

**Co-opérative Régionale de
Nipissing-Sudbury Limited**

**Independent Auditor's Report and
Financial Statements**

September 30, 2017

Independent Auditor's Report

To the Members of Co-opérative Régionale de Nipissing-Sudbury Limited

We have audited the accompanying financial statements of Co-opérative Régionale de Nipissing-Sudbury Limited, which comprise the balance sheet as at September 30, 2017, and the statements of income, retained earnings and general reserve and cash flows for the year ended September 30, 2017 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.

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 judgement, 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 co-operative'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 co-operative'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 that we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report (Continued)

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Co-opérative Régionale de Nipissing-Sudbury Limited as at September 30, 2017 and its financial performance and its cash flows for the year ended September 30, 2017 in accordance with Canadian accounting standards for private enterprises.

Sturgeon Falls, Ontario
December 1, 2017

Collins Barrow SNT LLP

CHARTERED PROFESSIONAL ACCOUNTANTS,
LICENSED PUBLIC ACCOUNTANTS

Co-opérative Régionale de Nipissing-Sudbury Limited

Financial Statements September 30, 2017

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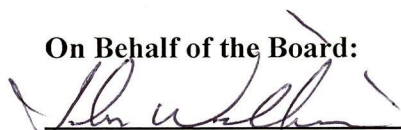
Co-opérative Régionale de Nipissing-Sudbury Limited

Balance Sheet

As at September 30, 2017

	<u>2017</u>	<u>2016</u>
Assets		
Current Assets		
Accounts receivable (note 4)	\$ 5,794,697	\$ 4,679,371
Income taxes receivable	-	213,407
Inventories (note 5)	4,649,618	5,557,813
Prepaid expenses	343,503	287,860
Short-term investments (note 6)	-	105,144
	<u>10,787,818</u>	<u>10,843,595</u>
Long-term investments (note 6)	2,044,658	1,904,315
Property, plant and equipment (note 7)	10,001,222	9,382,982
Intangible assets (note 8)	<u>246,875</u>	<u>384,375</u>
	<u>\$ 23,080,573</u>	<u>\$ 22,515,267</u>
Liabilities		
Current Liabilities		
Bank indebtedness (note 3)	\$ 1,728,763	\$ 2,204,749
Accounts payable and accrued liabilities (note 9)	5,497,343	4,921,389
Income taxes payable	19,688	-
Current portion of long-term debt	<u>196,626</u>	<u>177,543</u>
	7,442,420	7,303,681
Long-term debt (note 10)	3,763,512	3,947,456
Future income taxes	<u>119,171</u>	<u>57,171</u>
	<u>11,325,103</u>	<u>11,308,308</u>
Members' Interest		
Liabilities to Members		
Capital stock (note 11)	<u>6,192,410</u>	<u>5,863,850</u>
Members' Equity		
General reserve	5,000,000	5,000,000
Contributed surplus	65,938	65,675
Retained earnings	<u>497,122</u>	<u>277,434</u>
	<u>5,563,060</u>	<u>5,343,109</u>
	<u>\$ 23,080,573</u>	<u>\$ 22,515,267</u>
Contingencies (note 12)		
Commitments (note 13)		

On Behalf of the Board:

 Director

 Director

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

Co-opérative Régionale de Nipissing-Sudbury Limited
Statement of Retained Earnings and General Reserve
For The Year Ended September 30, 2017

Retained earnings

	<u>2017</u>	<u>2016</u>
Balance, beginning of year	\$ 277,434	\$ 175,062
Net income	<u>219,688</u>	<u>102,372</u>
Balance, end of year	<u><u>\$ 497,122</u></u>	<u><u>\$ 277,434</u></u>

General Reserve

	<u>2017</u>	<u>2016</u>
Balance, beginning and end of year	<u><u>\$ 5,000,000</u></u>	<u><u>\$ 5,000,000</u></u>

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

Co-opérative Régionale de Nipissing-Sudbury Limited
Statement of Income
For The Year Ended September 30, 2017

