the previous year's surplus earnings (Note 4) | <u>(11,360)</u> | <u>-</u> |
| | <u>(3,515,381)</u> | <u>(878,694)</u> |
| BALANCE, END OF YEAR | \$ <u>16,274,132</u> | \$ <u>13,734,189</u> |

LA COOP UNIFRONTIÈRES
CONSOLIDATED CASH FLOW
YEAR ENDED NOVEMBER 30, 2019

| | November 30 2019 | November 24, 2018 |
|---|---------------------|----------------------|
| OPERATING ACTIVITIES (Note 3) | | |
| Inflows relating to year consolidated earnings | \$ 2,371,969 | \$ 2,670,527 |
| Net changes in non-cash working capital items | <u>(2,439,741)</u> | <u>419,218</u> |
| | <u>(67,772)</u> | <u>3,089,745</u> |
| INVESTING ACTIVITIES | | |
| Acquisition of investments | (4,359) | (102,484) |
| Proceeds from disposal of investments | 431,590 | 1,457,595 |
| Acquisition of property, plant and equipment | (1,185,318) | (629,092) |
| Acquisition of property, plant and equipment held for sale | (12,061) | (79,864) |
| Proceeds from the disposal of property, plants and equipment | 146,966 | 10,464 |
| Proceeds from the disposal of property, plant and equipment held for sale | <u>355,000</u> | <u>-</u> |
| | <u>(268,182)</u> | <u>656,619</u> |
| FINANCING ACTIVITIES | | |
| Net change in bank loan | 2,997,023 | (1,116,500) |
| Long-term loans | 1,045,000 | 1,260,500 |
| Repayment of long-term debt | (2,008,778) | (2,019,281) |
| Repayment of obligations under capital leases | (14,743) | (13,741) |
| Patronage refunds paid | (906,567) | (419,256) |
| Repayment of preferred shares | (21,000) | (21,000) |
| Issuance of member shares and preferred shares | 886,443 | 767,500 |
| Redemption of member shares and preferred shares | (690,548) | (266,162) |
| Dividends | <u>(60,000)</u> | <u>(30,000)</u> |
| | <u>1,226,830</u> | <u>(1,857,940)</u> |
| INCREASE IN CASH AND CASH EQUIVALENTS | 890,876 | 1,888,424 |
| CASH AND CASH EQUIVALENTS (INSUFFICIENT) AT THE BEGINNING OF YEAR | <u>750,268</u> | <u>(1,138,156)</u> |
| CASH AND CASH EQUIVALENTS AT THE END OF YEAR | <u>\$ 1,641,144</u> | <u>\$ 750,268</u> |

Cash and cash equivalents consist of cash.

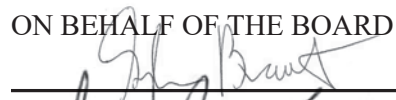

LA COOP UNIFRONTIÈRES
CONSOLIDATED BALANCE SHEET
NOVEMBER 30, 2019

| | November 30 2019 | November 24, 2018 |
|--|----------------------|----------------------|
| ASSETS | | |
| CURRENT | | |
| Cash | \$ 1,641,144 | \$ 750,268 |
| Accounts receivable (Note 6) | 7,828,640 | 7,650,710 |
| Income taxes receivable | 710,192 | 450,300 |
| Future income taxes | 208,232 | 64,160 |
| Inventories (Note 7) | 17,399,761 | 17,240,155 |
| Deposits on inventories | 4,845,567 | 3,522,220 |
| Prepaid expenses | 410,040 | 393,555 |
| Derivative financial instruments (Note 8) | <u>113,959</u> | <u>134,629</u> |
| | 33,157,535 | 30,205,997 |
| INVESTMENTS (Note 9) | 15,730,727 | 14,407,986 |
| FUTURE INCOME TAXES | - | 30,979 |
| PROPERTY, PLANT AND EQUIPMENT AND ASSETS UNDER CAPITAL LEASES (Note 10) | 7,138,360 | 6,897,744 |
| PROPERTY, PLANT AND EQUIPMENT HELD FOR SALE | - | 265,184 |
| INTANGIBLE ASSETS - SOFTWARE IN DEVELOPMENT | 39,000 | 39,000 |
| GOODWILL | <u>3,486,965</u> | <u>3,486,965</u> |
| | <u>\$ 59,552,587</u> | <u>\$ 55,333,855</u> |

