GROW WITH US

Hensall CO-OP

2018

ANNUAL REPORT

HENSALL Co-op Locations

CONTENTS

We grow ...

BUSINESS

Message from the
PRESIDENT

'We grow together.' When a group of farmers in South Huron formed our Co-operative, this was their aspiration. The concept was simple - pool resources, combine skills and work together with the conviction that everyone would grow to be stronger and more successful together as part of the group than they would as individuals. Our founders had a vision and a multitude of employees over decades worked hard to create a strong Co-op. We owe them an immeasurable debt of gratitude.

81 years after our founding, we are reporting record revenues in excess of $772 million with the declaration of a patronage dividend to our members of 1% on eligible business. That small group of members has grown to over 6,000. Our footprint has expanded from South Huron to a large part of Southwestern Ontario with a presence in Manitoba. With growers in an even more expansive geography, our impact on the agricultural community goes beyond our physical presence. Many of the products grown by our members are sought after around the world. We have indeed, grown together.

Yet, we look at the past only for inspiration. As we work toward our new vision of being the most sought-after partner and employer delivering value added solutions locally and globally, you can expect Hensall Co-op to increase our focus on growing together.

We will work together

- with our members to grow their businesses by finding new market opportunities and helping them capitalize on them.
- across our business to increase both the efficiency and effectiveness of our service to our members and our customers.
- with our communities to secure a future for our rural economy and way of life.
- with our employees to keep everyone safe and healthy.

Our success will be defined by the strength of our members, our employees, our communities and our Co-op.

This year has been a successful step as we march towards our vision. On behalf of the entire Board, I would like to thank our members for their continued support and patronage. I would also like to thank our talented and dedicated employees for another successful year. We look forward to a prosperous future and, as always, we are proud to be farmer owned.

Steve Jansen

'Many of the products grown by our members are sought after around the world. **We have indeed, grown together'.**

Message from the

CHIEF EXECUTIVE OFFICER

2018 was a pivotal year for Hensall Co-op. In addition to establishing our new vision, we are in the final stages of completing our strategic plan that establishes priorities for our organization. The new strategic direction focuses on delivering value to our customers, growers and members and we have established these strategic objectives to meet this goal:

We Understand: We dig deep to learn more about their goals and what they need to achieve them.
We Solve: We provide cutting edge, user friendly service, customized solutions and the highest quality.
We Drive: We help them achieve higher returns with our solutions and we prove it.

Meeting these objectives will require collaboration. We will succeed only when we work together with our customers around the world, growers and members. What is most exciting is that our success is truly dependent on the success of others. We will grow when we have provided value to others enabling them to grow. In short – we grow together.

While I am excited about our vision and strategy for the future, I do want to take some time to reflect on some of our successes in 2018. We are pleased to report solid financial results with another profitable year on higher revenue. We acquired two businesses in and near Aylmer giving us the capability to provide full service to the growers in this strategic area. By expanding our service offering in Mitchell, Kurtzville and Rignold to include crop protection warehouses, we have made substantial headway on our organic growth strategies. We made investments to increase storage capacity in Rignold and processing capability in Hensall to improve the value stream and strengthen our position in the global bean market. I could provide so many more examples of success because I see them every day across our business but space is limited.

None of our successes would be possible without strong support from so many people who touch our business every day. I take this opportunity to say a heartfelt thank you to:

- our members, customers and industry partners for their continued trust
- our Board of Directors for their passion and commitment
- our employees for their commitment, energy and irrepressible drive to improve.

We would be nothing without you.

Brad Chandler

'We will grow when we have provided value to others enabling them to grow.
In short – we grow together.'

