Hensall CO-OP

2019 ANNUAL REPORT

We bring the world

Hensall

519.262.3002 | 1.800.265.5190

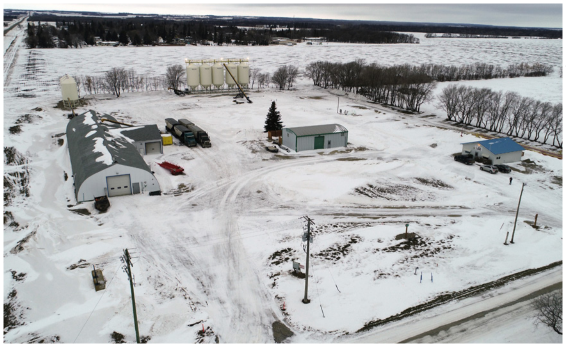
hensallco-op.ca

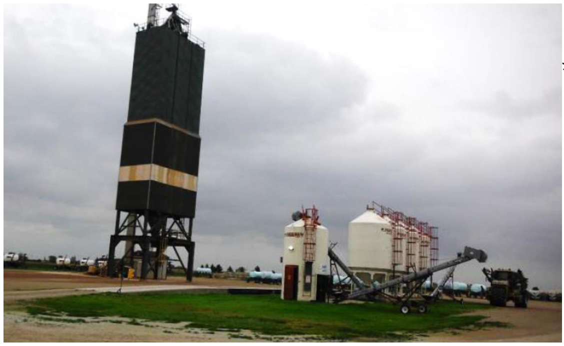
Ailsa Craig	519.232.4449
Aylmer	519.773.5169
Aylmer Crops	519.773.2125
Bloom	204.252.2444
Brussels	519.887.9933
Clinton	519.482.3438
Drayton	519.638.2707
Exeter	519.235.1150
Exeter Distribution - Seed	519.235.4761
Exeter Dist. - Shipping	519.235.4992
Exeter Global Repair	519.235.3252
Forest	519.786.5424
Greenway	519.238.8701
Harrow	519.738.2271
Kurtzville	519.335.3535 1.877.858.2220
Lakeside	519.349.2243
Londesborough	519.523.4470
Londesborough Feed	519.523.9606 1.800.265.9000
Miami	204.435.2227
Mitchell	519.393.6010 1.855.393.6010
Mitchell Feed	519.348.8752 1.800.669.3502
Rignold	204.274.2223
Ripley	519.395.5955 1.855.895.5955
Seaforth	519.522.1000 1.888.522.1112
Tilbury	519.682.1484
Westfield	519.523.4221
Zurich	519.236.7155 1.800.565.7155

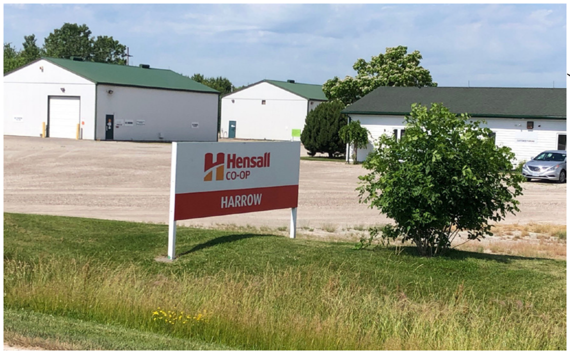
Grain receiving only:

Altona	204.304.0269
Bright	519.580.0885
Carman	204.745.6747
Gads Hill	519.274.1984
Wroxeter	519.335.6813

Bloom, MB


Miami, MB


Tilbury, ON



Harrow, ON

Contents

Agriculture in Canada relies heavily on exports and trade with the global community for growth. Over the next decade, the global population will approach 9 billion people; that is close to 1 billion more to feed than today. This will drive substantial growth in both the plant and animal protein markets providing Canadian farmers ample opportunity to expand. The plant-based market alone has been projected to double 18 times over the next 12-15 years.

Capitalizing on this explosive growth depends on our ability to access the global markets. We have a strong story to tell. As Canadian producers, we are viewed around the world as a favoured supplier of high-quality, safe agricultural and food products. Few countries enjoy the competitive benefit of our varied and abundant arable lands and fresh water nor do they have such a talented and skilled workforce available to them.

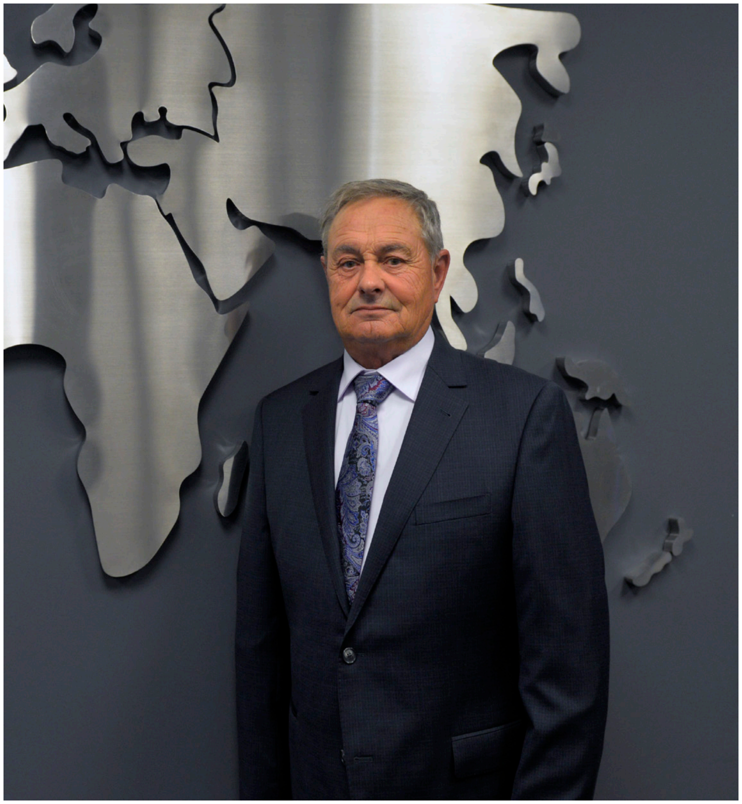
It is with this backdrop that Hensall Co-op brings the world to Canadian producers. We are the feet on the ground in over 40 countries creating market access for our producers. We are the facilitators of the efficient movement of freight from origin to destination by ocean, air, rail and highway. We are the technical resources using global technologies to drive production in barns and in fields improving the competitiveness of our producers. We are the processors maintaining the highest standards for food safety in order to protect Canada's global brand. We are the providers of the fuel that runs our farms.

We celebrate our success in 2019 in working towards our overarching goal of being the most sought-after and trusted partner and employer, delivering value-added products and solutions locally and around the world. The addition of processing in Manitoba with the acquisition of the Bloom and Miami facilities will make our deliveries to certain markets more efficient. The addition of additional bean processing in

Peter Dinsmore, President

Hensall improves our efficiency and provides more capacity to meet the increase in global demand. Our expansion into Southern Ontario with the acquisition of Harrow and Tilbury means more producers over a larger geography will have the opportunity to work with us to increase the returns on their farm. It has been a great year of bringing the world to the Canadian producer.

On behalf of the Board of Hensall Co-op, I would like to thank the members for their continued support and patronage. I would also like to thank our passionate and dedicated employees for working tirelessly throughout the year, including through difficult harvest and planting conditions, to ensure the success of our Co-op.



Maintaining and enhancing the strength of Canadian exports is vital to strengthening our agriculture industry and this drives the economic engine of the rural communities we live in. Canadian producers feed the world and our job at Hensall Co-op is to bring the world to the Canadian producer. We do this each and every day by:

Facilitating market access: We maintain longstanding end-user relationships in approximately 40 countries globally and our food grade grower contracts are backed by some of the largest most respected food companies in the world. This means more value-added acreage, long term opportunities for growth and keen insights into market trends from the industry experts. Our team spends countless man hours travelling the globe, meeting with global industry leaders and showcasing Canadian production in order to increase the demand for Canadian products.