LA COOP UNIFRONTIÈRES
CONSOLIDATED BALANCE SHEET
NOVEMBER 30, 2019

| | November 30 2019 | November 24, 2018 |
|--|----------------------|----------------------|
| LIABILITIES | | |
| CURRENT | | |
| Bank loan (Note 11) | \$ 7,147,023 | \$ 4,150,000 |
| Accounts payable (Note 12) | 7,004,488 | 7,320,207 |
| Advance payments | 2,157,707 | 2,333,110 |
| Derivative financial instruments (Note 8) | - | 15,181 |
| Obligations under capital leases - current portion (Note 13) | 15,820 | 14,742 |
| Long-term debt - current portion (Note 14) | 267,935 | 573,769 |
| Long-term debt - current renewable portion (Note 14) | 1,836,509 | 425,279 |
| Preferred shares - current portion (Note 15) | <u>1,523,017</u> | <u>1,453,795</u> |
| | 19,952,499 | 16,286,083 |
| OBLIGATIONS UNDER CAPITAL LEASES (Note 13) | 31,764 | 47,585 |
| LONG-TERM DEBT (Note 14) | 2,454,156 | 4,523,330 |
| PREFERRED SHARES REDEEMABLE (Note 15) | 454,000 | 727,000 |
| FUTURE INCOME TAXES | <u>2,077,394</u> | <u>1,627,053</u> |
| | <u>24,969,813</u> | <u>23,211,051</u> |
| EQUITY | | |
| PREFERRED SHARES (Note 16) | 11,273,406 | 8,772,877 |
| MEMBERS' EQUITY | | |
| Social capital (Note 16) | 801,590 | 776,333 |
| COOPERATIVE EQUITY | | |
| Net surplus earnings (Note 5) | 2,744,335 | 6,055,324 |
| Reserve | <u>16,274,132</u> | <u>13,734,189</u> |
| | 31,093,463 | 29,338,723 |
| NON-CONTROLLING INTERESTS | <u>3,489,311</u> | <u>2,784,081</u> |
| | <u>34,582,774</u> | <u>32,122,804</u> |
| | <u>\$ 59,552,587</u> | <u>\$ 55,333,855</u> |

ON BEHALF OF THE BOARD

, president of the Board of directors

, president of the Audit committee

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 subsidiaries. On consolidation, all intercompany transactions and balances have been eliminated.

The cooperative's subsidiaries are as follows:

| Name | Description | Percentage ownership |
|-----------------------|------------------|----------------------|
| 9406-5299 Québec inc. | Holding | 70 % |
| Norseco S.E.C. | Seed distributor | 73.4 % |
| 9403-1689 Québec inc. | Holding | 73.4 % |

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 loan, accounts payable, advance payments and long-term debt.

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

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.

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.

For stock of seeds of one of subsidiaries, 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 | 10 % et 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.

Intangible assets

Intangible asset consists of a software and is recorded at cost. It will be amortized on the basis of their useful life using the declining balance method at 20 % when it is used.

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 taxes on the surplus 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 their part, the subsidiaries use 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 30 2019 | November 24, 2018 |
|--|---------------------|----------------------|
| Net surplus earnings for the year | \$ 3,509,565 | \$ 6,801,580 |
| Items not affecting cash : | | |
| Future income taxes | (113,094) | 57,716 |
| Depreciation of property, plant and equipment and assets under capital leases | 794,192 | 629,645 |
| Loss (gain) on disposal of property, plant and equipment | 3,544 | (6,246) |
| Devaluation on property, plant and equipment held for sale | - | 82,127 |
| Gain on disposal of property , plant and equipment held for sale | (77,755) | - |
| Loss (gain) on derivative financial instruments | 119,448 | (931) |
| Unrealized gain on derivative financial instruments | (113,959) | (119,448) |
| Patronage refunds converted into shares | <u>(1,749,972)</u> | <u>(4,773,916)</u> |
| | <u>\$ 2,371,969</u> | <u>\$ 2,670,527</u> |

