



ANNUAL REPORT 2018

LAKE COUNTRY
CO-OPERATIVE
ASSOCIATION LIMITED

Vision

Lake Country Co-op will be the Most Successful Retail Co-operative in Saskatchewan.

Mission

To provide our customers and members with goods and services in a personalized and professional manner.

Values

Honesty, Responsibility, Caring For Others.

You're at home here.



BOARD OF DIRECTORS REPORT

Lake Country Co-operative Association Limited is a retail services co-operative governed by a Board of Directors elected by, and accountable to, the member owners of the Co-operative. The Board acts to protect and enhance the facilities and services in the interest of members, establish policies and set the direction of the Co-operative.

As a Lake Country Co-operative member, you are entitled to a say in our business and to share in the profits. You provide guidance by electing members to serve as delegates. You then trust the delegate body to elect the Co-operative Board of Directors.

The delegate structure is: 15 delegates representing Prince Albert and 36 delegates representing 12 communities, for a total of 51 delegates. The delegates meet twice per year in March and November. There is one annual general member meeting which is held in Prince Albert.

Members wishing to serve as delegates are able to pick up nomination forms at designated branch locations. The nomination and voting procedures are advertised in local paper media and are posted in our locations.

Lake Country Co-op provides training for the Board of Directors through e-learning and training seminars. There are 14 different courses designed to develop the Board of Directors over a period of years. These courses provide training in a variety of board functions including: finance, leadership, effective meetings, equity management, member relations and personal development.

Annually the Board of Directors attend ten regular board meetings, two business planning meetings, two delegate meetings, one annual general members meeting, Federated Co-operatives annual general meeting, Saskatoon region fall conference and the region district meeting. Your Board of Directors has an excellent attendance record.

Board remuneration is set by the delegate body and has aligned Lake Country Board of Directors monthly remuneration as a percentage (60%) of Federated Co-operatives Board per diem. The 2018 Board and Delegate remuneration was: Directors monthly retainer \$308 per month. The President receives an additional \$100 per month and the Secretary and Vice-President receive an additional \$50 per month. Directors attending full day business meetings receive \$154 and \$101 for ½ day meeting. Delegates are paid \$85 per meeting plus mileage.



*Front Row: (L to R) Wayne Kabatoff, Rick Kindrachuk
Back Row: Ian Lauder, Harvey Skea, Roger Mayert,
Dannie Wreford*

Your Co-op continues to grow and is now providing a variety of services to 39,509 members in 16 communities and their surrounding areas.

The Board of Directors approved 1,735 new members in 2018. Equity cash payments to members in 2018 amounted to \$4.9 million.

Your Co-op had a solid year in terms of sales, earnings and patronage allocation from Federated Co-operatives. The Board of Directors has approved a patronage allocation of \$7.8 million. Allocation rates are: Feed 0.5%, Fertilizer 2.0%, Food 3.0%, Crop Supply 3.0%, Pharmacy 3.0% General Merchandise 2.0%, and Petroleum 4.0%. Our continued strong financial position will allow cash repayment of 20% of the current year's allocation and a 30% repayment of the current year's allocation for members with more than \$20,000 in equity. Equity cheques totaling over \$1.5 million will be mailed to members in April.

The Board of Directors would like to thank the elected officials, team leaders and team members for their hard work and the members for their continued support.

SENIOR LEADERSHIP REPORT

OPERATIONS

Senior Leadership is pleased with our financial performance in 2018. Your Co-op surpassed last year's sales by 16.4%, another record year.

We are currently in the second year of a management agreement with Pineland Co-op and both co-ops are benefiting from the relationship. We are also in the third year of a credit agreement with Turtleford & District Co-op which has also been going very well.

After two years of a successful management agreement with Meadow Lake Co-op the decision was made to terminate the agreement as movement towards a long-term partnership slowed.

We operate in a very competitive market in all commodity lines. Our commitment is to serve our members and customers with legendary service and continue building our membership. It is our focus to provide development opportunities in order to allow our teams the best opportunity for success. Our Vision statement is that our Co-operative will be the most successful retail Co-operative in Saskatchewan. To achieve this, we need to be the best operation possible.

In 2018 Lake Country Co-op received the Prince Albert Samuel McLeod Business of the Year Award and the La Ronge Chamber of Commerce Business of the Year Award. As well we were awarded seven Prince Albert – Best of the Best Awards, including Best Place to Work.

CAPITAL INVESTMENT IN COMMUNITIES

Investments and upgrades in numerous communities were made this year. We have experienced many compliments from our members and communities, which have resulted in increased sales. In 2018 the Board approved the purchase of \$10.5 million in physical assets.

The beginning of the year saw the amalgamation of Spiritwood & District Co-operative with Lake Country Co-operative. The first year together has been very successful.

The Prince Albert Agro services relocated from the Prince Albert Home Centre to a site located on 5th Avenue East in Prince Albert. The new Prince Albert Agro Centre has brought the agro team together as one unit and offers professional agronomy services, fertilizer and crop input sales, equipment sales and hardware.

In July 2018, the Prince Albert Food Store was renovated with all new interior décor and new exterior signage. The renovation also included new features such as: a popcorn kitchen, olive bar, upgraded deli and produce displays, significant upgrades to the meat department including full service meat counter and added coolers. The pharmacy department received a significant upgrade to the customer service counter, an enhanced client services room and improved signage.

On December 14th we opened the doors of the new Wine, Spirits & Beer store in the Cornerstone shopping centre in Prince Albert. We are committed to providing our members with a great shopping experience by offering unique services while operating in a socially responsible manner.

Lake Country Co-op continues to look for new opportunities to not only help our Association grow, but also to provide our members with better goods and services. We are focused on being very relevant in our communities and providing as much value as possible to our members.