Driving innovation in the industry: Innovation and farming go hand-in-hand. We have invested in technology to improve traceability with our Fieldtrace application, we are working together with industry partners in precision agriculture to maximize productivity and we use global technology from industry leaders in our agronomy and animal nutrition solutions. Through innovation we provide cost effective food processing with a focus on quality to keep Canada competitive on the world stage. We know that Canada won't stay at the forefront of global food production without investing in the skills that harness the newest technology and data. Look to us to continue to focus on innovation and capitalizing on the data we already have to set our growers apart from the rest of the world.

Investing in people and rural communities: We are nothing without our people and our communities. We are dedicated to ensuring that we provide a safe environment for our employees. We provide our communities with stable and competitive job opportunities each and every time we expand our operations. We are building the communities that are important to the success of agriculture in Canada.

As an independent co-operative, we have been strategically positioning ourselves in the business sectors where we have market share strength, credibility and critical mass. We must achieve competitive critical mass while extending our value offering and developing future markets. We are dedicated to maintaining Hensall Co-op's

Brad Chandler, CEO

long-term viability by focusing on our end markets, keeping ourselves competitive through technology and growing for the next generations of owner members. We are well placed in global markets in which demand for agricultural products is continuously growing as the result of growing populations and rising middle class income levels.

We are very pleased with the results for 2019 where we saw growth in both our top and bottom lines. Our team worked through very difficult harvest and planting seasons. We added four new facilities to our operations and added a state-of-the-art fertilizer blender in Drayton. It was a very busy year and I would like to thank our employees for their commitment and passion, our members, customers and industry partners for their continued patronage and the Board of Directors for their support. Hensall Co-op's future is shining.

Paul Gowing
Bluevale

Robert Cornelis
Ailsa Craig

Terry VanderWal
Vice-President, Denfield

Bill Wallace
Secretary, Egmondville

Keith Strang
Hensall

Henry Vanderburgt
Dashwood

Sebastian Kraft
Dungannon

Aise Van Beets
Bayfield

Peter Dinsmore
President, Gorrie

Steve Jansen
Past President, Seaforth

Ed Mosterd
Shakespeare

Board of Directors

Executive

Jerry Groot
Grain Marketing Manager

Dave Delbridge
Sales Manager, Animal Nutrition

Jim Barclay
Crop Services Manager

Reta Byvelds
Business Manager, Animal Nutrition

Pablo Malacara
CFO

Brad Borland
General Manager, Hensall Global

Joey Groot
Corporate Operations Manager

Derwyn Hodgins
Commercial Business Manager

Brad Chandler
CEO

Buddy Richardson
Controller

Record revenues of $794.8 million - up by $22.1 million

Entered into purchase contracts with more than
3,000 farming entities over the past 24 months

5 Food Product Marketers spent 231 days travelling to meet global customers and develop new business - 95 days hosting customers and prospects for plant tours and crop visits - 326 days per year spent focused on our global customers and prospects

74% increase in earnings before distributions to members
and income taxes to $12.5 million

External freight forwarding volumes increased by 9%
Surface transportation volumes increased by 8%

Dry bean processing MT continue to grow

Ruminant feed volume increased by 11%

Propane volume increased year over year by 2%

4 new locations with the addition of Bloom, Miami, Tilbury and Harrow

$13.1 million returned to members through patronage dividends and interest
up from $12.9 million

21% increase in crop services revenues in spite of challenging spring conditions
9% increase in fertilizer tonnage

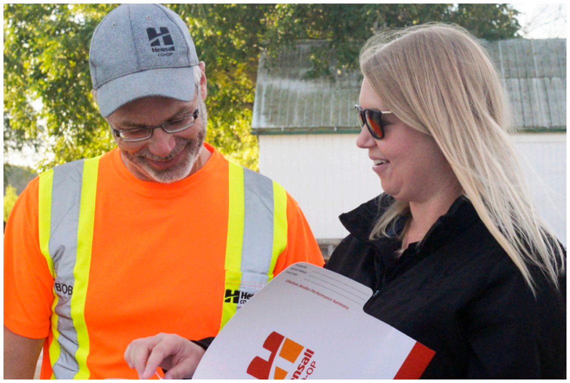
3% increase in deliveries from our elevator operations

589 employees

More than 250 sponsorships supporting our rural communities

Highlights

Finance & Human Resources



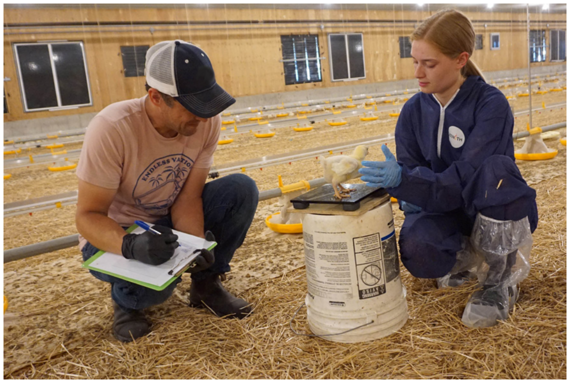
The finance team is focused on providing the business with the information it needs to grow from its position of strength and to continue to build on its track record of value-enhancing and balanced-capital deployment. We are building comprehensive dashboards that focus on key metrics for better decision making. By engaging our team members in improving processes, we will be able to provide relevant information more quickly to improve the responsiveness of the entire organization. Solid and timely data, coupled with in-depth analytical review, will give us the tools we need to run empowered, accountable businesses that are in the best possible position to create value for our members.

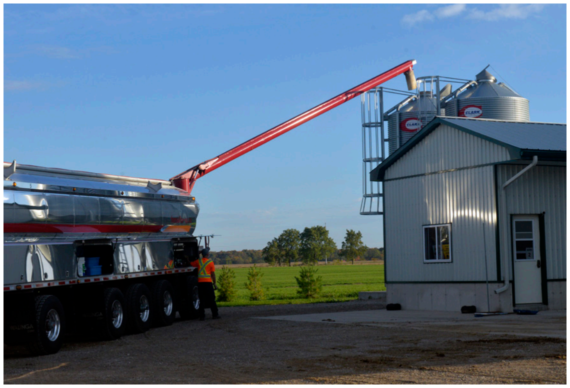
Hensall Co-op is fortunate to have a strong team with a passion for agriculture. We are committed to providing them with the tools to succeed. We will continue to improve our on-boarding process so our new employees start off on the right foot; to provide the training and education they need to flourish and to maintain the environmental health and safety program to protect them. All of this under the umbrella of an enhanced performance management process will give them the feedback they need to develop so they can play their part in bringing the world to the Canadian farmer.

The Animal Nutrition team works every day to provide viable nutrition solutions that offer solid financial returns. Livestock producers today are facing increased pressure from regulations and market movements. We work alongside our producers to help them navigate the issues and challenges presented by our ever-changing markets. By working with partners to access global technology, we bring the world to our livestock producers. From new developments in feeding technology to nutrition advice to address barn issues, we are focused on providing solutions to improve our producers' bottom line.

In 2018 ruminant feed volume sales increased by 11%

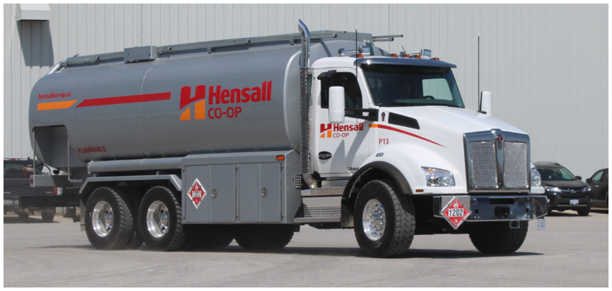
Manufacturing high quality feed and delivering it in a timely manner are table stakes for us. We strive to be more. By providing customized solutions, risk management, grain marketing and unique farm services we are helping our producers and livestock industries to be successful and grow. We understand our success is dependent on the success of our livestock industries.