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

| | November 30 2019 | November 24, 2018 |
|--------------------------------------|-----------------------|----------------------|
| Accounts receivable | \$ (177,930) | \$ 3,114,760 |
| Income taxes receivable | (259,892) | (87,009) |
| Inventories | (159,606) | (1,146,956) |
| Deposits on inventories | (1,323,347) | (60,730) |
| Prepaid expenses | (16,485) | 90,970 |
| Accounts payable | (315,718) | (973,354) |
| Advance payments | (175,403) | (518,463) |
| Income taxes on the surplus earnings | <u>(11,360)</u> | <u>-</u> |
| | <u>\$ (2,439,741)</u> | <u>\$ 419,218</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 30 2019 | November 24, 2018 |
|---|---------------------|----------------------|
| Current | \$ 1,029,596 | \$ 853,461 |
| Future | (113,094) | 57,716 |
| Future related to the financial year surplus earnings | (90,846) | 450,341 |
| Income taxes related to the financial years surplus earnings | <u>-</u> | <u>11,360</u> |
| Income taxes on surplus earnings | <u>\$ 825,656</u> | <u>\$ 1,372,878</u> |
| Surplus earnings for calculation of the income tax expense | <u>\$ 4,426,067</u> | <u>\$ 7,712,757</u> |
| Income taxes at combined federal and provincial rate of 26.5% | 1,172,908 | 2,043,881 |
| Patronage refunds | (363,451) | (807,624) |
| Effect of non-deductible expenses | 68,143 | 60,574 |
| Other items | <u>(51,944)</u> | <u>76,047</u> |
| Income taxes on surplus earnings | <u>\$ 825,656</u> | <u>\$ 1,372,878</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 \$ 1 986 549 in liabilities (\$ 2,077,394 in liabilities in 2018).

5. SURPLUS EARNINGS FOR THE YEAR - RECOMMENDATION ON DISTRIBUTION

At its meeting on February 26, 2020, the Board of Directors decided to recommend to its members that they distribute a patronage refunds of \$ 1 371 514 for the financial year ending November 30, 2019.

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 30 2019 | November 24, 2018 |
|---|---------------------|----------------------|
| Surplus earnings for the year | \$ 2,744,335 | \$ 6,055,324 |
| Recommended patronage refunds | <u>(1,371,514)</u> | <u>(3,053,680)</u> |
| | <u>1,372,821</u> | <u>3,001,644</u> |
| Income taxes on surplus earnings | | |
| Future payment related to the surplus earnings for the year (Note 4) | 90,846 | (450,341) |
| Income taxes related to the surplus earnings for the year (Note 4) | <u>-</u> | <u>(11,360)</u> |
| Amount to be allocated to the reserve | <u>\$ 1,463,667</u> | <u>\$ 2,539,943</u> |

6. ACCOUNTS RECEIVABLE

| | November 30 2019 | November 24, 2018 |
|---------------------------------|---------------------|----------------------|
| Customers | | |
| Grains | \$ 1,472,921 | \$ 823,084 |
| Members | 1,985,445 | 2,689,887 |
| Allowance for doubtful accounts | (366,220) | (312,844) |
| Sales Taxes | 129,612 | 14,287 |
| Broker deposits | 287,591 | 67,748 |
| Others | <u>4,319,291</u> | <u>4,368,548</u> |
| | <u>\$ 7,828,640</u> | <u>\$ 7,650,710</u> |

7. INVENTORIES

| | November 30 2019 | November 24, 2018 |
|------------------------------------|----------------------|----------------------|
| Animal feed | \$ 301,908 | \$ 181,421 |
| Packaging materials | 82,105 | 111,919 |
| Hardware Stores | 4,428,859 | 2,962,184 |
| Grains | 2,084,042 | 1,864,910 |
| Fertilizer center | 1,029,509 | 1,394,616 |
| Crop protection products and seeds | <u>9,473,338</u> | <u>10,725,105</u> |
| | <u>\$ 17,399,761</u> | <u>\$ 17,240,155</u> |