MEMBER RELATIONS

Your Co-op supports causes that are important to members and their communities including a large number of local charitable organizations and sports teams. In 2018 Lake Country Co-op donated over \$534,000 to over 500 organizations. The Co-op Gift Card program put \$161,057 in cash into the hands of various groups in 2018, an increase of 22% over last year. In addition, significant donations were made to 4-H clubs, Feeding our Future emergency lunch program which provided over 54,000 lunches, Prince Albert and La Ronge Food Banks, Habitat for Humanity, Humboldt Broncos – SJHL Assistance Program, Project Triple Play, Fields of The Future, Canadian Red Cross, the Prince Albert Raiders, various community BBQ fundraisers and many other local groups.

The success of our Co-op is directly related to the support of the members, the guidance of the elected officials and the performance of all team members. We would like to say a very special thank you to our Senior Leadership Team, our Team Leaders and our entire Team Member group. We have an absolutely awesome Team!

Thank you to all for your efforts in making 2018 a tremendously successful year.

HUMAN RESOURCES

Our Vision is to be the most successful retail Co-operative in Saskatchewan and it is only through our people that we can achieve this goal. Our team member complement has grown to nearly 800 people. Our goal is to hire the best possible candidate for the association and to be the employer of choice in all our communities. The majority of our recruitment is accomplished on-line using our web site, social media, Jobshop.ca and Indeed.ca. We also attend career fairs at both provincial universities and local high schools.

We have a strong focus on succession planning, identifying team members with the right competencies and promoting from within. Training is recognized as a valuable investment to our organization with our team members having access to seminars, e-learning, first aid/CPR, WHMIS, food wise, transportation of dangerous goods, fall protection, saw training and train the trainer.

SAFETY

We have signed the Saskatchewan WorkSafe Charter, which is a commitment from Senior Leadership that the company will work towards Mission Zero. Mission Zero means zero sufferings, zero injuries and zero fatalities. In conjunction with our Safety Director, monthly inspections are taking place at all locations. Safety awareness for team members is achieved through safety toolbox meetings, OHC meetings, OHC representative inspections & investigations, hazard identification, risk identification, the availability of 18 AEDs, continued training and active supervision. Our goal is to create a safety culture that is not only deliberate, but also encourages peer to peer safety. In 2018 a Safety Reward Program had been added to encourage and enhance the safety awareness. The safety culture is improving through better communication, consistency of documentations, continued support from Senior Leadership and improved team member commitment toward health and safety.

Management's Responsibility

To the Members of Lake Country Co-operative Association Limited:

Management is responsible for the preparation and presentation of the accompanying financial statements, including responsibility for significant accounting judgments and estimates in accordance with Canadian accounting standards for private enterprises. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Board of Directors and Audit Committee are composed entirely of Directors who are neither management nor employees of the Co-operative. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Board fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management, internal auditors, and external auditors. The Board is also responsible for recommending the appointment of the Co-operative's external auditors.

MNP LLP is appointed by the members to audit the financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Board and management to discuss their audit findings.

February 11, 2019



CEO

Independent Auditors' Report

To the Members of Lake Country Co-operative Association Limited:

Report on the Financial Statements

We have audited the accompanying financial statements of Lake Country Co-operative Association Limited, which comprise the balance sheet as at October 31, 2018, and the statements of net savings, retained savings and cash flows for the year then ended, and 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.

Auditors' 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 auditors' 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 Lake Country Co-operative Association Limited as at October 31, 2018 and the result of its operations, changes in retained savings and its cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises.

Report on Other Legal and Regulatory Requirements

As required by paragraph 11 of the Co-operatives Regulations, 1998, we report that, in our opinion, Canadian accounting standards for private enterprises have been applied on a basis consistent with that of the preceding year.

Prince Albert, Saskatchewan

February 11, 2019

MNP LLP

Chartered Professional Accountants

Lake Country Co-operative Association Limited

Balance Sheet

As at October 31, 2018

	2018	2017
Current assets		
Cash and cash equivalents	\$ 839,694	\$ 1,446,505
Accounts receivable - Customer (Note 5)	24,986,020	18,916,641
- Other	6,237,920	2,743,287
Income taxes recoverable	1,475,509	588,236
Inventories (Note 6)	44,489,678	36,409,392
Prepaid agriculture suppliers	327,119	316,186
Prepaid expenses	123,125	40,127
	78,479,065	60,460,374
Investments		
Federated Co-operatives Limited (Note 4(a))	52,339,173	40,371,269
Other organizations	884	947
Property, plant and equipment (Note 7)	47,345,679	42,287,001
Goodwill (Note 8)	1,502,750	1,502,750
Intangibles (Note 9)	4,750,000	-
Total assets	\$ 184,417,551	\$ 144,622,341
Current liabilities		
Lines of credit (Note 10)	\$ 13,845,819	\$ 7,851,488
Accounts payable and trust liabilities (Note 11)	34,437,101	22,288,635
Customer prepaid accounts	2,832,594	2,068,654
Current portion of long-term debt (Note 12)	536,602	369,217
	51,652,116	32,577,994
Long-term debt (Note 12)	1,262,511	986,465
Total liabilities	52,914,627	33,564,459
Members' equity		
Share capital (Note 13)	65,516,950	58,602,118
Reserves and retained savings (Note 14)	65,985,974	52,455,764
	131,502,924	111,057,882
Total liabilities and members' equity	\$ 184,417,551	\$ 144,622,341

Subsequent event (Note 20)

Contingent liability (Note 22)

Approved on behalf of the Board of Directors

Director

Director

The accompanying notes are an integral part of these financial statements



Lake Country Co-operative Association Limited
Statement of Net Savings and Statement of Retained Savings
For the Year Ended October 31, 2018

