



ANNUAL REPORT

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 12, 2018



Chief Executive Officer

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, 2017, and the statements of net savings and 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, 2017 and the results of its operations 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 12, 2018

MNP LLP

Chartered Professional Accountants

Lake Country Co-operative Association Limited
Balance Sheet
As at October 31, 2017

	2017	2016
Current assets		
Cash and cash equivalents	\$ 1,446,505	\$ 4,927,951
Accounts receivable - Customer (Note 5)	18,916,641	13,367,825
- Other	2,743,287	856,055
Income taxes recoverable	588,236	510,612
Inventories (Note 6)	36,409,392	30,626,524
Prepaid agriculture suppliers (Note 7)	316,186	526,267
Prepaid expenses	40,127	37,169
	<u>60,460,374</u>	<u>50,852,403</u>
Investments		
Federated Co-operatives Limited (Note 4(a))	40,371,269	38,282,721
Other organizations	947	1,055
Property, plant and equipment (Note 8)	42,287,001	37,754,693
Goodwill (Note 9)	1,502,750	-
Total assets	\$ 144,622,341	\$ 126,890,872
Current liabilities		
Line of credit (Note 10)	\$ 7,851,488	\$ -
Accounts payable and trust liabilities (Note 11)	22,288,635	16,211,897
Customer prepaid accounts	2,068,654	2,058,425
Current portion of long term debt (Note 12)	369,217	942,247
	<u>32,577,994</u>	<u>19,212,569</u>
Long term debt (Note 12)	986,465	1,149,551
Total liabilities	<u>33,564,459</u>	<u>20,362,120</u>
Members' equity		
Share capital (Note 13)	58,602,118	56,350,691
Reserves and retained savings (Note 14)	52,455,764	50,178,061
	<u>111,057,882</u>	<u>106,528,752</u>
Total liabilities and members' equity	\$ 144,622,341	\$ 126,890,872
Subsequent events (Note 20)		
Commitments (Note 21)		
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, 2017

	2017	%	2016	%
Sales (Note 15)	\$ 282,792,405	100.0	\$ 251,070,801	100.0
Cost of goods sold	<u>243,919,557</u>	<u>86.3</u>	<u>215,629,479</u>	<u>85.9</u>
Gross margin	<u>38,872,848</u>	<u>13.7</u>	<u>35,441,322</u>	<u>14.1</u>
Expenses				
Operating and administration	40,029,886	14.2	35,940,852	14.3
Net interest (Note 16)	<u>(458,090)</u>	<u>(0.2)</u>	<u>(429,486)</u>	<u>(0.2)</u>
	<u>39,571,796</u>	<u>14.0</u>	<u>35,511,366</u>	<u>14.1</u>
Loss from operations	(698,948)	(0.3)	(70,044)	-
Patronage refunds	<u>10,705,881</u>	<u>3.8</u>	<u>9,323,727</u>	<u>3.7</u>
Savings before income taxes	10,006,933	3.5	9,253,683	3.7
Income taxes (Note 19)	<u>1,358,174</u>	<u>0.5</u>	<u>888,713</u>	<u>0.4</u>
Net savings before bargain purchase gains	8,648,759	-	8,364,970	3.3
Bargain purchase gains	<u>-</u>	<u>-</u>	<u>2,135,149</u>	<u>0.9</u>
Net savings	<u>\$ 8,648,759</u>	<u>3.1</u>	<u>\$ 10,500,119</u>	<u>4.2</u>
Retained savings, beginning of year	\$ -		\$ -	
Net savings	8,648,759		10,500,119	
Transfer to statutory reserve (Note 14)	(501,847)		(569,443)	
Transfer to general reserve (Note 14)	(1,615,806)		(4,172,649)	
Patronage allocation to members (Note 13)	<u>(6,531,106)</u>		<u>(5,758,027)</u>	
Retained savings, end of year (Note 14)	<u>\$ -</u>		<u>\$ -</u>	