The provision for depreciation of inventories at their net relizable value amounts to \$ 670,535 (\$ 553,729 in 2018), 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 at the end of the year, is as follows:

| | Nominal Contractual Value | Balance Sheet | Fair value asset (liability) November 30, 2019 | Fair value asset (liability) November 24, 2018 |
|----------------------------|---------------------------------|----------------|---|---|
| | | Current assets | | |
| Forward contracts | \$ 201,563 | (liabilities) | \$ 113,959 | \$ (15,181) |
| Foreign exchange contracts | \$ - | Current assets | <u>-</u> | <u>134,629</u> |
| | | | <u>\$ 113,959</u> | <u>\$ 119,448</u> |

9. INVESTMENTS

| | November 30 2019 | November 24, 2018 |
|--|----------------------|----------------------|
| La Coop fédérée - Class A common shares 904 shares (732 shares in 2018) | \$ 22,600 | \$ 18,300 |
| La Coop fédérée - Class B common shares 2,113,337 shares | 2,113,337 | 2,113,337 |
| La Coop fédérée - Class D common shares 12,526,741 shares (11,208,359 shares in 2018) | 12,526,741 | 11,208,359 |
| Other cooperatives | 2,368 | 2,309 |
| 11.28 % interest in 9372-4409 Québec inc. | 541,794 | 541,794 |
| 0.4963 % interest in Énergie RC S.E.C | 217,287 | 217,287 |
| Membership shares | | |
| Coopérative Beauharnois en santé - coop de solidarité | 500 | 500 |
| Centre Coopératif de grains | 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 |
| 6.66 % interest (5.55 % in 2018) in Optiboef S.E.N.C | <u>1,000</u> | <u>1,000</u> |
| | <u>\$ 15,730,727</u> | <u>\$ 14,407,986</u> |

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

| | | | November 30 2019 | November 24, 2018 |
|--------------------------------------|----------------------|-----------------------------|---------------------|----------------------|
| | Cost | Accumulated amortization | Net book value | Net book value |
| Land | \$ 1,159,069 | \$ - | \$ 1,159,069 | \$ 1,159,069 |
| Buildings | 6,110,186 | 2,348,080 | 3,762,106 | 3,920,739 |
| Office furniture | 86,038 | 65,357 | 20,681 | 24,991 |
| Computer equipment | 685,260 | 459,311 | 225,949 | 222,025 |
| Rolling stock | 2,451,965 | 1,423,933 | 1,028,032 | 650,880 |
| Pavement and sidings | 567,689 | 236,848 | 330,841 | 359,610 |
| Truck scales | 264,303 | 243,332 | 20,971 | 26,214 |
| Machinery and equipment | 1,721,244 | 1,291,580 | 429,664 | 457,064 |
| Leasehold improvements | 158,686 | 33,120 | 125,566 | 26,465 |
| Rolling stock under capital lease | <u>87,770</u> | <u>52,289</u> | <u>35,481</u> | <u>50,687</u> |
| | <u>\$ 13,292,210</u> | <u>\$ 6,153,850</u> | <u>\$ 7,138,360</u> | <u>\$ 6,897,744</u> |

11. BANK LOAN

The cooperative has an authorized line of credit of \$ 15,000,000 of which \$ 9,450,000 had not been used as at November 30, 2019. 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 \$ 16,187,268 (\$ 17,979,299 in 2018).

After the year end , the cooperative renewed is line of credit, under the conditions in effect as December 4, 2019, the cooperative has an authorized life of credit of \$ 13,000,000.

The cooperative also has an authorized line of credit of \$ 10,000,000 of which \$ 8,402,977 amount had been used as at November 30, 2019. 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 \$ 10,000,000 plus interest. Accounts receivable and inventories have a net value of \$ 16,187,268 (\$ 17,979,299 in 2018).