	2018	%	2017	%
Sales (Note 15)	\$ 329,073,417	100.0	\$ 282,792,405	100.0
Cost of goods sold	<u>289,495,565</u>	<u>88.0</u>	<u>243,919,557</u>	<u>86.3</u>
Gross margin	<u>39,577,852</u>	<u>12.0</u>	<u>38,872,848</u>	<u>13.7</u>
Expenses				
Operating and administration	47,129,917	14.3	40,029,886	14.2
Net interest (Note 16)	<u>(551,650)</u>	<u>(0.2)</u>	<u>(458,090)</u>	<u>(0.2)</u>
	<u>46,578,267</u>	<u>14.1</u>	<u>39,571,796</u>	<u>14.0</u>
Loss from operations	(7,000,415)	(2.1)	(698,948)	(0.3)
Patronage refunds	<u>20,893,881</u>	<u>6.3</u>	<u>10,705,881</u>	<u>3.8</u>
Savings before income taxes	13,893,466	4.2	10,006,933	3.5
Income taxes (Note 19)	<u>1,660,458</u>	<u>0.5</u>	<u>1,358,174</u>	<u>0.5</u>
Savings before gain on amalgamation	12,233,008	3.7	8,648,759	3.0
Gain on amalgamation (Note 21)	<u>8,864,355</u>	<u>2.7</u>	<u>-</u>	<u>-</u>
Net savings	<u>\$ 21,097,363</u>	<u>6.4</u>	<u>\$ 8,648,759</u>	<u>3.0</u>
Retained savings, beginning of year	\$ -		\$ -	
Net savings	21,097,363		8,648,759	
Transfer to statutory reserve (Note 14)	(757,773)		(501,847)	
Transfer to general reserve (Note 14)	(12,588,800)		(1,615,806)	
Patronage allocation to members (Note 13)	<u>(7,750,790)</u>		<u>(6,531,106)</u>	
Retained savings, end of year (Note 14)	<u>\$ -</u>		<u>\$ -</u>	



Lake Country Co-operative Association Limited

Statement of Cash Flows

For the Year Ended October 31, 2018

	2018	2017
Operating activities		
Net savings	\$ 21,097,363	\$ 8,648,759
Adjustments for:		
Depreciation	5,181,454	4,594,183
FCL patronage refund	(20,893,876)	(10,705,881)
Gain (loss) on the disposal of property, plant and equipment	(68,100)	19,277
Changes in non-cash operating working capital:		
Accounts receivable	(9,564,012)	(7,436,048)
Income taxes recoverable	(887,273)	(77,624)
Inventories	(8,080,286)	(5,782,868)
Prepaid agriculture suppliers	(10,933)	210,081
Prepaid expenses	(82,998)	(2,958)
Accounts payable and trust liabilities	12,148,466	6,076,738
Customer prepaid accounts	763,940	10,229
Cash used for operating activities	(396,255)	(4,446,112)
Investing activities		
Redemption of FCL shares	14,294,200	8,617,333
Increase in FCL shares through amalgamation	(5,368,228)	-
Additions to property, plant and equipment	(10,533,388)	(9,292,320)
Proceeds from the disposal of property, plant and equipment	361,356	146,552
Additions to goodwill	-	(1,502,750)
Additions to intangibles	(4,750,000)	-
Investment in other organizations	63	108
Cash used for investing activities	(5,995,997)	(2,031,077)
Financing activities		
Increase in long-term debt	892,131	369,217
Repayment of long-term debt	(448,700)	(1,105,333)
Share capital issued	17,160	19,410
Unclaimed equity acquired	-	41,073
Share capital issued upon amalgamation	4,829,949	-
GST on allocation	183,609	149,104
Redemption of share capital	(5,683,039)	(4,329,216)
Cash used for financing activities	(208,890)	(4,855,745)
Net decrease in cash and cash equivalents (borrowings)	(6,601,142)	(11,332,934)
Cash and cash equivalents (borrowings), beginning of year	(6,404,983)	4,927,951
Cash borrowings, end of year	\$ (13,006,125)	\$ (6,404,983)
Cash borrowings are comprised of:		
Cash and cash equivalents	\$ 839,694	\$ 1,446,505
Line of credit	(13,845,819)	(7,851,488)
	\$ (13,006,125)	\$ (6,404,983)

The accompanying notes are an integral part of these financial statements



Lake Country Co-operative Association Limited
Notes to the Financial Statements
For the Year Ended October 31, 2018

1. Incorporation and operations

The Lake Country Co-operative Association Limited ("the Co-operative") was incorporated under the Co-operatives Act of Saskatchewan on April 8, 1940. The primary business of the Co-operative is operating retail agricultural, food, home building and petroleum outlets in Prince Albert and area, Saskatchewan.

2. Significant accounting policies

These financial statements have been prepared by management in accordance with Canadian accounting standards for private enterprises. A precise determination of many assets and liabilities is dependent upon future events and consequently, the preparation of these financial statements involves the use of estimates and approximations. Areas subject to estimation include valuation of accounts receivable, inventory, useful life of property, plant and equipment, impairment of long-lived assets, goodwill, intangibles, income taxes, accrued liabilities and potential contingencies. These estimates also affect the disclosure of contingencies at the date of the financial statements and the reported amounts of assets, liabilities, revenues and expenses. Actual results could differ from those estimates.

These financial statements have been prepared to reflect the following significant accounting policies:

(a) Definition of financial year

The Co-operative's financial year ends on the Saturday closest to October 31.

(b) Cash and cash equivalents

Cash and cash equivalents are defined as cash and investments with an initial maturity of less than three months.

(c) Inventories

Inventories are valued using a weighted average formula, first-in first-out method, and the retail method. Inventories are stated at the lower of cost and net realizable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventories by the most appropriate method for that particular inventory class.

The Co-operative estimates net realizable value as the amount that inventories are expected to be sold for, taking into consideration fluctuations of retail price due to seasonality less estimated costs necessary to make the sale. Inventories are written down to net realizable value when the cost of inventories is determined to be not recoverable due to obsolescence, damage or permanent declines in selling prices.

(d) Investments

The Co-operative's investments are accounted for using the cost method. Accordingly, the investments are recorded at acquisition cost, less any provisions for permanent impairment or adjustments for patronage refunds or share redemptions. All transactions with FCL are disclosed in a separate note (Note 4).