BOARD OF DIRECTORS

Front Row, from left:
Bill Wallace, (Secretary, *Egmondville)*, Robert Cornelis *(Ailsa Craig)*, Terry VanderWal *(Denfield)*, Keith Strang (Past President, *Hensall)*, Peter Dinsmore (Vice-President, *Gorrie)*

Back Row, from left:
Henry Vanderburgt *(Dashwood)*, Sebastian Kraft *(Dungannon)*, Steve Jansen (President, *Seaforth)*, Ed Mosterd *(Shakespeare)*, Aise Van Beets *(Bayfield)*, Jeff Allan *(Brucefield)*

EXECUTIVE COMMITTEE

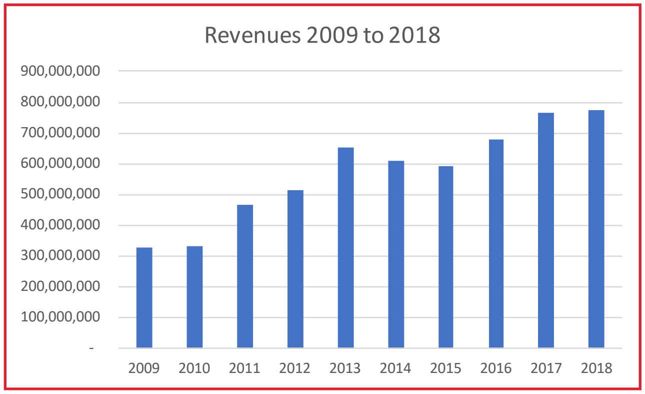
Front Row, from left:

Dave Delbridge *(Feed Sales Manager),* Sharon Mackay *(Corporate Human Resources Manager)*
Brad Chandler *(Chief Executive Officer),* Reta Byvelds *(Feed Business Manager)*
Brad Borland *(Hensall Global General Manager)*

Back Row, from left:

Buddy Richardson *(Controller),* Joey Groot *(Corporate Operations Manager)*
Tyler Conway *(Food Products Administration Manager),*
Derwyn Hodgins *(Commercial Business Manager)* Bob Rowe *(Energy Division Manager),*
Jerry Groot *(Grain Marketing Manager)*

HIGHLIGHTS



Revenues increased by over $6M to $772.6M in 2018

Freight brokerage intermodal volumes increased by

7%
year over year

Proportion of member vs non-member business increased

7½%
year over year to 59%

Propane volume delivered up by

32%
over the previous year

Feed manufacturing efficiency improved with another

5%

reduction in cost.

*Grain intake increased by **2%**

*Total dry beans processed increased by **13%**

*Cash less non-member debt improved by over **$5M**

- Acquired two locations in Aylmer
- Added 2 auger/blower feed delivery units
- Opened commercial fleet maintenance centre in Exeter
- Increased automation of the edible bean plant in Hensall
- Launched new Canada – USA, asset based, dry van freight service
- Opened farm service warehouses in Kurtzville, Mitchell and Rignold
- Launched investment to substantially increase storage capability in Rignold

CORPORATE FINANCE

As a co-operative, we are the embodiment of growing together. Our members receive value with patronage dividends and are given the opportunity to invest at attractive rates. As we move forward, our objective is to be free thinking by identifying opportunities beyond the traditional that create more value. We want to provide our members with more services like our established relationship with Farm Credit Canada to provide pre-harvest financing for prepaid crop inputs with payment deferred until after harvest. Simultaneously, we will continue to increase our use of technology to improve our existing services by providing more real-time information. This will give our members more opportunity to react to the ever-changing agricultural marketplace.

Buddy Richardson
Controller

FOOD PRODUCTS

With access to markets in over 40 countries and world-class processing facilities, our food producers have opportunities to increase their profitability through value-added contracts that pay solid premiums.

In return, our food producers provide us with high quality beans. Their discipline for food safety and traceability allows us to continue to expand our global end-user customer base. We continue to expand our geographic diversification to strengthen our contract performance capability.

Market trends continue to drive a growing demand for our products. As we focus on developing higher yielding varieties, we will continue to grow together with our world-class food producers and end-users.