Animal Nutrition

Energy



Energy is critical to the success of any farming or commercial operation and our dedicated team is focused on being at the core of that reliability. In 2019 we introduced a tank monitoring system to augment our total energy package. By allowing our customers the opportunity to get accurate, real-time readings on their tanks instantly, we are bringing world class technology to our portfolio in order to improve delivery reliability.

Propane volume sold increased year over year by 2%

Farm equipment is the backbone of farming operations and we continue to access globally recognized partners including Chevron Delo Lubricants and Fuel Right Diesel additives to help our customers keep their machinery running effectively. We consistently add value by increasing the overall efficiency and longevity of your assets.

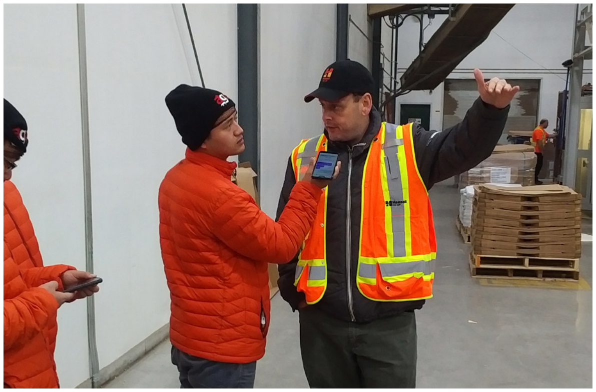
As we look to the future, we will continue to focus on delivering a full range of quality energy related products for farm, commercial, industrial and residential applications. We envision continued growth in our energy products and services distributed in our marketing area.

Our Marketing Team continues to bring the world to the Canadian farmer by joining trade missions, attending global food trade shows and visiting our customers in over 40 countries.

International trade and the global economy had a significant impact on the markets for our products in 2019 and we anticipate this will continue in the foreseeable future. Navigating the impact of trade deals, tariffs, geo-political events and currency fluctuations on the supply and demand for our products has become a very important element contributing to the success of our business.

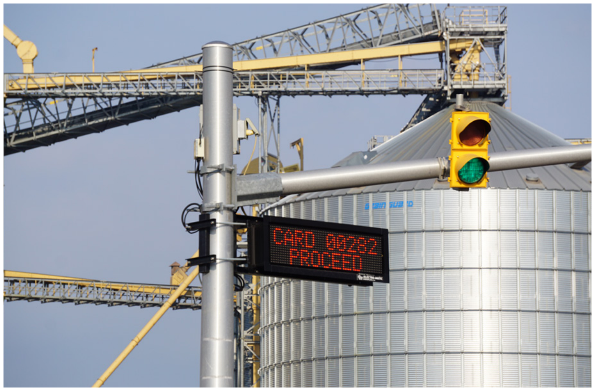
5 Food Product Marketers spent 231 days travelling to meet global customers and develop new business

By using our knowledge and focusing on food grade products that bring maximum value to our food producers, we will continue to expand our offerings and provide the industry with more opportunities for profitable growth. Our food grade business will continue to grow because our food grade producers and the Hensall Co-op team are fully committed to feeding the world.



Food Products

Grain & Ingredient Marketing



In the ever-changing world of Grain Marketing, the 2018-19 crop was dominated by international trade issues. We initially saw export demand for Canadian soybeans at record highs since China was looking to replace U.S Beans. However, China eventually turned away from Canada as well and basis values fell and have yet to rebound.

What started as great spring planting for the 2018 crop year turned when a dry early July was followed by over 15 inches of rain in late July and August. This proved to be devastating to corn quality with vomitoxin recorded at levels not seen before. By using segregation and with the help and patience of our producers, we continue to work with end users to work through the vomitoxin issues to ensure we keep our domestic demand sustainable for the health of our commercial grain industry in Ontario.

Entered into purchase contracts with more than 3,000 farming entities over the past 24 months

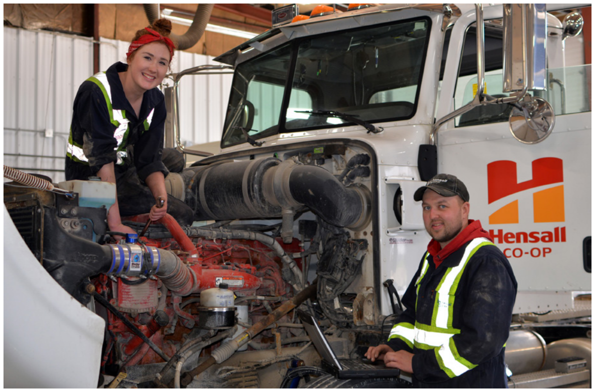
We look forward to continuing to work for our producers to help them navigate the global grain markets to maximize the returns to their farm.

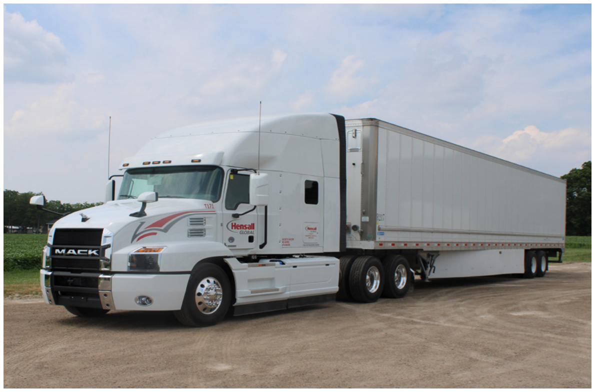
Hensall Global is a leading logistics business, with unique expertise in the domestic and international transportation of agri-food products. We celebrate another successful year for Hensall Global with external freight forwarding volumes up 9% and surface transportation volumes up 8%.

Our dedicated logistics professionals support our customers with services that facilitate access to global markets. Our asset-based trucking operation, combined with our position as one of the largest exporters of ocean containers from Canada, gives us the capability and scale to successfully execute multi-modal shipments for our customers to destinations around the world.

External freight forwarding volumes increased by 9% and surface transportation volume went up by 8%

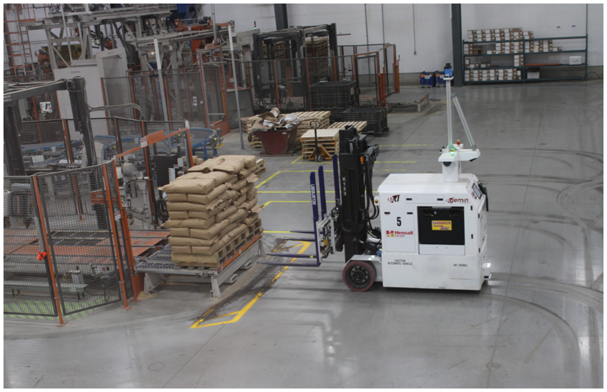
Looking forward to 2020, we intend to increase customer service through information management and provision. We are evolving our information systems to provide faster and more accurate shipment visibility to enhance the way we bring the world to our customers.





Hensall Global

Operations



Day in and day out we never lose sight of the fact that we bring the world to Canadian growers in everything we do. The products we deliver must meet the exacting standards of our customers in world markets. This means ensuring on time deliveries, maintaining stringent quality standards and continually updating our equipment.

We know to continue adding value, we can't stand still which is why we invest in new seed varieties, improved quality assurance programs and advanced processing equipment, to ensure we remain one of the preferred food-grade suppliers around the world. We also continue to investigate new ideas to improve our sustainability by improving our competitiveness by using fewer resources at all stages of our value stream.