Lake Country Co-operative Association Limited
Notes to the Financial Statements
For the Year Ended October 31, 2018

(e) Financial instruments

Financial instruments are recorded at fair value on initial recognition and are subsequently recorded at amortized cost, unless management has elected to carry the instruments at fair value. The Co-operative has not elected to carry any such financial instruments at fair value. Financial instruments, which are subsequently measured at amortized cost, are adjusted by transaction and financing costs incurred on acquisition.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the Co-operative determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the Co-operative could realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

(f) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Depreciation is taken over the estimated useful lives of the assets using the following methods and rates:

Pavement	Declining balance	4% to 8%
Buildings	Straight-line	5 to 25 years
Manufacturing	Declining balance	20%
Furniture & equipment	Declining balance	20%
EDP equipment	Straight-line	20% of original cost
Vehicles	Declining balance	15% & 30%
Dwellings	Straight-line	4% of original cost

In the year of acquisition, depreciation is prorated for the period of use, with the exception of assets acquired from amalgamation which are taken at the full year rate.

Expenditures for maintenance and repairs are charged to operating expenses as incurred. Significant expenditures for improvements are capitalized. Gains or losses realized on the disposal of property, plant and equipment are reflected in operations in the year of disposition.

Claims for assistance under various FCL programs are recorded as a reduction of the cost of related assets in the period in which eligible expenditures are incurred, with any depreciation calculated on the net amount.

Petroleum assets built in connection with an FCL Petroleum Purchase Agreement, along with any corresponding liability, are recorded by the Co-operative upon commissioning of the assets, as FCL retains ownership of the assets until the project is commissioned. Accordingly, any grants and debt financing provided by FCL are recorded at the project commissioning date.

An impairment loss is recognized when the carrying amount of a long-lived asset is not recoverable and exceeds its fair value. No such impairment loss was recorded during the year.



Lake Country Co-operative Association Limited
Notes to the Financial Statements
For the Year Ended October 31, 2018

(g) Asset retirement obligation

The Co-operative has a liability for an asset retirement obligation in the period in which a legal liability is incurred. The liability is based on management's best estimate. The liability is subsequently adjusted for the passage of time, which is recognized as an accretion expense in the statement of operations. The liability is also adjusted due to revisions in either the timing or the amount of the original estimated cash flows associated with the liability. Actual costs incurred upon settlement of the asset retirement obligations are charged against the asset retirement obligation to the extent of the liability recorded.

(h) Share capital

The Co-operative approves an allocation to members subsequent to year end. The amount is recorded as an addition to share capital and a reduction in retained savings. The Co-operative records the redemption of shares that is to be paid to members at the time it has been approved by the Board of Directors.

(i) Revenue recognition

The Co-operative recognizes revenue when evidence of an arrangement exists, delivery or change of ownership has occurred, the price has been determined, and collection is reasonably assured.

(j) Income taxes

The Co-operative follows the taxes payable method whereby only current income tax assets and liabilities are recognized to the extent they remain unpaid or are recoverable. In addition, the benefit relating to a tax loss incurred in the current period and carried back to prior periods is recognized as a current asset. Current income tax assets and liabilities are measured using substantively enacted tax rates and laws expected to apply when the tax liabilities or assets are to be either settled or realized.

(k) Goodwill

Goodwill resulting from business combinations represents the portion of the purchase price that was in excess of the fair value of the net identifiable assets acquired. Goodwill is not amortized and is tested for impairment whenever changes in circumstances indicate that the carrying amount of the reporting unit to which goodwill is assigned exceeds the fair value of the reporting unit. If the carrying value of the reporting unit to which goodwill has been assigned exceeds its fair value, then, with respect to the reporting unit's goodwill, any excess of its carrying value over its fair value is expensed. Impairment losses relating to goodwill cannot be reversed in future years.

(l) Intangibles

Intangible assets with an indefinite life are recorded at cost. Intangibles are tested for impairment when circumstances indicate that the carrying cost may be impaired.



Lake Country Co-operative Association Limited
Notes to the Financial Statements
For the Year Ended October 31, 2018

(m) Business combinations

Business combinations are accounted for using the acquisition method. The application of this method requires certain estimates and assumptions especially concerning the determination of the fair value of the acquired intangible assets, property, plant and equipment, as well as the liabilities assumed at the date of the acquisition, based on information available at that date.

At the acquisition date, the Co-operative recognizes, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the subsidiary. Identifiable assets acquired and liabilities assumed are measured at their acquisition-date fair values. Any non-controlling interest in a subsidiary is measured either at fair value or at the non-controlling interest's proportionate share of the subsidiary's identifiable net assets.

The consideration transferred for each acquisition is measured as the sum of the acquisition-date fair values of the assets transferred, the liabilities incurred, and equity instruments issued by the Co-operative to obtain control of the subsidiary.

3. Financial instruments and risk management

The significant financial risks to which the Co-operative is exposed are credit risk, interest rate risk, liquidity risk, and commodity price risk.

(a) Credit risk

The Co-operative is exposed to credit risk on accounts receivable from its customers. The Co-operative manages credit risk through an active credit management program. The Co-operative does not have a significant exposure to any individual customer.

(b) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in interest rates. Changes in market interest rates may have an effect on cash flows associated with some financial assets and liabilities, known as cash flow risk, and on the fair value of other financial assets or liabilities, known as price risk. The Co-operative's sensitivity to fluctuations in interest rates is limited to its cash and debt. The Co-operative manages its exposure to interest rate risk through floating rate deposits and borrowings.

(c) Liquidity risk

Liquidity risk is the risk that the Co-operative will encounter difficulty in meeting obligations associated with financial liabilities. The Co-operative is exposed to liquidity risk arising primarily from the current obligations. The Co-operative's ability to meet obligations depends on funds generated by its operations.



Lake Country Co-operative Association Limited
Notes to the Financial Statements
For the Year Ended October 31, 2018

(d) Commodity price risk

The Co-operative enters into transactions to purchase crop production products, for which market prices fluctuate. The nature of the Co-operative's activities exposes it to risk of changes in commodity prices related to crop inputs that may occur between the time products are received from the supplier and actual date of sale to customers. To mitigate a portion of this risk, the Co-operative enters into contracts with the supplier to purchase the product at specified prices.