	<u>2017</u>	<u>2016</u>
Income		
Sales of products	\$ 77,037,263	\$ 67,132,550
Cost of sales	<u>67,532,517</u>	<u>58,201,150</u>
Gross margin	9,504,746	8,931,400
Sales of services	609,263	592,858
Gain on sale of equipment	-	13,240
Other (note 14)	<u>285,506</u>	<u>246,988</u>
	<u>10,399,515</u>	<u>9,784,486</u>
Expenses		
Advertising	90,417	80,956
Amortization	1,331,369	1,211,616
Bad debts and collection costs	64,957	74,322
Data processing	134,578	134,148
Insurance	288,985	258,137
Interest and bank charges	270,419	234,885
Interest on long-term debt	161,481	157,943
Loss on sale of equipment	5,578	-
Office and general	26,482	35,782
Operation and maintenance of vehicles	878,489	815,010
Postage and office supplies	56,754	74,107
Professional services	53,196	45,979
Property rent	60,555	45,519
Property taxes	98,466	92,692
Remuneration and expenses of directors	63,392	46,557
Repairs, maintenance and installations	757,403	605,545
Salaries and benefits	4,891,907	4,865,171
Supplies	57,874	60,807
Telephone	61,266	66,022
Travelling and delegations	81,213	73,746
Water, heat and electricity	<u>397,027</u>	<u>407,979</u>
	<u>9,831,808</u>	<u>9,386,923</u>
Income before income taxes and dividends on preference shares	<u>567,707</u>	<u>397,563</u>
Income taxes		
Current	86,694	76,843
Future	<u>62,000</u>	<u>28,000</u>
	<u>148,694</u>	<u>104,843</u>
Income before dividends on preference shares	419,013	292,720
Dividends on preference shares	<u>199,325</u>	<u>190,348</u>
Net Income	<u>\$ 219,688</u>	<u>\$ 102,372</u>

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

Co-opérative Régionale de Nipissing-Sudbury Limited
Statement of Cash Flows
For The Year Ended September 30, 2017

	<u>2017</u>	<u>2016</u>
Cash and Cash Equivalents Provided By (Used For)		
Operating Activities		
Cash receipts from customers	\$ 76,498,713	\$ 67,411,992
Cash paid to suppliers and employees	(74,097,680)	(66,108,469)
Interest received	253,036	211,428
Interest paid	(431,900)	(392,828)
Income taxes received (paid)	146,401	(258,683)
Dividends paid	(190,348)	(149,593)
	<u>2,178,222</u>	<u>713,847</u>
Investing Activities		
Increase in investments	(35,199)	(186,042)
Purchases of property, plant and equipment	(1,842,159)	(1,703,027)
Proceeds from sale of property, plant and equipment	11,160	35,549
	<u>(1,866,198)</u>	<u>(1,853,520)</u>
Financing Activities		
Decrease in bank indebtedness	(475,986)	(95,551)
Repayment of long-term debt	(164,861)	(137,501)
Proceeds of long-term debt	-	1,035,027
Issuance of capital stock		
- Common	7,070	12,520
- Class A preference	736,900	536,500
Redemption of capital stock		
- Common	(28,370)	(44,270)
- Class A preference	(387,040)	(169,440)
Increase in contributed surplus	263	2,388
	<u>(312,024)</u>	<u>1,139,673</u>
Increase in Cash and Cash Equivalents	-	-
Cash and Cash Equivalents, Beginning of Year	<u>-</u>	<u>-</u>
Cash and Cash Equivalents, End of Year	<u>\$ -</u>	<u>\$ -</u>

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

Co-opérative Régionale de Nipissing-Sudbury Limited

Notes to the Financial Statements

September 30, 2017

1. Nature of Operations

The Co-opérative Régionale de Sudbury-Nipissing Limited (the co-operative), incorporated under the laws of the Co-Operative Corporations Act of the Province of Ontario, sells groceries, hardware, farm supplies, petroleum products and offers grain conditioning and marketing.

2. Significant Accounting Policies

Basis of Preparation

These financial statements are prepared in accordance with Canadian accounting standards for private enterprises. The significant policies are detailed as follows:

Revenue Recognition

Revenue from sales of products is generally recognized at the time the products are shipped to, or picked up by the customers. Revenue from sales of services is recognized when services are rendered to the customers.

Interest income and rental revenues are recognized when earned.

Cash and Cash Equivalents

The co-operative's policy is to disclose bank balances under cash and cash equivalents, including bank overdrafts with balances that fluctuate frequently from being positive to overdrawn and term deposits with a maturity period of three months or less from the date of acquisition. Term deposits that the co-operative cannot use for current transactions because they are pledged as security are also excluded from cash and cash equivalents.