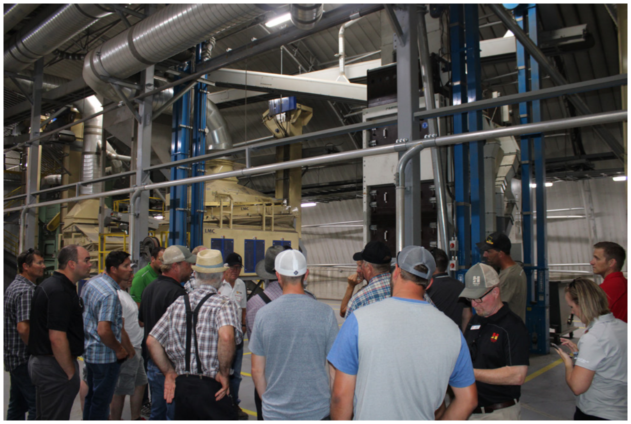
4 new locations:
Bloom and Miami in Manitoba and Tilbury and Harrow in Ontario

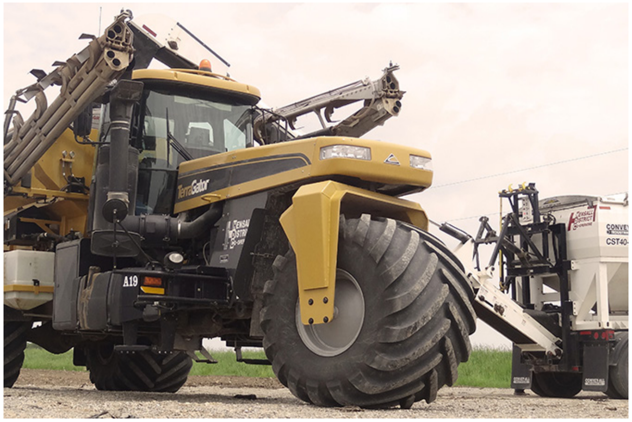
Our strongest resource continues to be our people. We will always focus on keeping them safe since their contribution to providing the world with high quality food is paramount to our success.

The Canadian farmer has a significant role in feeding the world and our overarching goal is to enable them to succeed. We bring the world to our producers by securing crop inputs from around the globe competitively. We bring world class technology such as the HIM blender technology installed in Drayton this year to the industry. In an environment of more stringent food safety expectations from our global end users, we give our producers the digital tools they need to provide field traceability from the plate to the field.

21% increase in crop services revenues in spite of challenging spring conditions

We look forward to cultivating new business relationships in the areas where we added assets this year. Our new territories will bring new opportunities and access to value added contracts as we expand our acreage to meet global demand. Our focus across our entire trading area will continue to be to bring proactive solutions that are sustainable and provide a solid ROI to the grower.





Crop Services

Independent auditor's report

To the Members of Hensall District Co-operative, Incorporated

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Hensall District Co-operative, Incorporated (the Co-operative) as at July 31, 2019 and the results of its operations and its cash flows for the year then ended in accordance with Canadian Accounting Standards for Private Enterprises (ASPE).

What we have audited

The Co-operative's financial statements comprise:

- the balance sheet as at July 31, 2019;
- the statement of earnings and retained earnings for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

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 financial statements* section of our report.

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

Independence

We are independent of the Co-operative in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

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

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

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

Those charged with governance are responsible for overseeing the Co-operative's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentation, 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 Co-operative's internal control.
- Evaluate the appropriateness of accounting policies used and reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Co-operative'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 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 Co-operative to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Waterloo, Ontario
October 15, 2019

Balance Sheet

As at July 31, 2019

	2019 $	2018 $
Assets (notes 13 and 16)		
Current assets		
Cash and cash equivalents	26,291,264	14,966,634
Accounts receivable (note 6)	77,012,351	81,016,043
Fair value of open commodity and foreign exchange contracts (note 16)	5,597,028	1,794,846
Advances paid:		
Open commodity and foreign exchange contracts	1,139,499	6,286,788
Other	75,000	698,181
Inventories (note 7)	97,974,575	88,513,620
Prepaid expenses	1,954,187	1,418,387
Marketable securities	1,095,567	1,634,642
Future income taxes	–	1,174,000
	211,139,471	197,503,141
Investments (note 8)	933,067	915,926
Property, plant and equipment (note 9)	147,891,294	130,124,179
Intangible assets (note 10)	522,880	408,590
Goodwill	11,687,345	11,687,345
Deferred charges	291,028	436,313
Mortgage receivable	2,149,213	86,444
Total assets	**374,614,298**	**341,161,938**

Approved by the Board of Directors

President

Vice President

The accompanying notes are an integral part of these financial statements.

Balance Sheet *continued*

	2019 $	2018 $
Liabilities and member equity		
Current liabilities		
Accounts payable and accrued expenses (note 11)	42,349,982	41,037,204
Fair value of open commodity and foreign exchange amounts (note 16)	1,416,968	6,276,181
Advances received	2,471,528	2,244,588
Income taxes payable	614,387	1,568,126
Short-term demand member loans (note 12)	25,075,811	18,171,328
Current portion of:		
Long-term debt (note 13)	5,546,222	7,088,016
Capital lease obligation	2,034	7,556
Special member loans (note 15)	22,572,677	24,575,983
Future income taxes	765,000	–
	100,814,609	100,968,982
Long-term debt (note 13)	62,274,537	57,770,760
Capital lease obligation	–	2,034
Future income taxes	12,340,000	11,148,000
	175,429,146	169,889,776
Member entitlements		
Mandatory member and patronage loans (note 14)	22,117,881	20,698,208
Special member loans (note 15)	134,579,873	114,335,322
Total liabilities	332,126,900	304,923,306
Member equity		
Retained earnings	42,487,398	36,238,632
Total liabilities and member equity	**374,614,298**	**341,161,938**

Commitments and contingencies (note 18)

The accompanying notes are an integral part of these financial statements.

Statement of Earnings and Retained Earnings

For the year ended July 31, 2019

	2019 $	2018 $
Sales (note 5)	794,760,369	772,642,283
Cost of sales		
Materials	658,052,112	650,773,514
Direct department costs	77,469,640	77,568,108
Amortization	13,725,010	13,114,768
Foreign exchange loss - other	2,702,564	614,674
Realized loss (gain) on foreign exchange contracts	6,853,972	(2,724,249)
Change in unrealized gain on foreign exchange option contracts	–	4,648,255
	758,803,298	743,995,070
Departmental margin	35,957,071	28,647,213
Administration expenses		
General expenses	9,329,179	7,808,946
Amortization	194,158	207,860
	9,523,337	8,016,806
	26,433,734	20,630,407
Interest expense		
Operating loan (note 13)	1,911,020	1,468,153
Long-term debt and capital leases (note 13)	2,813,771	2,386,958
Member loans (notes 14 and 15)	10,110,160	9,025,826
Other	410,544	439,563
	15,245,495	13,320,500
Earnings from operations before the following	11,188,239	7,309,907
Other gains and losses		
Gain on disposal of property, plant and equipment (note 9)	2,101,703	73,738
Net derivative losses and other items (note 16)	(790,258)	(216,431)
	1,311,445	(142,693)
Earnings before distributions to members and income taxes	12,499,684	7,167,214
Distributions to members (note 14)		
Patronage dividend	2,719,463	3,625,790
Interest bonus on mandatory member loans	228,455	214,550
	2,947,918	3,840,340
Earnings before income taxes	9,551,766	3,326,874
Income taxes		
Current	172,000	1,713,000
Future	3,131,000	344,000
	3,303,000	2,057,000
Net earnings for the year	6,248,766	1,269,874
Retained earnings - Beginning of year	36,238,632	34,968,758
Retained earnings - End of year	**42,487,398**	**36,238,632**

The accompanying notes are an integral part of these financial statements.