4. Transactions with Federated Co-operatives Limited (FCL)

(a) Patronage refund

The Co-operative, along with other Co-operatives in Western Canada, own FCL. At the end of each year, FCL divides a substantial portion of its net savings among these retail Co-operatives in proportion to the business done by each with FCL. During FCL's fiscal year ended October 31, 2018, the Co-operative purchased goods amounting to \$251,515,531 (2017 - \$210,654,990) from FCL in the normal course of operations.

These purchases resulted in a patronage refund from FCL which was received as non-cash consideration in the form of additional shares in FCL. FCL, based on its available cash flow, redeemed an amount of FCL shares held by the Co-operative. The amounts of the patronage refund and shares redeemed are as follows:

	2018	2017
Opening investment balance	\$ 40,371,269	\$ 38,282,721
Increase in FCL shares from amalgamation	5,368,228	-
Patronage refund	20,893,876	10,705,881
Share redemptions	<u>(14,294,200)</u>	<u>(8,617,333)</u>
Closing investment balance	<u>\$ 52,339,173</u>	<u>\$ 40,371,269</u>

(b) Asset retirement obligation

The Co-operative participates in a contaminated site management program established by FCL to manage its asset retirement obligations. This program limits the Co-operative's liability to \$25,000 per site as long as the Co-operative continues to exercise due diligence. The Co-operative has 22 sites under this program. Management believes that due diligence has been exercised and that the impact of the asset retirement obligation to the Co-operative's financial statements is not significant.

The Co-operative's has five fertilizer sites that are covered under the contaminated site management program established by FCL. Management cannot make a reasonable estimate of the future asset retirement obligation due to the uncertainty of the environmental impact from its fertilizer division.



Lake Country Co-operative Association Limited
Notes to the Financial Statements
For the Year Ended October 31, 2018

(c) Purchase commitments

(i) Under the terms of the agreement with FCL, the Co-operative has committed to purchase petroleum products, at market price, from FCL for its gas bar and cardlock operations over a ten year period commencing from March 2009. Failure to meet this commitment would require the Co-operative to immediately pay outstanding gas bar and cardlock loan balances owed to FCL, plus repay any gas bar and cardlock grants received, including interest on the grants compounded annually at 10% from the grant date. Total grants received during this period amounted to approximately \$8,894,486 (2017 - \$7,657,723). Management intends to fulfill all existing contracts with FCL.

(ii) Under the terms of the agreement with FCL, the Co-operative has committed to purchase petroleum products, at market price, from the FCL corporate bulk plant over a ten year period commencing from August 2013. Failure to meet this commitment would require the Co-operative to pay a portion of the capital costs of the bulk plant to FCL determined by a formula based upon usage. Management intends to fulfill all existing contracts with FCL.

(iii) Under the terms of the agreement with FCL, the Co-operative has committed to purchase fertilizer products, at market price, from FCL over a five year period commencing from July 1, 2015. Failure to meet this commitment would require the Co-operative to pay a termination charge to FCL determined by a formula based on purchases and years remaining in the contract. Management intends to fulfill all existing contracts with FCL.

5. Accounts receivable - customer

Shown net of an allowance for doubtful accounts of \$1,000,000 (2017 - \$600,000).

6. Inventories

	2018	2017
Raw material	\$ 4,920,748	\$ 3,966,153
Work in process	121,315	269,499
Goods for resale	<u>39,447,615</u>	<u>32,173,740</u>
	<u>\$ 44,489,678</u>	<u>\$ 36,409,392</u>



Lake Country Co-operative Association Limited
Notes to the Financial Statements
For the Year Ended October 31, 2018

7. Property, plant and equipment

	Original Cost	Accumulated Depreciation	2018 Book Value	2017 Book Value
Land	\$ 6,376,131	\$ -	\$ 6,376,131	5,112,413
Pavement	8,069,266	3,040,877	5,028,389	4,208,724
Buildings	31,938,455	11,388,058	20,550,397	19,809,449
Manufacturing	3,347,522	2,323,512	1,024,010	1,067,681
Furniture & equipment	19,737,151	12,428,101	7,309,050	5,826,655
EDP equipment	3,914,327	2,883,313	1,031,014	673,782
Vehicles	12,260,894	7,965,461	4,295,433	3,706,676
Dwellings	1,377,959	347,871	1,030,088	774,088
Under construction	701,167	-	701,167	1,107,533
	<u>\$ 87,722,872</u>	<u>\$ 40,377,193</u>	<u>\$ 47,345,679</u>	<u>\$ 42,287,001</u>

Depreciation for the current year included in operating and administration expense was \$5,181,454 (2017 - \$4,594,183)

8. Goodwill

The changes in the carrying amount of goodwill for October 31, 2018 are as follows:

	2018	2017
Balance, beginning of year	\$ 1,502,750	\$ -
Additions to goodwill	-	1,502,750
Impairment losses	-	-
Balance, end of year	<u>\$ 1,502,750</u>	<u>\$ 1,502,750</u>

9. Intangibles

	2018	2017
Licenses, at cost	<u>\$ 4,750,000</u>	<u>\$ -</u>

10. Lines of credit

The Co-operative has a \$4,000,000 margined line of credit, along with a quick loan for \$6,000,000 of which \$9,288,819 has been drawn as at October 31, 2018 (2017 - \$7,851,488). The lines of credit are secured by a Promissory Note and a General Security Agreement, except motorized equipment and a continuing collateral agreement. Interest on the lines of credit are at prime.

The Co-operative has a \$3,770,000 and a \$2,300,000 line of credit with FCL, of which \$4,557,000 has been drawn as at October 31, 2018. The lines of credit are secured by a General Security Agreement and subject to certain non-financial covenants. The Co-operative is in compliance with all covenants and expects to remain in compliance for the next fiscal year. Interest on the lines of credit are at prime.