Derwyn Hodgins
Commercial Business Manager

GRAIN & INGREDIENT MARKETING

Recognizing our growers' time is extremely valuable, we continue to invest in our receiving locations to increase our effectiveness and efficiency not only during harvest, but every day.

We have grown our grain marketing tonnage and have expanded our range of products to include traditional grains, Identity Preserved (IP) soybeans, non-GMO soybeans and bi-products. This growth has allowed us to develop a strong presence in these markets which gives us increasing opportunities to offer solid value to our growers.

We look forward to growing together with our owners in the coming years.

Jerry Groot
Grain Marketing Manager

We grow ... **OPPORTUNITY**

FEED

Our goal every day is to solve problems and provide opportunities. We provide nutrition solutions amid ever increasing complexities driven by market demands, such as reduced antibiotic use and increased biosecurity risks. We strive to make contributions beyond manufacturing and delivering feed – whether by providing marketing opportunities for our growers' grains, providing a mechanism for input commodity risk management or providing unique on-farm service. We want our livestock growers to build successful businesses which contribute to the growth of the livestock industry in our region. The success of our livestock producers becomes our success and we grow together.

Dave Delbridge
Feed Sales Manager

Reta Byvelds
Feed Business Manager

HENSALL GLOBAL

As an asset-light logistics provider, we offer balance in the form of a blended model of service across a wide spectrum of customers. We will utilize our own equipment where that model results in the delivery of optimum value to our customers. Where a different approach is more effective, we will utilize our network of partners including vessel lines, trucking companies, railroads, airlines and logistics agents. This flexibility allows us to present the most efficient and cost-effective solutions to our customers. A balanced investment in physical assets reduces our capital intensity, improves our return on capital employed and allows us the opportunity to grow together with our customers and partners in the value stream.

Brad Borland
Hensall Global General Manager

We grow ...
EMPLOYMENT

ENERGY

We know at the heart of success there is a strong team with shared goals who strives to create added value. We have that team. This past year, with the adoption of new technology solutions, we are enhancing our delivery reliability and efficiency with real-time communication. The results are promising and, over time, this will serve to strengthen the relationships we have with our customers. We continue to build our affiliation with Transit-Chevron Lubricants to provide a "Total Energy Package" which further increases the value we provide to the marketplace.

With our team, our partners and new technology, we are confident we can continue to be the most trusted energy partner in the industry. In so many ways working together provides us the opportunity to grow together.

Bob Rowe
Energy Division Manager

PEOPLE & CULTURE

We strive to be a place where engaged people are inspired to contribute their best towards our core purpose and the legacy we are so proud of. During the past year our team focused on the business … redefining our culture, instilling a strategy leadership mindset, adopting a more disciplined and collaborative approach to business planning, crafting an employee value proposition that attracts, retains, and grows our talent, and developing the infrastructure necessary for everyone to embrace our values of integrity, commitment, innovation, empowerment and working together every day. As we grow together, we are confident the seeds we are planting for tomorrow will take us far beyond the harvests we reap today.

Sharon Mackay
Corporate Human Resources Manager

We grow …
COMMUNITY

OPERATIONS

In the ever-changing environment growers face daily, our goal is to create value by providing solutions at every stage of the growing cycle. Value creation drives every one of our process improvement initiatives as well as our strategic investment decision making. Providing full farm services from strategic locations across our growing regions, identifying and executing ways to improve the efficiency of our global logistics stream, continuing to develop our quality discipline, reducing our environmental footprint and constantly learning about how we can increase our value offering will be key to growing together with the entire community in our growing regions. With world-class processing capability and an effective and conscientious employee group, we continue to command an ever increasing market share of food products around the globe.