Statement of Cash Flows

For the year ended July 31, 2019

	2019 $	2018 $
Cash provided by (used in)		
Operating activities		
Net earnings for the year	6,248,766	1,269,874
Payment of patronage dividend	(602,020)	(512,978)
Items not affecting cash		
Amortization of property, plant and equipment	13,791,459	13,187,635
Amortization of intangible assets	127,710	134,993
Amortization of deferred financing charges	236,195	230,137
Change in unrealized gain/loss on open commodity and foreign exchange contracts	(8,661,395)	10,249,492
Change in unrealized gain on marketable securities	383,540	(489,851)
Gain on disposal of property, plant and equipment	(2,101,703)	(73,738)
Net change in accrued interest on demand and special member loans	2,944,404	2,435,687
Patronage dividend included in net earnings for the year	2,719,463	3,625,790
Future income tax expense	3,131,000	344,000
Unrealized foreign currency exchange gain on cash and cash equivalents	(33,503)	(219,510)
Non-cash patronage dividend earned on investments	(17,141)	–
	18,166,775	30,181,531
Net change in non-cash working capital balances	3,389,984	(22,202,631)
	21,556,759	7,978,900
Financing activities		
Repayment of long-term debt	(7,088,017)	(9,778,650)
Proceeds on issuance of long-term debt	10,000,000	8,760,000
Payment of financing charges	(41,031)	(404,951)
Repayment of capital lease obligation	(7,556)	(7,555)
Repayment of mandatory member and patronage loans	(191,423)	(223,237)
Proceeds on issuance of special member and demand loans	58,020,196	42,125,373
Repayment of special member and demand loans	(35,818,872)	(32,305,732)
	24,873,297	8,165,248
Investing activities		
Acquisition of businesses, net of cash received (note 4)	(4,491,324)	(3,462,617)
Collection of mortgage receivable	2,231	89,602
Proceeds on disposal of marketable securities	155,535	–
Purchase of intangible assets	(242,000)	–
Purchase of property, plant and equipment	(32,346,185)	(9,060,419)
Proceeds on disposal of property, plant and equipment	1,782,814	585,639
	(35,138,929)	(11,847,795)
Effect of exchange rate changes on cash	33,503	219,510
Net increase in cash and cash equivalents	11,324,630	4,515,863
Cash and cash equivalents - Beginning of year	14,966,634	10,450,771
Cash and cash equivalents - End of year	26,291,264	**14,966,634**

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements

1. Corporate status

Hensall District Co-operative, Incorporated (the "Co-operative") was incorporated under the laws of the Province of Ontario on January 23, 1946, without share capital.

2. Basis of presentation

These financial statements are prepared in accordance with Canadian accounting standards for private enterprises (ASPE) as issued by the Canadian Accounting Standards Board.

3. Summary of significant accounting policies

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and deposits in bank.

Accounts receivable

Accounts receivable includes trade customer receivables net of allowance for doubtful accounts, and other receivables. The Co-operative makes an allowance to reduce the carrying value of accounts receivable identified as uncollectible to their estimated realizable amount. The allowance for doubtful accounts is the Co-operative's best estimate of the amount of probable credit losses in its existing accounts receivable. The Co-operative determines the allowance for doubtful accounts based on specifically identified accounts. The Co-operative reviews its allowance for doubtful accounts on a periodic basis. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

Inventories

Edible beans and feed inventories have been stated at their lower of cost and net realizable value. Cost is determined on the average weighted cost of purchase.

Grain, corn and soybeans inventories have been stated at the quoted market prices obtained from the closing price quotations of a major commodity exchange plus or minus the local basis. The change in fair value is recognized in cost of sales - materials.

Retail and wholesale inventories have been stated at the lower of cost and net realizable value. Cost is determined substantially on a first-in, first-out basis.

Marketable securities

Short-term investments in publicly traded marketable securities are carried at quoted market prices, with unrealized gains or losses recorded in the statement of earnings. The market value is based on the closing bid price at the end of the period, as reported on recognized securities exchanges.

Investments

Investments are accounted for at cost less any reduction for impairment. Investments are assessed annually for indicators of impairment and when a significant adverse change in expected timing or amount of future cash flows is noted, the carrying value of the investment is reduced to the higher of present value of expected cash flows from holding the investment, and the amount that could be realized by selling the investment.

Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated amortization. Amortization is calculated using the declining balance method and at the following annual rates:

Roadways and services	4% and 8%
Buildings	5%
Concrete silos	5%
Steel storage bins	8%
Equipment	15%
Mobile machinery and trucks	20%
Computer equipment	25%

Borrowing costs related to the construction of property, plant and equipment are not capitalized.

Intangible assets and goodwill

Intangible assets consist of finite-lived producer and customer relationships and are carried at cost less accumulated amortization. They are amortized over their estimated useful lives of 10 years on a straight-line basis.

Goodwill is accounted for at cost. The Co-operative tests for impairment only when events or circumstances indicate that it might be impaired. In the event that the carrying amount of a reporting unit which contains goodwill exceeds its fair value, a goodwill impairment loss will be recognized in the statement of earnings in an amount equal to the excess.

Impairment of long-lived assets

Long-lived assets are tested for recoverability whenever indicators of impairment exist. An impairment loss is recognized when the carrying value exceeds the total undiscounted cash flows expected from their use and eventual disposition. The amount of impairment loss is determined as the excess of the carrying value of the asset over its fair value.

Accounts payable and accrued expenses

Accounts payable and accrued expenses include trade payables, employee-related obligations and accrued expenses, and are payable in less than one year.

Income taxes

The future income taxes method of accounting for income taxes is used. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. Future income taxes and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities as well as for the benefits of losses available to be carried forward to future years for tax purposes that are more likely than not to be realized. They are measured using the substantively enacted tax rates and laws in effect when the differences are expected to be realized.

Demand, special member, mandatory member and patronage loans

The demand and special member loans are carried at cost plus accrued interest. Mandatory member and patronage loans are carried at cost. On an annual basis, the Co-operative can elect to declare patronage dividends to members. Any declared patronage dividends will be allocated to patronage loans based on the member's prorated portion of active business. The Co-operative also has the right to declare patronage repayment and to have a portion of the patronage loans paid out to members in cash, with the remaining portion added to the carrying balance of mandatory member loans. The remaining portion of unpaid patronage dividends is then paid out over a period of time as determined by the Board of Directors of the Co-operative.

Revenue recognition

The Co-operative earns revenue from the sale of crop inputs, grain, soybeans, edible beans, feed, propane and petroleum. Generally, revenue from product sales is recorded upon shipment except in circumstances where product is shipped by sea, in which case revenue is recognized when title transfers based on shipping terms.

The Co-operative also provides processing, handling, storage and logistics services in relation to its commodity business which are recognized as revenue when services are performed.

Derivative instruments and hedge accounting

Derivatives - commodity contracts

The Co-operative manages its exposure to changes in commodity prices through the use of derivative instruments. The Co-operative enters into exchange-traded futures and option contracts to manage the risk of changes in the market price of commodities such as corn, soybeans, and grain. The fair value of these contracts is determined at each reporting period and included within the balance sheet as fair value of open commodity and foreign exchange contracts, with the realized and unrealized gains or losses associated with these contracts included in the cost of sales - materials within the statement of earnings.

Derivatives - currency contracts

Certain commodity derivative contracts are denominated in foreign currency, and so the Co-operative manages its exposure to changes in currency through the use of exchange-traded futures, forward currency and option contracts. The fair value of the exchange-traded futures, option and certain forward currency contracts are determined at each reporting period and included within the balance sheet as fair value of open commodity and foreign exchange contract. For contracts used as part of the Co-operative's currency risk management program, the realized and unrealized gains or losses are included in cost of sales. For contracts that are used for other purposes, the realized and unrealized gains or losses are included in other gain and losses.

Derivatives - open purchase and sale contracts

In the normal course of business, the Co-operative enters into various contracts to purchase and sell commodities. For contracts to purchase or sell grain, corn or soybeans traded in an active market, the contracts are recorded at fair value as non-financial derivatives within the balance sheet as fair value of open commodity and foreign exchange contracts. For contracts to purchase or sell other grain or feed, no recognition of the contract's fair value is made until settlement of the contract. Gains or losses resulting from the change in fair value of these contracts are included in the cost of sales - materials within the statement of earnings.

Derivatives - currency contracts qualifying for hedge accounting

The Co-operative has determined that certain forward currency contracts qualify for hedge accounting, including an evaluation of critical terms match, and as such the fair value of these are not recorded on the balance sheet at the end of each reporting period. The realized gains and losses upon settlement are recorded within cost of sales - realized (gains) losses on foreign exchange contracts on the statement of earnings.