One of subsidiaries have an authorized line of credit of \$ 4,000,000 of wich no amount is used as at November 24, 2019. In addition, it has a \$ 700,000 foreign exchange facility, of which no amount is used as at November 30, 2019. 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 \$ 12,267,532 (\$ 6,196,307 in 2018). The agreement is renewable annually.

12. ACCOUNTS PAYABLE

| | November 30 2019 | November 24, 2018 |
|---|---------------------|----------------------|
| Members | \$ 766,226 | \$ 591,165 |
| La Coop fédérée | 1,428,997 | 2,373,304 |
| Government remittances | 279,662 | 35,486 |
| Other suppliers and accrued liabilities | <u>4,529,603</u> | <u>4,320,252</u> |
| | <u>\$ 7,004,488</u> | <u>\$ 7,320,207</u> |

13. OBLIGATIONS UNDER CAPITAL LEASES

| | November 30 2019 | November 24, 2018 |
|---|---------------------|----------------------|
| Capital lease for rolling stock, 8.24 % maturing in May 2022, capital and interest repayable in monthly instalments of \$ 1,012 | \$ 33,897 | \$ 43,100 |
| Capital lease for rolling stock, 5.12 % maturing in May 2022, capital and interest repayable in monthly instalments of \$ 535 | <u>13,687</u> | <u>19,227</u> |
| | 47,584 | 62,327 |
| Obligations under capital leases - current portion | <u>15,820</u> | <u>14,742</u> |
| | <u>\$ 31,764</u> | <u>\$ 47,585</u> |

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

| | |
|---------------------------------------|------------------|
| 2020 | \$ 18,557 |
| 2021 | 18,557 |
| 2022 | <u>15,035</u> |
| | 52,149 |
| Interest included in minimum payments | <u>4,565</u> |
| | <u>\$ 47,584</u> |

14. LONG-TERM DEBT

| | November 30 2019 | November 24, 2018 |
|--|---------------------|----------------------|
| Loans from Caisse Desjardins des Seigneuries de la frontière, 3.39 %, maturing in September 2032, secured by property, plant and equipment with a net value of \$ 1,038,549 and guaranteed by La Financière Agricole, repayable in a total monthly instalments of \$ 9,434 | \$ 1,049,693 | \$ 1,382,639 |
| Loans from Caisse Desjardins de l'Ouest de la Montérégie, 3.49 % to 3.94 %, renewable in September 2020 and April 2022, secured by property, plant and equipment with a net value of \$ 4,163,930 and receivables repayable in total monthly instalments of \$ 22,972 | 1,628,689 | 1,287,262 |
| Loan from Caisse Desjardins de l'Ouest de la Montérégie, 3.40 %, renewable in January 2020, secured by property, plant and equipment with a net value of \$ 1,622,960 and guaranteed by La Financière Agricole, repayable in a total monthly instalments of \$ 3,218 | 289,537 | - |
| Loan, preferential rate plus 2.5 % | - | 100,000 |
| Loan, 10.5 %, maturing in September 2024, principal repayable in monthly instalments of \$ 10,400 | 604,800 | 729,600 |
| Loan, 6.25 %, maturing in September 2021, principal repayable in monthly instalments of \$ 6,667 | 153,334 | 240,000 |
| Notes payable to La Coop fédérée, 4.70 %, maturing in April 2022, payable in full on the due date | <u>832,547</u> | <u>1,782,877</u> |
| | 4,558,600 | 5,522,378 |
| Long-term debt - current portion | 267,935 | 573,769 |
| Long-term debt - current renewable portion | <u>1,836,509</u> | <u>425,279</u> |
| | <u>\$ 2,454,156</u> | <u>\$ 4,523,330</u> |

14. LONG-TERM DEBT (continued)

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

| | | |
|------|----|---------|
| 2020 | \$ | 700,422 |
| 2021 | \$ | 458,557 |
| 2022 | \$ | 466,847 |
| 2023 | \$ | 483,593 |
| 2024 | \$ | 377,609 |