Joey Groot
Corporate Operations Manager


Hensall
CO-OP
We grow …
TOGETHER

NOTES

Independent Auditor's Report

To the Members of Hensall District Co-operative, Incorporated

We have audited the accompanying financial statements of Hensall District Co-operative, Incorporated, which comprise the balance sheet as at July 31, 2018 and the statements of earnings and retained earnings and cash flows for the year then ended and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

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

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

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

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

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Hensall District Co-operative, Incorporated as at July 31, 2018 and the results of its operations and its cash flow for the year then ended in accordance with Canadian accounting standards for private enterprises.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

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BALANCE SHEET

As at July 31, 2018

	2018 $	2017 $
Assets (note 13 and 16)		
Current assets		
Cash and cash equivalents	14,966,634	10,450,771
Accounts receivable (note 6)	81,016,043	73,913,415
Fair value of open commodity and foreign exchange contracts (note 16)	1,794,846	12,412,007
Advances paid:		
Open commodity and foreign exchange contracts	6,286,788	2,134,368
Other	698,181	200,000
Inventories (note 7)	88,513,620	83,486,343
Income taxes recoverable	–	123,199
Prepaid expenses	1,418,387	2,623,548
Marketable securities	1,634,642	1,144,791
Future income taxes	1,174,000	–
	197,503,141	186,488,442
Investments (note 8)	915,926	195,878
Property, plant and equipment (note 9)	130,124,179	131,300,679
Intangible assets and goodwill (note 10)	12,095,935	12,230,928
Deferred charges	436,313	261,632
Mortgage receivable	86,444	176,046
Total assets	**341,161,938**	**330,653,605**

Approved by the Board of Directors

President

Vice President

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

BALANCE SHEET *continued*

As at July 31, 2018

Liabilities and member equity	2018 $	2017 $
Current liabilities		
Accounts payable and accrued expenses (note 11)	41,037,204	41,271,835
Fair value of open commodity and foreign exchange amounts (note 16)	6,276,181	6,643,850
Advances received:		
Open commodity and foreign exchange contracts	–	4,216,531
Other	2,244,588	4,324,790
Income taxes payable	1,568,126	–
Short-term demand member loans (note 12)	18,171,328	16,472,725
Current portion of:		
Long-term debt (note 13)	7,088,016	9,820,823
Capital lease obligation	7,556	8,137
Special member loans (note 15)	24,575,983	26,768,998
Future income taxes	–	708,000
	100,968,982	110,235,689
Long-term debt (note 13)	57,770,760	56,006,602
Capital lease obligation	2,034	9,008
Future income taxes	11,148,000	8,922,000
	169,889,776	175,173,299
Member entitlements		
Mandatory member and patronage loans (note 14)	20,698,208	18,925,966
Special member loans (note 15)	114,335,322	101,585,582
Total liabilities	304,923,306	295,684,847
Member equity		
Retained earnings	36,238,623	34,968,758
Total liabilities and member equity	**341,161,938**	**330,653,605**

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, 2018

	2018 $	2017 $
Sales (note 5)	772,642,283	766,385,455
Cost of sales		
Materials	650,773,514	643,056,016
Direct department costs	77,568,108	77,817,792
Amortization	13,114,768	13,660,623
Foreign exchange loss - other	614,674	(1,848,189)
Realized (gains) losses on foreign exchange contracts	(2,724,249)	2,459,560
Change unrealized gain on foreign exchange option contracts	4,648,255	355,227
	743,995,070	735,501,029
Departmental margin	28,647,213	30,884,426
Administration expenses		
General expenses	7,808,946	8,924,185
Amortization	207,860	237,617
	8,016,806	9,161,802
	20,630,407	21,722,624
Interest expense		
Operating loan (note 13)	1,468,153	1,315,662
Long-term debt and capital leases (note 13)	2,386,958	2,748,707
Member loans (notes 14 and 15)	9,025,826	8,466,977
Other	439,563	441,225
	13,320,500	12,972,571
Earnings from operations before the following	7,309,907	8,750,053
Other gains (losses)		
Gain on disposal of property, plant and equipment	73,738	108,263
Net derivative gains and losses and other items (note 16)	(216,431)	186,128
	(142,693)	294,391
Earnings before distributions to members and income taxes	7,167,214	9,044,444
Distributions to members (note 14)		
Patronage dividend	3,625,790	3,339,735
Interest bonus on mandatory member loans	214,550	202,360
	3,840,340	3,542,095
Earnings before income taxes	3,326,874	5,502,349
Income tax expense (recovery)		
Current	1,713,000	-
Future	344,000	1,436,856
	2,057,000	1,436,856
Net earnings for the year	1,269,874	4,065,493
Retained earnings - Beginning of year	34,968,758	30,903,265
Retained earnings - End of year	**36,238,632**	**34,968,758**