Financial instruments

Under CPA Handbook Section 3856 - Financial Instruments, financial assets and liabilities, including derivative instruments not designated in a qualifying hedging relationship, are initially recognized at fair value. Subsequently all financial instruments are measured at amortized cost except for:

- Investments in equity instruments that are not quoted in an active market, which are measured at cost less any reduction for impairment;
- Investments in equity instruments that are quoted in an active market and derivative instruments not designated in a qualifying hedging relationship, which are measured at fair value with any gains or losses recorded in net earnings;
- Derivative instruments designated in a qualifying hedging relationship for anticipated transactions, which are not recognized until maturity at which point any gain or loss is recorded in net earnings.

Transaction costs relating to other financial liabilities other than operating loans are netted against the carrying value of the liability and then amortized over the expected life of the instrument using the effective interest method. Transaction costs relating to operating loans are included in deferred charges and amortized over the expected life of the instrument.

Foreign currency translation

Monetary assets and liabilities of the Co-operative that are denominated in foreign currencies are translated into Canadian dollars, which is both the presentation and functional currency of the Co-operative, at exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities and revenue and expenses are translated at rates of exchange in effect at the time of those transactions. Gains or losses on foreign currency translation are recorded in the cost of sales within the statement of earnings.

Use of estimates

The preparation of financial statements in conformity with ASPE requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the balance sheet date, as well as revenues and expenses for the year. The Co-operative regularly assesses these estimates and, while actual results may differ, management believes the estimates are reasonable.

4. Acquisitions

On May 30, 2019, the Co-operative acquired two crop input retail stores for total cash consideration of $4,491,324, net of closing costs of $106,178. The purchase price of this transaction has been allocated to the acquired identifiable assets as follows:

	$
Accounts receivable	1,243,828
Inventory	2,288,996
Property, plant and equipment	958,500
	4,491,324

In 2018, the Co-operative acquired the assets of 1064540 Ontario Inc. and all of the outstanding shares of Ball Farm Services Limited in two separate transactions for total consideration of $4,032,603 including $622,603 related to acquired working capital. These transactions have been accounted for as a business combination and the results of these business' operations have been included in the financial statements since the date of acquisition. The purchase price of these transactions has been allocated to property, plant and equipment in the amount of $3,410,000 with the remaining consideration allocated to working capital.

These transactions above have been accounted for as business combinations and the results of these business' operations have been included in the financial statements since the dates of acquisition.

5. Sales

The major categories of sales for the Co-operative include the following:

	2019 $	2018 $
Edible beans and feed	292,365,964	299,442,588
Grain, corn and soybeans	320,832,464	297,443,132
Retail, wholesale and services	181,561,941	175,756,563
	794,760,369	772,642,283

6. Accounts receivable

Accounts receivable is presented net of allowance for doubtful accounts of $2,034,028 (2018 - $1,848,027). Bad debt expense of $225,000 (2018 - $225,000) was recognized during the year within general expenses.

7. Inventories

	2019 $	2018 $
Edible beans and feed	38,503,938	37,476,807
Grain, corn and soybeans	36,438,622	36,057,665
Retail and wholesale	23,032,015	14,979,148
	97,974,575	88,513,620

8. Investments

Included in investments is 12,500 (2018 - 12,500) common shares of CanAgri Insurance Alliance SCC representing 8.33% (2018 - 8.33%) of ownership.

CanAgri Insurance Alliance SCC is a captive insurance group that the Co-operative uses for certain property losses and automobile claims. The Co-operative makes payments to the captive insurance group based on actuarial analysis of risks and terms. The carrying amount of this investment also includes preferred shares in various segregated cell companies within the CanAgri Insurance Alliance SCC group as well as additional paid-in capital.

9. Property, plant and equipment

			2019
	Cost $	Accumulated amortization $	Net $
Land	9,831,754	–	9,831,754
Roadways and services	9,064,805	2,470,785	6,594,020
Buildings	43,666,107	17,059,212	26,606,895
Concrete silos	27,709,143	8,088,415	19,620,728
Steel storage bins	39,905,807	15,072,375	24,833,432
Equipment	134,232,896	82,026,678	52,206,218
Mobile machinery and trucks	17,688,267	10,668,053	7,020,214
Computer equipment	2,057,771	1,879,319	178,452
Construction in progress	999,581	-	999,581
	285,156,131	137,264,837	147,891,294

			2018
	Cost $	Accumulated amortization $	Net $
Land	7,329,602	–	7,329,602
Roadways and services	7,091,560	2,234,839	4,856,721
Buildings	38,182,598	15,808,582	22,374,016
Concrete silos	26,613,531	7,088,658	19,524,873
Steel storage bins	37,377,384	12,995,374	24,382,010
Equipment	117,507,299	74,500,282	43,007,017
Mobile machinery and trucks	16,426,105	9,960,015	6,466,090
Computer equipment	1,980,097	1,828,466	151,631
Construction in progress	2,032,219	-	2,032,219
	254,540,395	124,416,216	130,124,179

The Co-operative recognized amortization expense of $13,791,459 (2018 - $13,187,635) related to property, plant and equipment during the year.

The Co-operative has assets under capital lease arrangements with a cost of $36,616 (2018 - $36,616) and accumulated amortization of $35,962 (2018 - $28,116).

During the year, the Co-operative disposed of land with a carrying amount of $567,784 (2018 - $nil) in a transaction that resulted in a gain on disposal of property, plant and equipment of $1,997,216 (2018 - $nil). The proceeds included cash consideration of $500,000 (2018 - $nil) and a mortgage receivable of $2,065,000 (2018 - $nil).

10. Intangible assets and goodwill

Intangible assets include producer and customer relationships as follows:

	2019 $	2018 $
Cost	2,971,991	2,729,991
Accumulated amortization	(2,449,111)	(2,321,401)
	522,880	408,590

The Co-operative recognized amortization expense of $127,710 (2018 - $134,993) related to intangible assets during the year.

11. Government remittances

Included in accounts payable and accrued expenses are $50,289 of government remittances payable (2018 - $64,948), none of which are in arrears.

12. Short-term demand member loans

The demand member loans are unsecured and accrue interest at a rate of 3%. The accrued interest is included in the balance of the outstanding demand member loans.

13. Long-term debt and operating loan facilities

	2019 $	2018 $
Agri-Food Canada term loan, with interest at 0% repayable in monthly installments of $18,519 starting on March 31, 2016, maturity date March 1, 2025	1,259,259	1,481,482
FCC term loan, with interest at 4.450% repayable in monthly installments of $222,222 plus interest starting on January 1, 2016, maturity date January 2, 2025	30,444,445	33,111,111
FCC term loan, with interest at 3.950% repayable in monthly installments of $117,222 plus interest starting on June 1, 2017, maturity date May 1, 2024	18,052,222	19,458,889
FCC term loan, with interest at 4.866% repayable in monthly installments of $48,667 plus interest starting on June 1, 2018, maturity date June 1, 2028	8,127,333	8,711,333
FCC term loan, with interest at 4.408% repayable in monthly installments of $55,556 plus interest starting on July 17, 2019, maturity date August 1, 2029	10,000,000	–
Royal term loan, with interest at 2.800%, repayable in monthly installments of $936 including interest on the 22nd of the month, maturity date August 22, 2018	–	937
Wells Fargo term loan, with interest at 5.430%, repayable in monthly installments of $41,039 USD, including interest on the 19th of the month, maturity date November 19, 2018	–	211,292
Wells Fargo term loan, with interest at 5.468%, repayable in monthly installments of $85,024 USD, including interest on the 19th of the month, maturity date December 19, 2018	–	545,893
Wells Fargo term loan, with interest at 5.637%, repayable in monthly installments of $71,447 USD, including interest on the 31st of the month, maturity date May 31, 2019	–	994,767
Wells Fargo term loan with interest at 5.421%, repayable in monthly installments of $88,486 USD, including interest on the 26th of the month, maturity date November 26, 2018	–	455,572
	67,883,259	64,971,276
Less: Deferred financing charges	62,500	112,500
	67,820,759	64,858,776
Less: Current portion	5,546,222	7,088,016
	62,274,537	57,770,760

The aggregate amount of principal payments required in each of the next five years and thereafter to meet retirement provisions of the term loans, using the prevailing exchange rate for loans repayable in USD, is as follows:

		$
Year ending July 31,	2020	5,546,222
	2021	5,546,222
	2022	5,546,222
	2023	5,546,222
	2024	5,546,222
	2025 and thereafter	40,152,149
		67,883,259

The Farm Credit Canada (FCC) term loans are secured by a first charge over all real property and a fourth charge over working capital assets. The Wells Fargo term loans are secured by a first charge over specific assets, a third charge over real property and a second charge over working capital assets.