The accompanying notes are an integral part of these financial statements



Lake Country Co-operative Association Limited

Statement of Cash Flows

For the Year Ended October 31, 2017

	2017	2016
Operating activities		
Net savings	\$ 8,648,759	\$ 10,500,119
Adjustments for:		
Depreciation	4,594,183	4,193,901
FCL patronage refund	(10,705,881)	(9,323,727)
Loss on the disposal of property, plant and equipment	19,277	30,766
Changes in non-cash operating working capital:		
Accounts receivable	(7,436,048)	(3,717,077)
Income tax recoverable	(77,624)	(279,624)
Inventories	(5,782,868)	2,714,331
Prepaid agriculture suppliers	210,081	478,706
Prepaid expenses	(2,958)	1,359
Accounts payable	6,076,738	628,707
Customer prepaid accounts	10,229	989,273
Cash (used for) provided by operating activities	<u>(4,446,112)</u>	<u>6,216,734</u>
Investing activities		
Redemption of FCL shares	8,617,333	8,238,230
Additions to property, plant and equipment	(9,292,320)	(4,850,199)
Proceeds from the disposal of property, plant and equipment	146,552	53,478
Additions to goodwill	(1,502,750)	-
Investment in other organization	108	99
Cash (used for) provided by investing activities	<u>(2,031,077)</u>	<u>3,441,608</u>
Financing activities		
Increase in long term debt	369,217	631,013
Repayment of long term debt	(1,105,333)	(2,692,660)
Share capital issued	19,410	20,060
Unclaimed equity acquired	41,073	60,733
GST on allocation	149,104	144,652
Redemption of share capital	(4,329,216)	(4,249,707)
Cash (used for) financing activities	<u>(4,855,745)</u>	<u>(6,085,909)</u>
Net (decrease) increase in cash and cash equivalents	(11,332,934)	3,572,433
Cash and cash equivalents, beginning of year	<u>4,927,951</u>	<u>1,355,518</u>
Cash and cash equivalents (deficiency), end of year	<u>\$ (6,404,983)</u>	<u>\$ 4,927,951</u>
Cash and cash equivalents (deficiency) are comprised of:		
Cash and cash equivalents	1,446,505	4,927,951
Line of credit	(7,851,488)	-
	<u>\$ (6,404,983)</u>	<u>\$ 4,927,951</u>

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, 2017

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, 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 and equipment, impairment of long-lived assets and goodwill, 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, 2017

(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:

Buildings	Straight-line & declining balance	25 - 30 years & 4%
Pavement	Declining balance	4% to 8%
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 taken based on the number of periods of use in the year, 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, 2017

(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.



Lake Country Co-operative Association Limited
Notes to the Financial Statements
For the Year Ended October 31, 2017

(I) 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 operating and long term debt. The Co-operative's ability to meet obligations depends on funds generated by its operations.

(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.



Lake Country Co-operative Association Limited
Notes to the Financial Statements
For the Year Ended October 31, 2017

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, 2017 the Co-operative purchased goods amounting to \$210,654,990 (2016 - \$165,209,190) 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:

	2017	2016
Opening investment balance	\$ 38,282,721	\$ 37,197,224
Patronage refund	10,705,881	9,323,727
Share redemptions	<u>(8,617,333)</u>	<u>(8,238,230)</u>
Closing investment balance	<u>\$ 40,371,269</u>	<u>\$ 38,282,721</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 19 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 5 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, 2017

(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 February 5, 2008. 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 \$7,657,723 (2016 - \$6,974,433). 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 February 9, 2009. 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 \$600,000 (2016 - \$600,000).

6. Inventories

	2017	2016
Raw material	\$ 3,966,153	\$ 4,109,586
Work in process	269,499	-
Goods for resale	<u>32,173,740</u>	<u>26,516,938</u>
	<u><u>\$ 36,409,392</u></u>	<u><u>\$ 30,626,524</u></u>

7. Prepaid agriculture suppliers

	2017	2016
Agrium	\$ -	\$ 492,607
Federated Co-op	-	33,660
Univar	<u>316,186</u>	<u>-</u>
	<u><u>\$ 316,186</u></u>	<u><u>\$ 526,267</u></u>



Lake Country Co-operative Association Limited
Notes to the Financial Statements
For the Year Ended October 31, 2017

8. Property, plant and equipment

	Original Cost	Accumulated Depreciation	2017 Book Value	2016 Book Value
Land	\$ 5,112,413	\$ -	5,112,413	\$ 4,273,049
Pavement	6,841,649	2,632,925	4,208,724	4,366,780
Buildings	30,010,722	10,201,273	19,809,449	18,111,642
Manufacturing	3,250,040	2,182,359	1,067,681	1,211,356
Furniture & equipment	16,910,471	11,083,816	5,826,655	5,637,213
EDP equipment	3,542,505	2,868,723	673,782	649,662
Vehicles	10,821,162	7,114,486	3,706,676	3,309,037
Dwellings	1,073,459	299,371	774,088	140,731
Under construction	1,107,533	-	1,107,533	55,223
	<u>\$ 78,669,954</u>	<u>\$ 36,382,953</u>	<u>\$ 42,287,001</u>	<u>\$ 37,754,693</u>

Depreciation for the current year included in operating and administration expense was \$4,594,183 (2016 - \$4,193,901).