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

STATEMENT of CASH FLOWS

For the year ended
July 31, 2018

	2018 $	2017 $
Cash provided by (used in)		
Operating activities		
Net earnings for the year	1,269,874	4,065,493
Payment of patronage dividend	(512,978)	(568,087)
Items not affecting cash		
Amortization of property, plant and equipment	13,187,635	13,729,914
Amortization of intangible assets	134,993	168,326
Amortization of deferred financing charges	230,137	181,105
Change in unrealized gain/loss on open commodity and foreign exchange contracts	10,249,492	(186,408)
Change in unrealized gain on marketable securities	(489,851)	(253,278)
Gain on disposal of property, plant and equipment	(73,738)	(108,263)
Net change in accrued interest on demand and special member loan	2,435,687	2,554,177
Patronage dividend included in net earnings for the year	3,625,790	3,339,735
Future income tax expense	344,000	1,436,856
Effect of exchange rate changes on cash	(219,510)	195,600
	30,181,531	24,555,170
Net change in non-cash working capital balances	(22,202,631)	23,800,716
	7,978,900	48,355,886
Financing activities		
Repayment of long-term debt	(9,778,650)	(11,072,622)
Proceeds on issuance of long-term debt	8,760,000	–
Payment of financing charges	(404,951)	–
Repayment of capital lease obligation	(7,555)	(7,556)
Repayment of other liabilities	–	(400,000)
Net decrease in operating loan	–	(31,305,600)
Repayment of mandatory member and patronage loans	(223,237)	(152,711)
Proceeds on issuance of special member and demand loans	42,125,373	32,542,427
Repayment of special member and demand loans	(32,305,732)	(25,789,952)
	8,165,248	(36,186,014)
Investing activities		
Acquisition of businesses, net of cash received (note 4)	(3,462,617)	–
Collections of mortgage receivable	89,602	36,982
Net change in investments	–	(28,449)
Purchase of property, plant and equipment	(9,060,419)	(10,132,060)
Proceeds on disposal of property, plant and equipment	585,639	266,141
	(11,847,795)	(9,857,386)
Effect of exchange rate changes on cash	219,510	(195,600)
Net increase in cash and cash equivalents	4,515,863	2,116,886
Cash and cash equivalents - Beginning of year	10,450,771	8,333,885
Cash and cash equivalents - End of year	**14,966,634**	**10,450,771**

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

Notes to FINANCIAL STATEMENTS

one

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.

two

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.

three

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%

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-lives 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 associated with the exchange traded futures contracts are included in other gain (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 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.

four

Acquisitions

During the year, 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.

five

Sales

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

	2018 $	2017 $
Edible beans and feed	299,442,588	286,383,332
Grain, corn and soybeans	297,443,132	323,371,635
Retail, wholesale and services	175,756,563	156,630,488
	772,642,283	766,385,455

six

Accounts receivable

Accounts receivable is presented net of allowance for doubtful accounts of $1,848,027 (2017 - $1,921,796).

seven

Inventories

	2018 $	2017 $
Edible beans and feed	37,476,807	33,572,049
Grain, corn and soybeans	36,057,665	37,156,042
Retail, wholesale and services	14,979,148	12,758,252
	88,513,620	83,486,343

eight

Investments

Included in investments is 12,500 (2017 - 12,500) common shares of CanAgri Insurance Alliance SCC representing 8.33% (2017 - 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.