The Co-operative has a JPMorgan operating loan facility which, in June 2018, was extended out until September 30, 2021. The facility provides the Co-operative with $115,000,000 USD, subject to availability on their borrowing base calculations, and allows for temporary increases of up to $150,000,000 USD during peak season (as stipulated within the facility agreement). Interest charges on this facility vary by the type of borrowing but approximated 3.87% (2018 - 3.52%) during the year. The operating loan is secured by a first charge over working capital assets and a second charge over designated real property. As at July 31, 2019, no amounts have been drawn on this facility (2018 - $nil).

The Co-operative has $11,000,000 of availability through an FCC advance which extends out until November 1, 2020. This advance has a variable interest rate based on the FCC variable mortgage rate plus 0.05% and has the same security as the FCC term loans detailed above. As at July 31, 2019, no amounts have been drawn on this facility (2018 - $nil).

14. Mandatory member and patronage loans and member distributions

	2019 $	2018 $
Mandatory member loans - interest at 5%	7,615,150	7,151,650
Patronage loans - non-interest bearing	14,502,731	13,546,558
	22,117,881	20,698,208

On October 7, 2019 (2018 - October 11, 2018), the Board of Directors declared that a patronage dividend of $2,719,463 (2018 - $3,625,790) would be paid for the year to members of record as at the year-end date and mandatory member loan bonus interest of $228,455 (2018 - $214,550) would be paid on 5% member loans.

When a patronage dividend is declared, the dividend, net of withholding tax, is added to patronage loans and paid out to members over a pre-determined period, with the remaining amount remitted as withholding tax to the tax authorities. This pre-determined period is set at the declaration of the patronage dividend. Although the Co-operative has discretion at setting the predetermined period, it has regularly been set at 10 years. When these annual payments are made, approximately 50% of the amount is paid out in cash and the remaining amount is added to mandatory member loans. Mandatory member loans then accumulate, accruing an annual interest of 5% until a member passes away, sells all their farm assets or moves away from the Co-operative's service area.

During the year, an amount of $602,020 (2018 - $512,978) of patronage dividend was paid out in cash with the remaining balance added to mandatory member and patronage loans.

15. Special member loans

The balance of outstanding special member loans, including accrued interest and maturity dates of March 31 of the listed year, is summarized as follows:

	2019	**2018**
	$	**$**
4.00% due 2020 (2018 - due 2018 to 2019)	75,000	172,000
4.50% due 2020 to 2022 (2018 - due 2018 to 2019)	15,144,698	13,763,833
5.00% due 2020 to 2024 (2018 - due 2018 to 2021)	22,513,981	20,998,962
5.25% due 2020 to 2025 (2018 - due 2018 to 2025)	2,320,696	2,638,696
5.50% due 2020 to 2023 (2018 - due 2018 to 2021)	12,756,961	12,155,626
5.75% due 2020 to 2025 (2018 - due 2018 to 2022)	20,862,275	19,642,761
6.00% due 2020 to 2026 (2018 - due 2019 to 2024)	4,432,534	4,257,534
6.25% due 2023 (2018 - due 2018 to 2023)	15,000	15,000
6.50% due 2020 to 2026 (2018 - due 2019 to 2024)	11,380,991	10,860,454
6.75% due 2022 to 2029 (2018 - due 2018 to 2027)	8,671,289	6,815,674
7.00% due 2020 to 2021 (2018 - due 2020 to 2021)	690,000	700,000
7.25% due 2022 to 2029 (2018 - due 2019 to 2027)	55,418,597	42,236,241
7.50% due 2020 to 2021 (2018 - due 2019 to 2021)	2,869,905	2,928,645
8.00% due 2020 (2018 - due 2018 to 2020)	623	1,328,792
8.50% due 2019	–	397,087
	157,152,550	138,911,305
Less: Current portion	22,572,677	24,575,983
	134,579,873	114,335,322

Included in the above balance of outstanding special member loans is accrued interest of $5,557,072 (2018 - $4,760,578).

The aggregate amount of principal and interest payments required in each of the next five years and thereafter to meet retirement provisions of the principal and accrued interest as of July 31, 2019 are as follows:

	$
Year ending July 31, 2020	22,572,677
2021	25,804,774
2022	24,643,059
2023	16,272,784
2024	13,356,416
2025 and thereafter	54,502,840
	157,152,550

16. Fair value of open commodity and foreign exchange contracts

Derivatives - commodity and currency contracts

As at July 31, 2019, the balance sheet includes an asset associated with an unrealized gain on derivative contracts of $5,597,028 (2018 - $1,794,846) and a liability associated with an unrealized loss on derivative contracts of $nil (2018 - $628,806). In respect of the commodity derivative contracts, net realized and unrealized gains of $12,272,846 (2018 - $8,587,704) were recognized in cost of sales. In respect of the currency derivative contracts, net realized and unrealized losses of $7,042,587 (2018 - gains of $1,071,531) during the year were recognized within cost of sales.

Outstanding derivative commodity and currency contracts, including those qualifying for hedge accounting, include the following at year-end:

			2019
	Dates	**Volume**	**Price US $**
Future contracts - buy wheat	Sep 2019 - May 2020	780,000 bushels	4.8725 - 5.1075
Future contracts - buy MPLS wheat	Sep 2019	25,000 bushels	5.1950
Future contracts - buy corn	Sep 2019 - Sep 2020	2,800,000 bushels	3.9775 - 4.5825
Future contracts - buy soybeans	Sep 2019 - Nov 2020	3,170,000 bushels	8.6900 - 9.4025
Future contracts - buy soybeans meal	Dec 2019	635 metric tonnes	277.0500
Future contracts - buy CAD	Sep 2019 - Mar 2020	$172,500,000 USD	1.3153 - 1.3183 CAD
Future contracts - sell wheat	Sep 2019 - Mar 2021	4,060,000 bushels	4.8725 - 5.4175
Future contracts - sell MPLS wheat	Dec 2019 - Sep 2020	85,000 bushels	5.3325 - 5.7325
Future contracts - sell corn	Sep 2019 - Jul 2020	9,875,000 bushels	3.9650 - 4.7500
Future contracts - sell soybeans	Sep 2019 - Nov 2020	3,105,000 bushels	8.6900 - 9.4025
Future contracts - sell soybean meal	Sep 2019	4,264 metric tonnes	272.6100
Future contracts - sell canola	Sep 2019	20 metric tonnes	300.5000
Future contracts - sell CAD	Sep 2019	$1,900,000 USD	1.3183 CAD
Forward currency contracts - sell USD	Aug 2019 - Jun 2021	$118,000,000 USD	1.2831 - 1.3453 CAD