9. Goodwill

The changes in the carrying amount of goodwill are as follows:

	2017	2016
Balance, beginning of year	\$ -	\$ -
Addition to goodwill	1,502,750	-
Balance, end of year	<u>\$ 1,502,750</u>	<u>\$ -</u>

10. Line of credit

The Co-operative has a \$3,912,000 line of credit and a \$10,000 line of credit of which \$1,851,488 have been drawn as at October 31, 2017 (2016 - nil). 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 \$6,000,000 have been drawn as at October 31, 2017. 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.

11. Accounts payable and trust liabilities

	2017	2016
FCL payables	\$ 17,113,540	\$ 10,368,381
Other payables	4,888,324	5,664,912
Trust liabilities:		
Provincial sales tax	242,539	168,002
Goods and Service Taxes	33,056	-
Liquor consumption tax	11,176	10,602
	<u>\$ 22,288,635</u>	<u>\$ 16,211,897</u>



Lake Country Co-operative Association Limited
Notes to the Financial Statements
For the Year Ended October 31, 2017

12. Long term debt

	Total	2017 Current Portion	2017 Deferred Portion	2016 Current Portion	2016 Deferred Portion
FCL ⁽¹⁾	\$ -	\$ -	\$ -	\$ 452,741	\$ -
Share Capital Repayments ⁽²⁾	1,355,682	369,217	986,465	489,506	1,149,551
	<u>\$ 1,355,682</u>	<u>\$ 369,217</u>	<u>\$ 986,465</u>	<u>\$ 942,247</u>	<u>\$ 1,149,551</u>

⁽¹⁾ Federated Co-operatives Limited 2nd Avenue C-Store loan was repaid during the fiscal year.

⁽²⁾ 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:

2018	\$ 369,217
2019	328,882
2020	328,882
2021	328,701
	<u>\$ 1,355,682</u>

13. Share capital

Authorized, unlimited @ \$10	2017	2016
Balance, beginning of year	\$ 56,350,691	\$ 54,813,638
Allocation to members	6,531,106	5,758,027
Cash from new members	19,410	20,060
GST on allocation	149,104	144,652
Shares transferred from reserves	26,718	34,730
	<u>63,077,029</u>	<u>60,771,107</u>
General repayment	1,850,099	1,728,827
Shares transferred to reserves	145,695	170,709
Withdrawals and retirements	1,897,644	1,977,254
Withholding tax	581,473	543,626
	<u>4,474,911</u>	<u>4,420,416</u>
Balance, end of year	<u>\$ 58,602,118</u>	<u>\$ 56,350,691</u>



Lake Country Co-operative Association Limited
Notes to the Financial Statements
For the Year Ended October 31, 2017

14. Reserves and retained savings

	Statutory Reserve	General Reserve	Retained Savings	2017	2016
Balance, beginning of year	\$ 12,559,190	\$ 37,618,871	\$ -	\$ 50,178,061	\$ 45,239,257
Net savings distributed to retained savings	-	-	8,648,759	8,648,759	10,500,119
Patronage allocation	-	-	(6,531,106)	(6,531,106)	(5,758,027)
Shares transferred	118,977	-	-	118,977	135,979
Reserve transfer	41,073	-	-	41,073	60,733
Reserve transfers	<u>501,847</u>	<u>1,615,806</u>	<u>(2,117,653)</u>	<u>-</u>	<u>-</u>
Balance, end of year	<u><u>\$ 13,221,087</u></u>	<u><u>\$ 39,234,677</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 52,455,764</u></u>	<u><u>\$ 50,178,061</u></u>

15. Sales

	2017	2016
Consumer products	\$ 168,694,689	\$ 151,070,930
Agro division	<u>114,097,716</u>	<u>99,999,871</u>
	<u><u>\$ 282,792,405</u></u>	<u><u>\$ 251,070,801</u></u>

The Co-operative's business operations consist of two segments. All sales are to external customers and no single customer accounts for more than 10% of sales.