Property, plant and equipment

			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

			2017
	Cost $	Accumulated amortization $	Net $
Land	6,507,250	-	6,507,250
Roadways and services	7,060,845	2,032,582	5,028,263
Buildings	38,727,098	14,690,087	24,037,011
Concrete silos	24,839,306	6,047,478	18,791,828
Steel storage bins	33,075,441	10,998,113	22,077,328
Equipment	113,775,582	67,329,276	46,446,306
Mobile machinery and trucks	15,756,391	8,712,542	7,043,849
Computer equipment	1,912,879	1,790,489	122,390
Construction in progress	1,246,454	-	1,246,454
	242,901,246	111,600,567	131,300,679

The Co-operative recognized amortization expense of $13,187,635 (2017 - $13,729,914) related to property, plant and equipment during the year.

ten

Intangible assets and goodwill

	2018 $	2017 $
Intangible assets		
Cost	2,729,991	2,729,991
Accumulated amortization	(2,321,401)	(2,186,408)
	408,590	543,583
Goodwill	11,687,345	11,687,345
	12,095,935	12,230,928

The Co-operative recognized amortization expense of $134,993 (2017 - $168,326) related to intangible assets during the year.

eleven

Government remittances

Included in accounts payable and accrued expenses are $64,948 of government remittances payable (2017 - $57,163), none of which are in arrears.

twelve

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.

Long-term debt and operating loan facilities

	2018 $	2017 $
Agri-Food Canada term loan, with interest at 0% repayable in monthly installments of $16,667 starting on March 31, 2016, maturity date March 1, 2025	1,481,482	1,703,704
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	33,111,111	35,777,778
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	19,458,889	20,865,556
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	8,711,333	-
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	12,174
Wells Fargo term loan, with interest at 5.330%, repayable in monthly installments of $238,143 USD, including interest on the 16th of the month, maturity date December 16, 2017	-	1,466,993
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	789,159
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	1,732,672
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	1,940,368
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	1,701,522
	64,971,276	65,989,926
Less: Deferred financing charges	112,500	162,501
	64,858,776	65,827,425
Less: Current portion	7,088,016	9,820,823
	57,770,760	**56,006,602**

thirteen continued

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, 2019		7,088,016
	2020	4,829,555
	2021	4,867,056
	2022	4,879,556
	2023	4,879,556
	2024 and thereafter	38,427,537
		64,971,276

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 3.52% (2017 - 2.78%) 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, 2018, no amounts have been drawn on this facility (2017 - $nil).

The Co-operative has $21,000,000 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, 2018, no amounts have been drawn on this facility (2017 - $nil).

fourteen

Mandatory member and patronage loans and member distributions

	2018 $	2017 $
Mandatory member loans - interest at 5%	7,151,650	6,745,350
Patronage loans - non-interest bearing	13,546,558	12,180,616
	20,698,208	18,925,966

On October 11, 2018, the Board of Directors declared that a patronage dividend of $3,625,790 (2017 - $3,339,735) would be paid for the year to members of record as at the year-end date and mandatory member loan bonus interest of $214,550 (2017 - $202,360) 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 predetermined period, with the remaining amount remitted as withholding tax to the tax authorities. This predetermined 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 $512,978 (2017 - $568,087) of patronage dividend was paid out in cash with the remaining balance added to mandatory member and patronage loans.

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:

	2018 $	2017 $
4.00% due 2019 to 2020 (2017 - due 2018 to 2019)	172,000	255,000
4.50% due 2019 to 2022 (2017 - due 2018 to 2019)	13,763,833	13,111,927
5.00% due 2019 to 2022 (2017 - due 2018 to 2021)	20,998,962	19,865,764
5.25% due 2019 to 2025 (2017 - due 2018 to 2025)	2,638,696	2,736,417
5.50% due 2019 to 2022 (2017 - due 2018 to 2021)	12,155,626	14,566,661
5.75% due 2019 to 2022 (2017 - due 2018 to 2022)	19,642,761	18,461,399
6.00% due 2019 to 2025 (2017 - due 2019 to 2024)	4,257,534	3,662,534
6.25% due 2023 (2017 - due 2018 to 2023)	15,000	65,000
6.50% due 2019 to 2025 (2017 - due 2019 to 2024)	10,860,454	7,712,797
6.75% due 2019 to 2028 (2017 - due 2018 to 2027)	6,815,674	5,682,591
7.00% due 2020 to 2021 (2017 - due 2020 to 2021)	700,000	745,000
7.25% due 2019 to 2028 (2017 - due 2019 to 2027)	42,236,241	34,409,078
7.50% due 2019 to 2021 (2017 - due 2019 to 2021)	2,928,645	2,859,011
8.00% due 2019 to 2020 (2017 - due 2018 to 2020)	1,328,792	2,496,955
8.50% due 2019 (2017 - due 2018 to 2019)	397,087	1,715,446
9.50% due 2018	-	9,000
	138,911,305	128,354,580
Less: Current portion	24,575,983	26,768,998
	114,335,322	101,585,582

Included in the above balance of outstanding special member loans is accrued interest of $4,760,578 (2017 - $4,226,620).

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

	$
Year ending July 31, 2019	24,575,983
2020	22,128,157
2021	19,590,970
2022	12,954,873
2023	13,196,564
2024 and thereafter	46,464,758
	138,911,305

Fair value of open commodity and foreign exchange contracts

Derivatives - commodity and currency contracts

As at July 31, 2018, the balance sheet includes an asset associated with an unrealized gain on derivative contracts of $1,794,846 (2017 - $12,412,007) and a liability associated with an unrealized loss on derivative contracts of $628,806 (2017 - $nil). In respect of the commodity derivative contracts, net realized and unrealized gains of $3,291,980 (2017 - $7,299,088) 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:

			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	0.7529 - 0.7799
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	$2,220,000	0.7545 - 0.7715
Forward currency contracts - sell USD	Aug 2018 - Aug 2019	$91,500,000 USD	1.2191 - 1.3260 CAD

			2017
	Dates	**Volume**	**Price US $**
Future contracts - buy wheat	Sep 2017	475,000 bushels	4.8175 - 5.3500
Future contracts - buy corn	Sep 2017 - Dec 2017	1,075,000 bushels	3.7000 - 4.0200
Future contracts - buy soybeans	Sep 2017 - May 2018	1,305,000 bushels	9.1325 - 10.1600
Future contracts - buy soybean meal	Dec 2017 - Mar 2018	3,175 metric tonnes	303.8000 - 334.1000
Future contracts - buy CAD	Sep 2017 - Dec 2017	$12,990,000	0.7350 - 0.8047
Future contracts - sell wheat	Sep 2017 - July 2019	3,075,000 bushels	4.6550 - 6.0725
Future contracts - sell MPLS wheat	Sep 2017 - Sep 2018	195,000 bushels	6.6750 - 8.0400
Future contracts - sell corn	Dec 2017 - July 2019	5,360,000 bushels	3.7650 - 4.3225
Future contracts - sell soybeans	Sep 2017 - Nov 2018	2,925,000 bushels	9.1150 - 10.4575
Future contracts - sell soybean meal	Sep 2017	3,375 metric tonnes	324.3000 - 329.5000
Future contracts - sell canola	Nov 2017	720 metric tonnes	499.6000 - 525.1000
Future contracts - sell CAD	Sep 2017	$470,000,000	0.7414 - 0.8016
Forward currency contracts - sell USD	Aug 2017 - Apr 2018	$9,500,000 USD	1.2926 - 1.3508 CAD
Option contracts - sell USD	Sep 2017 - Mar 2018	$67,500,000 USD	1.3045 - 1.3240 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 2018 and February 2021 (2017 - August 2017 and September 2019). The total amount of the contractual obligation under these purchase contracts is to purchase approximately 564,379 metric tonnes (2017 - 497,642 metric tonnes) of agricultural commodities, based on historical yields of the crops involved, with an estimated current market value of approximately $256,473,513 (2017 - $243,243,984). Of this amount, the Canadian dollar equivalent of $37,521,488 (2017 - $39,822,952) 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 2018 and November 2020 (2017 - August 2017 and March 2020). The total amount of the contractual obligation under these sales contracts is to sell approximately 563,162 metric tonnes (2017 - 499,029 metric tonnes) of agricultural commodities with an estimated current market value of approximately $343,693,176 (2017 - $339,800,650). Of this amount, the Canadian dollar equivalent of $307,759 (2017 - $303,472,698) 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 $5,647,375 loss (2017 - $6,643,850 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, 2018, the fair value of currency contracts qualifying for hedge accounting was an unrealized loss of $2,044,283 (2017 - $2,542,615) which is not included on the balance sheet. As at July 31, 2018, derivatives qualifying for hedge accounting included certain outstanding forward currency contracts to sell $91,500,000 USD (2017 - $33,500,000 USD) at prices ranging from $1.2191 to $1.3260 (2017 - $1.2894 to $1.3640), with settlement periods ranging from August 2018 to August 2019 (2017 - August 2017 to June 2018).