Lake Country Co-operative Association Limited
Notes to the Financial Statements
For the Year Ended October 31, 2018

11. Accounts payable and trust liabilities

	2018	2017
FCL payables	\$ 28,165,644	\$ 17,113,540
Other payables	5,943,733	4,888,324
Trust liabilities:		
Provincial sales tax	262,512	242,539
Goods and services tax	54,251	33,056
Liquor consumption tax	10,961	11,176
	<u>\$ 34,437,101</u>	<u>\$ 22,288,635</u>

12. Long-term debt

		2018	2018	2017	2017
	Total	Current Portion	Deferred Portion	Current Portion	Deferred Portion
Share Capital					
Repayments ⁽¹⁾	<u>\$ 1,799,113</u>	<u>\$ 536,602</u>	<u>\$ 1,262,511</u>	<u>\$ 369,217</u>	<u>\$ 986,465</u>
	<u>\$ 1,799,113</u>	<u>\$ 536,602</u>	<u>\$ 1,262,511</u>	<u>\$ 369,217</u>	<u>\$ 986,465</u>

⁽¹⁾ The Co-operative pays share capital over-age repayments to its members over a four year timeframe.

The scheduled principal repayments on the long-term debt for the next four years are as follows:

2019	\$ 536,602
2020	420,837
2021	420,837
2022	420,837
	<u>\$ 1,799,113</u>



Lake Country Co-operative Association Limited
Notes to the Financial Statements
For the Year Ended October 31, 2018

13. Share capital

Authorized, unlimited @ \$10	2018	2017
Balance, beginning of year	\$ 58,602,118	\$ 56,350,691
Allocation to members	7,750,790	6,531,106
Amalgamation of Spiritwood Co-operative	4,829,949	-
Cash from new members	17,160	19,410
GST on allocation	183,609	149,104
Shares transferred from reserves	24,182	26,718
	<u>71,407,808</u>	<u>63,077,029</u>
General repayment	2,514,844	1,850,099
Shares transferred to reserves	207,819	145,695
Withdrawals and retirements	2,445,756	1,897,644
Withholding tax	722,439	581,473
	<u>5,890,858</u>	<u>4,474,911</u>
Balance, end of year	<u>\$ 65,516,950</u>	<u>\$ 58,602,118</u>

14. Reserves and retained savings

	Statutory Reserve	General Reserve	Retained Savings	2018	2017
Balance, beginning of year	\$ 13,221,087	\$ 39,234,677	\$ -	\$ 52,455,764	\$ 50,178,061
Net savings distributed to retained savings	-	-	21,097,363	21,097,363	8,648,759
Patronage allocation	-	-	(7,750,790)	(7,750,790)	(6,531,106)
Shares transferred	183,637	-	-	183,637	118,977
Reserve transfers	<u>757,773</u>	<u>12,588,800</u>	<u>(13,346,573)</u>	<u>-</u>	<u>41,073</u>
Balance, end of year	<u>\$ 14,162,497</u>	<u>\$ 51,823,477</u>	<u>\$ -</u>	<u>\$ 65,985,974</u>	<u>\$ 52,455,764</u>



Lake Country Co-operative Association Limited
Notes to the Financial Statements
For the Year Ended October 31, 2018

15. Sales

	2018	2017
Consumer products	\$ 183,708,381	\$ 168,694,689
Agro division	<u>145,365,036</u>	<u>114,097,716</u>
	<u>\$ 329,073,417</u>	<u>\$ 282,792,405</u>

All sales are to external customers and no single customer accounts for more than 10% of sales.

16. Net interest

	2018	2017
Interest expense on short-term debt	\$ 170,540	\$ 122,621
Interest revenue	<u>(722,190)</u>	<u>(580,711)</u>
	<u>\$ (551,650)</u>	<u>\$ (458,090)</u>

17. Leases to others

The Co-operative leases property, plant and equipment to others. The lease is classified as an operating lease and rental revenues are included in operating and administration expenses. The cost of the property, plant and equipment held for leasing purposes is \$4,305,973 (2017 - \$3,409,274) and the accumulated depreciation as at October 31, 2018 is \$1,167,774 (2017 - \$924,992). Revenue generated from operating leases is \$349,900 (2017 - \$77,700).

18. Pension plan

The Co-operative participates in a multi-employer defined contribution plan whereby the Co-operative and participating employees contribute equal amounts up to the maximum allowed under the Income Tax Act. The Co-operative has no unfunded liability under this plan. During the year, the Co-operative recorded \$1,097,966 (2017 - \$873,877) of expense relating to the plan. There were no significant changes to the rate of employer contributions during the year.



Lake Country Co-operative Association Limited
Notes to the Financial Statements
For the Year Ended October 31, 2018

19. Income taxes

The Co-operative accounts for income taxes using the taxes payable method. As a result, the Co-operative's income tax expense varies from the amount that would otherwise result from the application of the statutory income tax rates as set out below:

	2018	2017
Savings before income taxes	\$ 13,893,466	\$ 10,006,933
Expected income tax expense at the combined tax rate of 26.9% (2017 - 26.8%) net of the small business deduction	3,737,342	2,681,858
Increase (decrease) in income tax expense resulting from:		
Non-taxable income and non-deductible expense	(5,101)	26,883
Patronage allocation to members of \$7,750,790 (2017 - \$6,531,106)	(2,084,963)	(1,750,336)
Income or expenses claimed in different periods for income tax purposes:		
Depreciation in excess of capital cost allowance	23,666	68,584
Other items that impact income taxes:		
Manufacturing and Processing Investment Tax Credit	(12,387)	(9,358)
Prior year tax adjustment	1,901	340,543
Income tax expense	\$ 1,660,458	\$ 1,358,174

20. Subsequent event

Patronage allocation to members

Subsequent to October 31, 2018 the Board of Directors approved a patronage allocation to members in the amount of \$7,750,790 (2017 - \$6,531,106).