16. Net interest

	2017	2016
Interest expense on		
- Short term debt	\$ 122,621	\$ 13,692
Interest revenue	<u>(580,711)</u>	<u>(443,178)</u>
	<u><u>\$ (458,090)</u></u>	<u><u>\$ (429,486)</u></u>



Lake Country Co-operative Association Limited
Notes to the Financial Statements
For the Year Ended October 31, 2017

17. Lease 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 \$3,409,274 (2016 - \$3,409,274) and the accumulated depreciation as at October 31, 2017 is \$924,992 (2016 - \$777,495). Revenue generated from operating leases is \$77,700 (2016 - \$224,400).

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 \$873,877 (2016 - \$755,435) of expense relating to the plan. There were no significant changes to the rate of employer contributions during the year.

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:

	2017	2016
Savings before income taxes	\$ 10,006,933	\$ 9,253,683
Expected income tax expense at the combined tax rate of 26.8% (2016 - 26.8%)	2,681,858	2,479,987
Increase (decrease) in income tax expense resulting from:		
Non-taxable income and non-deductible expense	26,883	32,985
Patronage allocation to members of \$6,531,106 (2016 - \$5,758,027)	(1,750,336)	(1,543,151)
Income or expenses claimed in different periods for income tax purposes:		
Depreciation in excess of capital cost allowance	68,584	-
Capital cost allowance in excess of depreciation	-	7,220
Allowance for doubtful accounts	-	(76,371)
Other items that impact income taxes:		
Manufacturing and Processing Investment Tax Credit	(9,358)	(13,302)
Patronage carryforward	-	25
Prior year tax adjustment	340,543	781
Income tax expense	<u>\$ 1,358,174</u>	<u>\$ 888,173</u>



Lake Country Co-operative Association Limited
Notes to the Financial Statements
For the Year Ended October 31, 2017

20. Subsequent events

(a) Patronage allocation to members

Subsequent to October 31, 2017 the Board of Directors approved a patronage allocation to members in the amount of \$6,531,106 (2016 - \$5,758,027).

(b) Spiritwood and District Co-operative amalgamation

Immediately following the Co-operative's 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 cooperatives, the consideration is deemed to be the amount of the acquiree's share capital at the acquisition date. As at the date of these financial statements the fair value of the assets and liabilities have not yet been determined. The following is a summary of the book value of the assets and liabilities for Spiritwood and District Co-operative Association Limited as at the date of the amalgamation.

Current assets	\$ 8,957,761
Other assets	5,368,243
Property, plant and equipment	1,461,993
Total assets	<u>\$ 15,787,997</u>
Current liabilities	\$ 2,485,470
Other liabilities	44,191
Equity	13,258,336
Total liabilities and equity	<u>\$ 15,787,997</u>

21. Commitments

The Co-operative is committed to the completion of a new cardlock location in Prince Albert. The estimated total cost of the project is \$4.3 million of which \$1,107,533 has been recorded as construction in progress as at year end. The remaining balance will be financed from operations or loan.

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. Business Combinations

In 2017, the Co-operative purchased a lumber operation and a C-Store operation. These purchases are accounted for using the acquisition method. This method results in the acquiree's identifiable assets acquired being measured at their acquisition date fair values. The Co-operative purchased capital assets with a fair market value of \$5,547,250 for a cash consideration of \$7,050,000, resulting in \$1,502,750 goodwill being recorded.

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, 2017

Record of Sales and Savings

	<u>Year</u>	<u>Share Repayments</u>	<u>Sales</u>	<u>Net Savings ⁽¹⁾</u>	<u>%</u>
From Date of Incorporation, April 8, 1940, to October 31,	2008	44,331,676	\$ 2,040,933,569	\$ 121,458,077	6.0
	2009	5,255,740	159,585,619	8,970,961	5.6
	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
		<u>\$ 86,849,739</u>	<u>\$ 3,946,550,174</u>	<u>\$ 207,870,461</u>	<u>5.3</u>

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

Membership

Members purchasing during the year	33,571
Inactive members	<u>2,661</u>
Total members	<u>36,232</u>