15. PREFERRED SHARES REDEEMABLE

| | November 30 2019 | November 24, 2018 |
|---|---------------------|----------------------|
| Class ESSOR preferred shares, 7.25 %, maturing in September 2022 | \$ 706,000 | \$ 979,000 |
| Class F preferred shares | 473,356 | 387,639 |
| Class O preferred shares | - | 814,156 |
| Class P preferred shares | 797,661 | - |
| | 1,977,017 | 2,180,795 |
| Preferred shares - current portion | 1,523,017 | 1,453,795 |
| | <u>\$ 454,000</u> | <u>\$ 727,000</u> |

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

| | | |
|------|----|-----------|
| 2019 | \$ | 1,523,017 |
| 2020 | \$ | 252,000 |
| 2021 | \$ | 202,000 |

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

Class Q preferred shares, nominal value of \$ 1, non-cumulative interest of 3.2 % in 2019, 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 2019, reviewable annually, issued under the Régime d'investissement coopératif, redeemable at the nominal value by decision of the Board of Directors in December 2021, December 2022 and December 2023.

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.

16. SOCIAL CAPITAL (continued)

| | November 30 2019 | November 24, 2018 |
|---|----------------------|----------------------|
| Shares issued and paid, presented as members' equity: | | |
| 915 social shares (899 in 2018) | \$ 786,542 | \$ 761,634 |
| 365 auxiliary member shares (364 in 2018) | <u>15,048</u> | <u>14,699</u> |
| | <u>\$ 801,590</u> | <u>\$ 776,333</u> |
| | November 30 2019 | November 24, 2018 |
| Preferred shares, presented as equity: | | |
| - Preferred shares | \$ 2,300,845 | \$ 175,037 |
| - Class E preferred shares | - | 123,261 |
| - Class F preferred shares | 417,840 | 892,196 |
| - Class G preferred shares | - | 9,000 |
| - Class P preferred shares | - | 797,661 |
| - Class Q preferred shares | 972,983 | 972,983 |
| - Class R preferred shares | 4,745,738 | 2,966,739 |
| - Class LCF-2017 preferred shares | <u>2,836,000</u> | <u>2,836,000</u> |
| | <u>\$ 11,273,406</u> | <u>\$ 8,772,877</u> |

16. SOCIAL CAPITAL (continued)

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

| | November 30 2019 | November 24, 2018 |
|---|----------------------|----------------------|
| Balance at the beginning of year | \$ 9,549,210 | \$ 9,246,466 |
| Increase | | |
| - Issued as cash | 886,443 | 767,500 |
| - Patronage refunds converted into shares | <u>2,147,113</u> | <u>12,257</u> |
| | <u>12,582,766</u> | <u>10,026,223</u> |
| Decrease | | |
| - Redemption | 438,548 | 266,161 |
| - Preferred shares presented as a financial liabilities | <u>69,222</u> | <u>210,852</u> |
| | <u>507,770</u> | <u>477,013</u> |
| | <u>\$ 12,074,996</u> | <u>\$ 9,549,210</u> |

17. TRANSACTIONS WITH MEMBERS

During the year, the cooperative carried out 50.19 % (50.46 % in 2018) 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, wich 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 their subsidiaries signed rental agreements for buildings, vehicles, and equipment with various maturing between february 2020 and May 2025. Minimum future payments total \$ 1,938,117 and include the following payments for the next five years:

| | | |
|------|----|---------|
| 2020 | \$ | 591,975 |
| 2021 | \$ | 602,179 |
| 2022 | \$ | 519,924 |
| 2023 | \$ | 124,660 |
| 2024 | \$ | 99,379 |

In addition, the cooperative entered into futures contracts for purchases and sales, setting the price for several grains with various maturities until March 2020. As at November 30, 2019 the net amounts committed are \$ 151,676 in U.S. dollars, representing 1,016 metric tonnes of grain, and \$ 22,307,327 in Canadian dollars, representing 96,975 metric tonnes of grain.

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. These transactions, were made in the normal course of business, and are mesured at the exchange value, wich is the amount of consideration established and agreed by the members.

21. ECONOMIC DEPENDENCE

During the year, the cooperative made approximately 17 % (22 % in 2018) of its purchases from La Coop fédérée.