Lake Country Co-operative Association Limited
Notes to the Financial Statements
For the Year Ended October 31, 2018

21. Spiritwood and District Co-operative amalgamation

Immediately following the Co-operative's 2017 year-end, the Co-operative amalgamated with Spiritwood and District Co-operative Association Limited (the "acquiree"). This amalgamation is accounted for using the acquisition method. This method results in the acquiree's identifiable assets acquired and liabilities assumed being measured at their acquisition date fair values. For amalgamations involving co-operatives, the consideration is deemed to be the amount of the acquiree's share capital at the acquisition date. The following is a summary of the fair value of the assets acquired and liabilities assumed in the amalgamation as well as the deemed consideration and calculation of the gain on amalgamation.

Current assets	\$ 8,917,931
Property, plant and equipment	1,780,424
Other assets	5,368,243
Total net assets	<u>16,066,598</u>
Less: Total net liabilities	2,398,189
Deemed consideration	4,804,054
Gain on amalgamation	<u><u>\$ 8,864,355</u></u>

22. Contingent liability

The Co-operative operates fertilizer properties that may require remediation. The likelihood and amount of any such obligation has not been determined.

23. Operating leases

The Co-operative is committed to an operating lease. Total minimum lease payments are as follows:

2019	\$ 525,200
2020	535,200
2021	535,200
2022	535,200
	<u>2,130,800</u>
	<u><u>\$ 2,130,800</u></u>

24. Comparative figures

Certain comparative figures have been reclassified to conform to current year financial statement presentation. This did not affect prior year earnings.



Lake Country Co-operative Association Limited
Statistical Information
For the Year Ended October 31, 2018

Record of Sales and Net Savings

	Year	Share Repayments	Sales	Net Savings ⁽¹⁾	%
From Date of Incorporation, April 8, 1940, to October 31,	2009	\$ 49,587,416	\$ 2,200,519,188	\$ 130,429,038	5.9
	2010	3,944,789	162,858,778	8,289,260	5.1
	2011	5,044,371	185,722,741	10,837,798	5.8
	2012	5,315,082	194,565,137	10,859,358	5.6
	2013	4,765,704	201,635,448	10,273,549	5.1
	2014	5,117,951	232,435,620	8,938,409	3.8
	2015	4,495,503	234,950,056	9,094,171	3.9
	2016	4,249,707	251,070,801	10,500,119	4.2
	2017	4,329,216	282,792,405	8,648,759	3.1
	2018	5,683,039	329,073,417	21,097,363	6.4
		<u>\$ 92,532,778</u>	<u>\$ 4,275,623,591</u>	<u>\$ 228,967,824</u>	<u>5.4</u>

⁽¹⁾ 2010 and prior years - savings is before income taxes and patronage refund to members.

Membership

Members purchasing during the year	36,093
Inactive members	<u>3,416</u>
Total members	<u>39,509</u>



Lake Country Co-op 2018 Donations \$534,818

100th Birthday Cakes	Children North Early Childhood Intervention Program	Kinistino Spirit Softball Midget
3D Archery Shoot	Churchill Chargers Football	Kinistino Tigers Senior Hockey Team
4H Beef Sale - Prince Albert	Churchill Community High School	Kinsmen Raider Sportsman Dinner
4H Beef Sale - Saskatoon	Civil Air Search & Rescue Association	La Ronge Arts Council
4H Beef Sale - Spiritwood	Communities in Bloom - Festival of Trees	La Ronge Daycare
Ahtahkakoop Blackhawk AA Midgets	Communities in Full Color - Albertville Rec Board	La Ronge Dog Sled Challenge
Ahtahkakoop Concern/Grieving Committee	Communities in Full Color - Duck Lake Nursing Home	La Ronge Figure Skating Club
Almightyvoice Education Centre	Co-operative Development Foundation	La Ronge Fireman Ball
Annual Garnet Ebach Memorial Golf	Co-operative Health Centre Volunteer Appreciation	La Ronge Golf Course Fundraiser
Annual Winter Carnival Debden	Country At The Creek	La Ronge Ice Wolves
Aquadeo Comm Rec	Crystal Springs Rally	La Ronge Library
Arthur Pechey School Band	Cub Hills Wildlife Federation	La Ronge Musical Festival
Ashden School of Dance	Debden Curling Club	La Ronge School Dental Program
Barveenok Ukrainian Dance	Dennis Simonar Charity Golf Tournament	Lakeland & District (Beat the Heat Fundraiser)
Basin Lake Fish & Game	Duck Lake Curling Club	Lakeland Curling Club
Bellevue Rec Board Snowmobile Rally	Ducks Unlimited Canada	Lakeland Early Learning Cooperative
Big Brothers & Big Sisters Bowl for Kids Sake	E.A. Rawlinson Centre	Lakeland Tree Dodgers Snowmobile Club
Big River Boys Broomball	East Central Public School	Lakewood Lodge
Big River Community Centre	Elk Ridge Ladies Golf Fore The Cure	Leask Fish & Game
Big River Curling Club	Emerald Lake Park	Leoville Novice Hockey Tournament
Big River District Rec Group	Energy Doctor Golf Tournament	Leoville Skating Club
Big River High School	Feeding our Future	Leoville Trailriders
Big River Minor Sports	Field of Dreams – Shellbrook	Lions Club Operation Red Nose
Big River Old Theatre Group	Field of Future – Prince Albert	Little Loon Golf Course
Big River Poker Rally	Forbes Bros Ltd Charity Golf Tournament	Little Minnows Daycare
Big River Sports Council	Foxford Snowmobile Rally	Little Wonders Preschool
Birch Hills Fire Department	Fuel Good Day - RRRR 4-H Multiple Club	LLRIB Sucker River Winter Festival
Birch Hills Golf Course	Fuel Good Day - Big River Multiple 4-H Club	MADD Prince Albert
Birch Hills Initiation Hockey	Fuel Good Day - Shellbrook Kinettes	Mann Art Gallery - Wolf Back A Beer
Birch Hills Senior Blackhawks Hockey	Fuel Good Day - Wakaw Lions Club	Marcelin CWL Community Christmas Hamper
Birch Hills Seniors Curling	Fuel Good Day - West PA 4-H Beef Club	Marcelin Volunteer Fire Dept
Blaine Lake School	Grandmothers for Grandmothers Fundraiser	Marcelin Wapit Library
Bora - Padela to point	Habitat for Humanity	Meadow Lake Midget AA Stampeders
Cameo Community Club	Heart and Stroke Foundation	Medstead Central School
Cameo Hall	Help the Vic Golf Classic	Medstead Grad Fundraiser
Camp Living Waters (Youth)	Heritage Society - Threshing Day	Memorial Lake Golf Fundraiser
Canada Day Celebrations - Big River	Hidden Hills Golf Course	Meskanaw Sports Club
Canadian Cancer Society	Hockey Day in Shellbrook	Mixed Provincial Championship PAGCC
Canadian Challenge Sled Dog Race	Homeward Bound	Monty Mixed Spiel
Candle Lake Curling Club	Humboldt Broncos - SJHL Assistance Program	MS Walk - Prince Albert
Candle Lake Golf Resort Fundraiser	InterProvincial Aboriginal Tournament	Muskeg Lake Cree Nation Kid'a Bingo
Canwood 4-H Beef Club	Kachur's Golf Course	Ness Creek Fire & Ice 2018
Canwood 4-H Light Horse Club	Kid's Sport - La Ronge	Ness Creek Music Festival
Canwood Bingo Committee	Kidzfest 2018	North Central Ambulance Association
Canwood Curling Club	Kinette Telemiracle	North Central High School Prov. Basketball
Canwood Diabetes Fundraiser	Kinistino High School	North Sask Special Needs
Canwood Alzheimer Association	Kinistino IP Hockey	Northern Animal Rescue
Canwood Fall Supper	Kinistino Novice Hockey	Northern Fringe Marketing Club
Canwood Golf Course		Northern Lights Bluegrass & Old Tyme Music Festival
Canwood Legion		Northlands College
Canwood School		
Carlton Comprehensive High School		
Chief Moses Ratt School		