Inventories

Inventories are valued at the lower of cost and net realizable value. Cost has been determined in the following manner:

- retail inventory method and average cost basis for hardware
- retail inventory method for groceries
- average cost basis for feed and fertilizer
- first-in, first-out basis for gasoline, oil, propane and grains

Co-opérative Régionale de Nipissing-Sudbury Limited

Notes to the Financial Statements

September 30, 2017

2. Significant Accounting Policies (Continued)

Property, Plant and Equipment

Property, plant and equipment are recorded at cost less accumulated amortization. The co-operative provides for amortization using the declining balance method at rates designed to amortize the cost of the property, plant and equipment over their estimated useful lives. The annual amortization rates are as follows:

Pavement	4%
Buildings	5% and 10%
Silos	10%
Furniture and equipment	20% and 25%
Tanks and equipment	10% and 20%
Vehicles and accessories	30%

Intangible Assets

Intangible assets consist of customer lists that were acquired through business combinations and were initially recorded at fair value based on the present value of expected future cash flows. The customer lists are carried at cost less accumulated amortization, which is recorded on a straight-line method over the estimated useful life of 10 years. The customer lists are tested for impairment when events or circumstances indicate that the carrying value may not be recoverable.

Financial Instruments

Measurement of financial instruments

The co-operative initially measures its financial assets and financial liabilities at fair value.

The co-operative subsequently measures its financial assets and financial liabilities at amortized cost.

Financial assets measured at amortized cost include cash and cash equivalents, accounts receivable and investments.

Financial liabilities measured at amortized cost include bank indebtedness, accounts payable and accrued liabilities, long-term debt and capital stock.

Co-opérative Régionale de Nipissing-Sudbury Limited
Notes to the Financial Statements
September 30, 2017

2. Significant Accounting Policies (Continued)

Financial Instruments (Continued)

Impairment

Financial assets measured at amortized cost are tested for impairment when there are indicators of possible impairment. When a significant adverse change has occurred during the period in the expected timing or amount of future cash flows from the financial asset or group of assets, a write-down is recognized in net income. The write down reflects the difference between the carrying amount and the higher of:

- ◆ the present value of the cash flows expected to be generated by the asset or group of assets;
- ◆ the amount that could be realized by selling the assets or group of assets; and
- ◆ the net realizable value of any collateral held to secure repayment of the assets or group of assets.

When the events occurring after the impairment confirm that a reversal is necessary, the reversal is recognized in net income up to the amount of the previously recognized impairment.

Future Income Taxes

The co-operative has chosen to account for income taxes using the future income taxes method. Under this method, future income tax assets and liabilities are determined based on differences between the carrying amounts and tax bases of assets and liabilities using enacted or substantively enacted tax rates and laws at the date of the financial statements for the years in which the temporary differences are expected to reverse.

Foreign Currency Transactions

Monetary assets and liabilities of the co-operative for which some are denominated in foreign currencies are translated at year-end exchange rates. Other assets and liabilities are translated at rates in effect at the date the assets were acquired and liabilities incurred. Revenue and expenses are translated at the rates of exchange in effect at their transaction dates. The resulting gains or losses are included in operations.

Co-opérative Régionale de Nipissing-Sudbury Limited

Notes to the Financial Statements

September 30, 2017

2. Significant Accounting Policies (Continued)

Use of Estimates

The preparation of financial statements in conformity with Canadian accounting standards for private enterprises requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Accounts subject to significant estimates include accounts receivable and the corresponding allowance for doubtful accounts, the useful life of property, plant and equipment and the related amortization, intangible assets, accounts payable and accrued liabilities and future income taxes. Actual results could differ from these estimates. These estimates are based on management's best knowledge of current events and actions that the co-operative may undertake in the future.

3. Cash and Cash Equivalents (Bank indebtedness)

	<u>2017</u>	<u>2016</u>
Cash	\$ 248,858	\$ 183,317
Cheques and deposits in circulation	(904,779)	(747,898)
Line of credit		
- Operating (i)	(401,925)	(1,301,211)
- Capital (ii)	<u>(670,917)</u>	<u>(338,957)</u>
	<u>\$ (1,728,763)</u>	<u>\$ (2,204,749)</u>

(i) The co-operative has an authorized line of credit of \$ 4,000,000 (2016 - \$ 4,000,000) bearing interest at the bank's prime lending rate plus 0.25%, which is secured by a debenture on the assets of the co-operative.

(ii) The co-operative has an authorized revolving line of credit for long-term assets of \$1,200,000, in order to finance current and future purchases of vehicles and accessories. This line of credit is repayable in monthly instalments of \$18,956 including interest at the bank's prime lending rate plus 0.25%, and is secured by a debenture on the assets of the co-operative. The co-operative has pledged \$163,000 of the authorized amount as security to La Régie des marchés agricoles et alimentaires du Québec, as a letter of credit, in order to be able to operate in the province of Québec.