During the year, the cooperative made approximately 54 % (67 % in 2018) of its grains sales to two (two in 2018) 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 30, 2019, approximately 26 % (14 % as at November 24, 2018) of the total accounts receivable is receivable from two major corporation (one major corporation in 2018).

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. At the end of the year, assets and liabilities denominated in foreign exchange and converted into Canadian dollars are the following:

| | November 30 2019 | | November 24, 2018 | |
|---------------------|---------------------|---------------------------|----------------------|---------------------------|
| | Euros € | American dollars \$ | Euros € | American dollars \$ |
| Cash | - | 798,008 | - | 426,141 |
| Accounts receivable | - | 904,774 | 18,977 | 831,561 |
| Inventories | - | - | - | 942,728 |
| Accounts payable | 1,104 | 1,049,909 | 4,414 | 971,036 |

23. COMPARATIVE FIGURES

Certain figures for 2018 have been reclassified to make their presentation identical to that adopted in 2019.

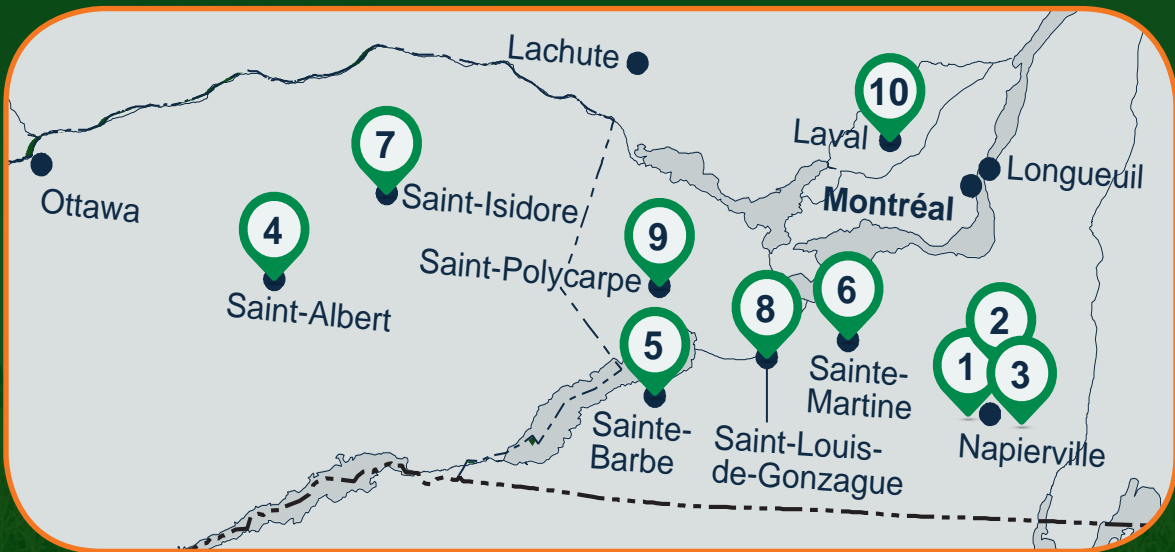
LA COOP UNIFRONTIÈRES
CONSOLIDATED ADDITIONAL INFORMATION
YEAR ENDED NOVEMBER 30, 2019

| | November 30 2019 | November 24, 2018 |
|---|-----------------------|-----------------------|
| SCHEDULE A - COST OF GOOD SOLD | | |
| Inventories at beginning of year | \$ 17,240,155 | \$ 16,093,199 |
| Purchases | 140,926,658 | 135,708,771 |
| Freight charges | 352,558 | 403,834 |
| Increase (decrease) in inventories depreciation | <u>116,805</u> | <u>(134,251)</u> |
| | 158,636,176 | 152,071,553 |
| Inventories at the end of year | <u>17,399,760</u> | <u>17,240,155</u> |
| | <u>\$ 141,236,416</u> | <u>\$ 134,831,398</u> |

[illegible]

[illegible]

[illegible]



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3 FERTILIZER CENTER NAPIERVILLE
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