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 $25,000,000, subject to availability, which extends until November 30, 2018. In exchange for this guarantee, EDC has a third charge over working capital assets of the Co-operative.

From time to time the Co-operative will use a credit facility provided by Western Union Business Solutions (WUBS) in connection with the Co-operative's forward currency and option contract positions. This credit facility is secured by a fourth charge over real property and a fifth position over working capital assets of the Co-operative.

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, 2018, the Co-operative's balance sheet includes cash and cash equivalents of $2,557,489 USD (2017 - $4,126,123 USD), accounts receivable of $29,503,349 USD (2017 - $30,299,288 USD), fair value of open commodity and foreign exchange contracts of $1,378,849 USD gain (2017 - $5,648,171 USD gain), accounts payable of $1,426,002 USD (2017 - $1,660,317 USD), fair value of open commodity and foreign exchange contracts of $483,065 USD loss (2017 - $nil USD) and long-term debt of $1,695,878 USD (2017 - $6,111,905 USD). 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).

eighteen

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, 2019	4,370,988
2020	3,261,709
2021	1,982,786
2022	634,960
2023	324,471
2024 and thereafter	2,669,979
	13,244,893

Capital commitments

As at July 31, 2018, the Co-operative has commitments to commence or continue construction projects at an approximate aggregate cost of $2,881,771 (2017 - $544,452) 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.

nineteen

Pension plan

The Co-operative sponsors a defined contribution pension plan and pension expense for the year is $950,604 (2017 - $962,539).

twenty

Statutory information

During the year, the Co-operative transacted approximately 41% (2017 - 49%) 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 $186,850 (2017 - $167,200).

twenty-one

Comparative financial information

Certain comparative financial information has been amended to conform to the current period presentation.

Hensall
519.262.3002 | 1.800.265.5190

Ailsa Craig	519.232.4449
Aylmer	519.773.5169
Aylmer Crops	519.773.2125
Brussels	519.887.9933
Clinton	519.482.3438
Drayton	519.501.0137
Exeter	519.235.1150
Forest	519.786.5424
Greenway	519.238.8701
Kurtzville	519.291.2220 1.877.858.2220
Lakeside	519.349.2243
Londesborough	519.523.4470 1.800.265.9000
Londesborough Mill	519.523.4414
Mitchell	519.393.6010
Mitchell Mill	519.348.8752 1.800.669.3502
Parkhill	519.294.6252
Rignold	204.274.2223
Ripley	519.395.5955 1.855.895.5955
Seaforth	519.522.1000 1.888.522.1112
Swinton Park	519.923.9900
Westfield	519.523.4221
Zurich	519.236.7155 1.800.565.7155

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