Co-opérative Régionale de Nipissing-Sudbury Limited

Notes to the Financial Statements

September 30, 2017

4. Accounts Receivable

	<u>2017</u>	<u>2016</u>
Trade receivables	\$ 5,160,025	\$ 4,473,106
Other receivables	698,143	259,841
Allowance for doubtful accounts	<u>(63,471)</u>	<u>(53,576)</u>
	<u>\$ 5,794,697</u>	<u>\$ 4,679,371</u>

5. Inventories

	<u>2017</u>	<u>2016</u>
Hardware	\$ 952,016	\$ 1,030,602
Groceries	477,734	419,430
Feed and fertilizer	945,985	1,037,091
Petroleum products	678,834	536,526
Grains	<u>1,595,049</u>	<u>2,534,164</u>
	<u>\$ 4,649,618</u>	<u>\$ 5,557,813</u>

6. Investments

	<u>2017</u>	<u>2016</u>
Short-Term		
Term deposit, matured June 8, 2017, bearing an interest rate of 1.10% and pledged as security for loan guarantees (note 12)	<u>\$ -</u>	<u>\$ 105,144</u>
Long-Term		
Shares, at cost - Growmark Inc.	\$ 1,929,030	\$ 1,895,125
- Caisses populaires	9,178	9,190
Term deposit, maturing June 8, 2019, bearing an interest rate of 1.55% and pledged as security for loan guarantees (note 12)	<u>106,450</u>	<u>-</u>
	<u>\$ 2,044,658</u>	<u>\$ 1,904,315</u>

Co-opérative Régionale de Nipissing-Sudbury Limited

Notes to the Financial Statements

September 30, 2017

7. Property, Plant and Equipment

	2017			2016
	Cost	Accumulated Amortization	Net	Net
Land	\$ 489,694	\$ -	\$ 489,694	\$ 489,694
Pavement	209,698	71,050	138,648	144,425
Buildings	3,556,084	1,966,017	1,590,067	1,616,246
Silos	5,743,728	3,039,521	2,704,207	3,000,460
Furniture and equipment	3,614,411	2,346,312	1,268,099	807,085
Tanks and equipment	5,064,076	2,120,389	2,943,687	2,557,873
Vehicles and accessories	2,911,746	2,044,926	866,820	767,199
	<u>\$ 21,589,437</u>	<u>\$ 11,588,215</u>	<u>\$ 10,001,222</u>	<u>\$ 9,382,982</u>

During the year, property, plant and equipment were acquired at an aggregate cost of \$1,842,159 (2016 - \$1,703,027) which were financed by cash payments, long-term debt and the line of credit.

8. Intangible Assets

	2017			2016
	Cost	Accumulated amortization	Net	Net
Customer lists	<u>\$ 1,332,500</u>	<u>\$ 1,085,625</u>	<u>\$ 246,875</u>	<u>\$ 384,375</u>

9. Accounts Payable and Accrued Liabilities

	2017	2016
Trades payable	\$ 4,341,520	\$ 3,721,462
Members' interest payable	358,699	367,379
Health care spending account	10,000	168,065
Government remittances	126,755	110,868
Accrued liabilities	660,369	553,615
	<u>\$ 5,497,343</u>	<u>\$ 4,921,389</u>

Co-opérative Régionale de Nipissing-Sudbury Limited
Notes to the Financial Statements
September 30, 2017

10. Long-Term Debt

	<u>2017</u>	<u>2016</u>
Loan, repayable in monthly instalments of \$23,508, including interest at the fixed rate of 3.65%, due October 30, 2020, secured by a debenture on the assets of the co-operative	\$ 3,743,179	\$ 3,873,751
NOHFC loan, repayable in monthly instalments of \$3,480, including interest at the fixed rate of 3.10%, due May 1, 2023, secured by a debenture on the assets of the co-operative	<u>216,959</u>	<u>251,248</u>
	3,960,138	4,124,999
Current portion	<u>196,626</u>	<u>177,543</u>
	<u>\$ 3,763,512</u>	<u>\$ 3,947,456</u>

Principal repayments required on long-term debt over the next five years are as follows:

2018	\$ 196,626
2019	190,563
2020	197,428
2021	3,307,768
2022	40,232
Thereafter	<u>27,521</u>
	<u>\$ 3,960,138</u>