			2018
	Dates	**Volume**	**Price US $**
Future contracts - buy corn	Sep 2018	50,000 bushels	3.7225 - 3.7300
Future contracts - buy soybeans	Sep 2018 - Nov 2020	1,435,000 bushels	8.3200 - 9.3250
Future contracts - buy soybean meal	Dec 2018	454 metric tonnes	358.8000 - 368.1700
Future contracts - buy CAD	Sep 2018 - Dec 2018	$192,900,000 USD	1.2822 - 1.3282 CAD
Future contracts - sell wheat	Sep 2018 - July 2020	4,910,000 bushels	4.7375 - 6.2500
Future contracts - sell MPLS wheat	Sep 2019 - Dec 2019	145,000 bushels	5.3175 - 6.5250
Future contracts - sell corn	Dec 2018 - July 2020	5,810,000 bushels	3.6075 - 4.4250
Future contracts - sell soybeans	Nov 2018 - Nov 2019	2,565,000 bushels	8.4800 - 10.6000
Future contracts - sell soybean meal	Sep 2018	4,536 metric tonnes	366.0700
Future contracts - sell canola	Nov 2018	680 metric tonnes	493.6000
Future contracts - sell CAD	Dec 2018	$2,200,000 USD	1.2962 - 1.3254 CAD
Forward currency contracts - sell USD	Aug 2018 - Aug 2019	$91,500,000 USD	1.2191 - 1.3260 CAD

Derivatives - open purchase and sale contracts

The Co-operative has entered into purchase contracts with multiple producers for the receipt of various field crops and crop inputs with terms ending between August 2019 and June 2021 (2018 - August 2018 and February 2021). The total amount of the contractual obligation under these purchase contracts is to purchase approximately 516,485 metric tonnes (2018 - 564,379 metric tonnes) of agricultural commodities, based on historical yields of the crops involved, with an estimated current market value of approximately $224,108,327 (2018 - $256,473,513). Of this amount, the Canadian dollar equivalent of $31,365,754 (2018 - $37,521,488) is denominated in US dollars.

Furthermore, the Co-operative has entered into sales contracts with multiple customers for the delivery of various processed crops with terms ending between August 2019 and November 2020 (2018 - August 2018 and November 2020). The total amount of the contractual obligation under these sales contracts is to sell approximately 538,647 metric tonnes (2018 - 563,162 metric tonnes) of agricultural commodities with an estimated current market value of approximately $331,280,940 (2018 - $343,693,176). Of this amount, the Canadian dollar equivalent of $298,815,977 (2018 - $307,759,166) is denominated in US dollars.

For certain of the above-noted purchase and sale contracts, the commodity price and/or the basis is fixed at the time the contract is entered into. The value of these contracts is measured by the Co-operative as the difference between the contract price and the market price, with this difference being extended over the number of metric tonnes under each respective contract. The contract price and market value measurement varies depending on the type of purchase or sale contract entered into:

"Priced" contracts lock-in the future price at the date of the contract's inception based on the quoted market price for the respective commodity for the contract's expected settlement date, plus or minus a locked-in local basis. The difference between the futures price and local basis locked-in at the contract date and the futures price and local basis on the date of measurement represents the value determined by the Co-operative at any given point in time.

"Futures" contracts lock-in the futures price at the date of the contract's inception based on the quoted market price for the respective commodity for the contract's expected settlement date. The difference between the futures price at the contract date and futures price on the date of measurement represents the value determined by the Co-operative at any given point in time.

"Basis only" contracts lock-in the local basis at the date of the contract's inception based on the quoted market price for the respective commodity established for the contract's expected settlement date. The difference between the local basis at the contract date and the local basis on the date of measurement represents the value determined by the Co-operative at any given point in time.

At year-end, the Co-operative had open contracts for grain, corn and soybeans traded in an active market with a fair value determined by the Co-operative of $1,416,968 loss (2018 - $5,647,375 loss). These values have been recorded on the balance sheet and the changes in values have been recorded in the statement of earnings.

At year-end, the Co-operative had open contracts for other grain or feed whose fair value cannot be readily determined as no active market is available. As such, the fair value of these open contracts have not been recorded on the balance sheet and any gains or losses are only recorded in the statement of earnings when realized on settlement.

Derivatives - currency contracts qualifying for hedge accounting

As at July 31, 2019, the fair value of currency contracts qualifying for hedge accounting was an unrealized loss of $410,950 (2018 - $2,044,283 unrealized loss) which is not included on the balance sheet. As at July 31, 2019, derivatives qualifying for hedge accounting included certain outstanding forward currency contracts to sell $118,000,000 USD (2018 - $91,500,000 USD) at prices ranging from $1.2831 to $1.3453 (2018 - $1.2191 to $1.3260), with settlement periods ranging from August 2019 to June 2021 (2018 - August 2018 to August 2019).

Guarantee and security on forward currency and option contracts

The outstanding forward currency and option contracts are secured by a guarantee provided by Export Development Canada (EDC) for an amount up to $15,000,000, subject to availability, which extends until December 31, 2019. In exchange for this guarantee, EDC has a third charge over working capital assets of the Co-operative.

17. Financial instruments

Credit risk

Credit risk is the risk of an unexpected loss if a third party fails to meet its contractual obligations. Financial instruments that subject the Co-operative to credit risk consist of cash, accounts receivable, open commodity and foreign exchange contracts and advances paid on open commodity contracts. The Co-operative manages its risk by actively managing the collection process of accounts receivable. The advances paid on open commodity and foreign exchange contracts are held with a publicly traded derivative provider.

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Certain operations of the Co-operative are denominated in U.S. dollars. Accordingly, certain items recorded in the balance sheet are exposed to currency rate fluctuations. As at July 31, 2019, the Co-operative's balance sheet includes the following financial assets (liabilities) denominated in USD:

	2019 $USD	2018 $USD
Cash and cash equivalents	12,482,086	2,557,489
Accounts receivable	23,533,883	29,503,349
Fair value of open commodity and foreign exchange contracts	4,256,943	1,378,849
Advances paid	866,667	4,829,671
Accounts payable and accrued expenses	(1,000,663)	(1,426,002)
Fair value of open commodity and foreign exchange contracts	-	(483,065)
Long-term debt	-	(1,695,878)
	40,138,916	34,664,413

The Co-operative manages its currency risk through the use of derivative instruments (see note 16).

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 market interest rate risk. The Co-operative is exposed to fluctuations in future cash flow interest rate risk on its floating rate long-term debt and is exposed to fair value interest rate risk on its fixed rate long-term debt and special member loans.

Liquidity risk

The Co-operative is exposed to liquidity risk, which is the risk that an entity will encounter difficulty in raising funds to meet cash flow commitments associated with financial instruments including derivatives. The Co-operative manages liquidity risk by reviewing its cash requirements and borrowing base limit on the operating loan for settlement of its obligations. Liquidity requirements are managed based on expected cash flow to ensure there is sufficient capital in order to meet short-term obligations.

The Co-operative is required to advance funds to its commodity and currency derivative provider for any loss in value of the underlying value of the derivatives, dollar for dollar. Conversely, any increase in value of the derivatives held by the Co-operative is advanced by the commodity and currency derivative provider. As a consequence, the Co-operative's cash flow requirements may change significantly on a day-to-day basis.

Commodity price risk

Commodity price risk is the risk of loss arising from adverse changes in commodity rates and prices set by the market. The Co-operative manages commodity price risk through the use of derivative instruments (see note 16).

18. Commitments and contingencies

Operating leases

The Co-operative leases various equipment, property, and vehicles under operating leases. Payments due under the operating leases over the next five years and thereafter are as follows:

		$
Year ending July 31,	2020	4,956,748
	2021	4,384,374
	2022	2,796,713
	2023	1,702,983
	2024 and thereafter	2,524,994
		16,365,812

Capital commitments

As at July 31, 2019, the Co-operative has commitments to commence or continue construction projects at an approximate aggregate cost of $3,360,409 (2018 - $2,881,771) which are expected to be paid out within the upcoming fiscal year.

Insurance

The Co-operative continues to self-insure against certain environmental liability risks. As a result, the Co-operative is exposed to certain risks relating to the occurrence of environmental incidents.

The Co-operative has additional policies with external third party insurers for other types of risks other than property and liability.

19. Pension plan

The Co-operative sponsors a defined contribution pension plan and pension expense for the year is $959,519 (2018 - $950,604).

20. Statutory information

During the year, the Co-operative transacted approximately 41% (2018 - 41%) of its total business with non-members.

The remuneration of directors, as defined by the Co-operative Corporation Act R.S.O. 1990, Chapter C. 35 is $264,492 (2018 - $186,850).

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