NorthSask Special Needs (BBQ Fundraiser)
Osborne School Community Council
PA Chamber of Commerce
PA Indian Metis Friendship Centre
PA Rising Starts Provincial Bowling
Fundraiser
PA Winter Festival Country North Show
PAFF Charity Fundraiser Golf Tournament
Parkside Demo Derby
Prairie Community Endeavors
Prince Albert Addiction Awareness
Committee
Prince Albert Aerials Gymnastics Club
Prince Albert Air Cadets
Prince Albert Arts Board Parts for the Art
Prince Albert Barveenok Uk Dancers
Prince Albert Chuckwagon & Chariot
Prince Albert Exhibition Centre
Prince Albert Female Hockey Tournament
Prince Albert Festival of Dance
Prince Albert Food Bank
Prince Albert Foxes Hockey
Prince Albert Golf & Curling Club
Prince Albert Kiwanis Music Festival
Prince Albert Novice 1 Blackhawks Hockey
Prince Albert Novice I Flyers Hockey
Prince Albert Novice I Sharks Hockey
Prince Albert PeeWee 3 Bruins Hockey
Prince Albert Predators Lacrosse Team
Prince Albert Raiders
Prince Albert Roller Derby League
Prince Albert Rotary Club
Prince Albert Ski League
Prince Albert Summit Run
Prince Albert Titans
Prince Albert Trail Riders
Prince Albert U14 A Astros
Ramsey Bay Snowmobile Rally
Redberry Wildlife Federation
Resort Village of Big Shell - Annual Fish
Derby
Resort Village of Pebble Bay - Fundraiser
BBQ
Ronald McDonald Family Room
Rosegill Lodge
Rotary Club
Royal Canadian Legion
Rural Love 4 Autism
SARCS Bull Riders Canada
Sask Brain Injury Association
Sask PeeWee Penguins
Sask Polytechnic
Sask Stealth Volleyball
Saskatchewan Brain Injury Association
Saskatchewan Conservation Learning Centre

Saskatchewan Cooperative Association
Saskatchewan Livestock Association
SCMA Country Music Awards 2018
Senator Allan Bird Memorial School
Senator Myles Venne School
Shell Lake Curling Club
Shell Lake Fire Funders
Shell Lake Homesteaders Hey Days
Shell Lake Lions
Shell Lake Mud Bogs
Shell Lake Pre-School
Shellbrook Bear Paws Archery Shoot
Shellbrook Curling Rink
Shellbrook Dog Park Committee
Shellbrook Elementary School
Shellbrook Football
Shellbrook Legion
Shellbrook Library
Shellbrook Midget Ball
Shellbrook Midget Rangers
Shellbrook Rec Center
Shellbrook Silvertips Hockey
Shellbrook Summer Fair
Shellbrook Swimming Pool
Shellbrook U19 Rangers Baseball
Smeaton Fire & Resue
Smeaton Rec Center Rally
Spark Theatre
Spirit of the North Bull Sale
Spiritwood Archery Club
Spiritwood Arena
Spiritwood Curling Club
Spiritwood Golf Club
Spiritwood High School
Spiritwood Minor Hockey
Spiritwood Museum
Spiritwood Timberwolves Hockey
Spruce Home Public School
St Louis Curling Club
St Louis Lions Club Snowmobile Rally
St Mary High School
St. Benedict Poker Derby
Struthers Lake Wildlife Association
Sturgeon Lake First Nation - Youth Golf
Torch River Run Dog Sled Race
Tway Snowmobile Rally
Tyson Wilchowy Memorial Committee
U of S College of Nursing (PA)
Ukrainian Canadian Congress of Sask
Victoria Hospital Foundation
W.P. Sandin Public High School
Wakaw & District Curling Club
Wakaw Fire Department
Wakaw IP Hockey
Wakaw Lakers Senior Hockey Team

Wakaw Museum
Wakaw Nursing Home
Wakaw Tykes Hockey
Watsonaires
Weldon Wildlife
Wesmor Public High School
Whispering Pine Place
Whiteswan Snow Hawks Snowmobile Club
Wild Rose Before & After School Program
Witchekan Wildlife Federation
Wolf Country Jamboree
Wounded Warriors Canada
Yellow Creek Community Club
Yellow Creek Rec Board