Co-opérative Régionale de Nipissing-Sudbury Limited
Notes to the Financial Statements
September 30, 2017

11. Capital Stock

Authorized

1,000,000 common shares redeemable at \$10 each

100,000 Class A preference shares, paying a
 non-cumulative 6% dividend,
 redeemable/retractable at \$100 each

	Number of Shares	
	<u>2017</u>	<u>2016</u>
Issued		
Common shares		
Balance, beginning of year	264,771	232,769
Shares issued - patronage dividends	-	35,177
Shares issued	<u>707</u>	<u>1,252</u>
	265,478	269,198
Shares redeemed	<u>2,837</u>	<u>4,427</u>
Balance, end of year	<u>262,641</u>	<u>264,771</u>
Class A preference shares		
Balance, beginning of year	32,161.4	28,490.8
Shares issued	<u>7,369.0</u>	<u>5,365.0</u>
	39,530.4	33,855.8
Shares redeemed	<u>3,870.4</u>	<u>1,694.4</u>
Balance, end of year	<u>35,660.0</u>	<u>32,161.4</u>

The common and Class A preference shares both meet the definition of financial liabilities, in accordance with Canadian accounting standards for private enterprises, since the co-operative must purchase the shares held by a member in the event of a member's death or withdrawal from the co-operative.

Subject to the Co-operative Corporations Act, the Class A preference shares are redeemable, after five years from the date of issue, at the option of the members, repayable in five annual instalments.

Co-opérative Régionale de Nipissing-Sudbury Limited

Notes to the Financial Statements

September 30, 2017

12. Contingencies

Forgivable Loan and Conditional Contribution

During the year ended September 30, 2013, the co-operative entered into two forgivable loan promissory notes with Sobeys Ontario, a division of Sobeys Capital Incorporated amounting to \$24,500 for the purchase of equipment. The amount has been credited directly to equipment. According to the agreement, the co-operative is committed to comply with certain specific conditions for five years and failing this, all or a portion of the forgivable loan may become repayable.

During the year ended September 30, 2016, the co-operative entered into a conditional contribution agreement with the Northern Ontario Heritage Fund Corporation (NOHFC) in the amount of \$112,500 for the purchase of equipment. The amount has been credited directly to equipment. According to the agreement, the co-operative is committed to comply with certain specific conditions for the remainder of the repayment period of the NOHFC loan (note 10) and failing this, all or a portion of the conditional contribution may become repayable.

It is not possible, at this time, to determine the amount, if any, of repayments that may be required under these agreements. Any repayments under these agreements will be recorded directly to equipment in the year the repayments are made.

Loan Guarantees

The co-operative is contingently liable for seasonal credit lines that selected customers have received through an agreement between the co-operative and the Bank of Nova Scotia. The co-operative guarantees a percentage, which could be up to 100%, of the approved credit lines. The maximum amount of exposure to the co-operative as at September 30, 2017 is \$234,612 (2016 - \$224,343). Any amounts required to be paid under these guarantees will be charged to operations in the year the payments are incurred. Under the agreement with the Bank of Nova Scotia, the co-operative has agreed to pledge the term deposit identified in note 6.

Co-opérative Régionale de Nipissing-Sudbury Limited
Notes to the Financial Statements
September 30, 2017

13. Commitments

Operating leases and service contracts

Under the terms of operating leases for equipment, leased premises, and service contracts expiring between October 27, 2017 and September 19, 2023 the co-operative is committed to make minimum payments totalling \$773,398 as follows:

2018	\$ 169,710
2019	170,317
2020	163,881
2021	122,593
2022	79,600
Thereafter	<u>67,297</u>
	<u>\$ 773,398</u>

14. Other Income

	<u>2017</u>	<u>2016</u>
Interest	\$ 253,036	\$ 211,428
Rentals	<u>32,470</u>	<u>35,560</u>
	<u>\$ 285,506</u>	<u>\$ 246,988</u>

15. Pension Plan

The co-operative maintains a defined contribution pension plan. Contributions made to the plan during the year amounted to \$179,538 (2016 - \$177,530). There was no significant change to the pension plan during the year.

16. Statutory Information

	<u>2017</u>	<u>2016</u>
Business transacted with non-members	38%	39%

Co-opérative Régionale de Nipissing-Sudbury Limited

Notes to the Financial Statements

September 30, 2017

17. Joint Arrangements

The co-operative entered into three separate joint arrangements with UPI Inc. These joint arrangements commenced on August 27, 2003, June 27, 2011 and December 1, 2015 respectively, to manage and develop bulk petroleum operations. These arrangements stipulate that the co-operative and UPI Inc. will each hold a 50% interest in the joint arrangements and that all management responsibilities will be conferred to the co-operative which includes the management of certain assets supplied by UPI Inc. and certain assets supplied by the co-operative. Other than fuel and propane tanks with a net book value of \$689,109 which are subject to joint control; the assets supplied by the co-operative continue to be the assets of the co-operative and the assets supplied by UPI Inc. continue to be the assets of UPI Inc.

The co-operative consolidates its proportionate share of the revenues and expenses. A summary of the co-operative's proportionate share of the operation of these joint arrangements are set out below:

	<u>2017</u>	<u>2016</u>
Sales	\$ 7,166,970	\$ 6,070,117
Cost of Sales	<u>6,217,903</u>	<u>5,270,853</u>
Gross Margin	<u>949,067</u>	799,264
Expenses	<u>1,087,913</u>	<u>818,942</u>
Income (Loss) Before Income Taxes	<u>\$ (138,846)</u>	<u>\$ (19,678)</u>

18. Patronage Dividends

The patronage dividends are allocated to members in relation to their purchases of products and services.

Co-opérative Régionale de Nipissing-Sudbury Limited

Notes to the Financial Statements

September 30, 2017

19. Financial Instruments

Transactions in financial instruments may result in an entity assuming or transferring to another party one or more of the financial risks described below. The required disclosures provide information that assists users of financial statements in assessing the extent of risk related to financial instruments.

(a) Fair value

The fair value of current financial assets and current financial liabilities approximates their carrying values due to their short-term maturity date. The fair value of long-term debt is approximately equal to its carrying value since the applicable interest rates are comparable to the market rates. The fair value of investments and capital stock are approximately equal to their carrying values since they are not traded on an active market and have a fixed price.

(b) Liquidity risk

The co-operative does have a liquidity risk in the accounts payable and accrued liabilities of \$5,497,343 (2016 - \$4,921,389). Liquidity risk is the risk that the co-operative cannot repay its obligations when they become due to its creditors. The co-operative reduces its exposure to liquidity risk by ensuring that it documents when authorized payments become due; maintains an adequate line of credit to repay trade creditors and repays long-term debt interest and principal as they become due. In the opinion of management, the liquidity risk exposure to the co-operative is low and not material.

(c) Credit risk

The co-operative does have credit risk in accounts receivable of \$5,794,697 (2016 - \$4,679,371). Credit risk is the risk that one party to a transaction will fail to discharge an obligation and cause the other party to incur a financial loss. The co-operative reduces its exposure to credit risk by performing credit valuations on a regular basis and creating an allowance for bad debts when applicable. The co-operative maintains strict credit policies and limits in respect to counterparties. In the opinion of management, the credit risk exposure to the co-operative is low and is not material.

(d) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises these types of risk: interest rate risk, price risk, and currency risk.

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Notes to the Financial Statements

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19. Financial Instruments (Continued)

(d) Market risk (Continued)

1. Interest rate risk

Interest rate risk is the risk that the co-operative has interest rate exposure on its bank indebtedness and long-term debt which are fixed and variable based on the bank's prime rates. This exposure may have an effect on its earnings in future periods. The co-operative reduces its exposure to interest rate risk by regularly monitoring published bank prime interest rates which have been relatively stable over the period presented. The mortgage receivable and the loans payable that are at fixed term rates do not affect interest rate risk. The co-operative does not use derivative instruments to reduce its exposure to interest rate risk. In the opinion of management, the interest rate risk exposure to the co-operative is low and is not material.

2. Price risk

Price risk is the risk that the contract prices that the co-operative charges are significantly influenced by its competitors and the contract prices that the co-operative must charge to meet its competitors may not be sufficient to meet its expenses. The co-operative reduces its exposure to price risk by ensuring that it obtains information regarding the contract prices that are set by the competitors in the region to ensure that its prices are appropriate. In addition, management closely monitors expenses and matches capital outlays to its revenue stream. In the opinion of management, the price risk exposure to the co-operative is low and is not material.

3. Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The co-operative is exposed to currency risk to the extent of its investment in the shares of Growmark Inc. The co-operative does not use derivative instruments to reduce its exposure to foreign currency risk.

20. Comparative Figures

The presentation of certain accounts of the previous year has been changed to conform with the presentation adopted for the current year.