ANNUAL REPORT 2021

SOUTH COUNTRY CO-OP LIMITED

Management's Responsibility

To the Members of South Country Co-op 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 and ensuring that all information in the annual report is consistent with the statements. 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 is 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.

Brad Dewing

Chief Financial Officer

Independent Auditor's Report

To the Members of South Country Co-op Limited:

Opinion

We have audited the financial statements of South Country Co-op Limited (the "Co-operative"), which comprise the balance sheet as at November 30, 2021, and the statements of net savings and retained savings and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Co-operative as at November 30, 2021, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Co-operative in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor’s report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with 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.

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In preparing the financial statements, management is responsible for assessing the Co-operative's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Co-operative or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Co-operative's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Co-operative's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Co-operative to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Medicine Hat, Alberta

MNP LLP

March 22, 2022

Chartered Professional Accountants

South Country Co-op Limited
Balance Sheet
As at November 30, 2021

		2021	2020
Current assets			
Cash and cash equivalents		$ 954,178	$ 2,443,175
Accounts receivable	- Customer (Note 5)	33,784,941	23,128,938
	- Other	1,415,122	1,290,711
Income taxes recoverable		5,956,945	-
Inventories (Note 6)		64,323,596	62,124,079
Prepaid expenses		720,645	2,040,954
Current portion long-term receivable (Note 7)		838,541	798,431
		107,993,968	91,826,288
Long-term receivable (Note 7)		244,751	479,331
Investments			
Federated Co-operatives Limited (Note 4(a))		64,626,265	53,810,758
Other organizations		321,508	309,540
Property, plant and equipment (Note 8)		78,569,368	77,810,130
Goodwill (Note 9)		8,484,527	8,824,129
Total assets		**$ 260,240,387**	**$ 233,060,176**
Current liabilities			
Line of credit (Note 10)		$ 2,947,627	$ 150,617
Accounts payable and trust liabilities (Note 11)		49,045,588	34,747,560
Customer prepaid accounts		5,507,776	5,364,536
Income taxes payable		-	4,898,780
Current portion of long-term debt (Note 12)		313,781	305,531
		57,814,772	45,467,024
Long-term debt (Note 12)		11,566,437	16,060,411
Total liabilities		69,381,209	61,527,435
Members' equity			
Share capital (Note 13)		77,574,405	69,524,175
Reserves and retained savings (Note 14)		113,284,773	102,008,566
		190,859,178	171,532,741
Total liabilities and members' equity		**$ 260,240,387**	**$ 233,060,176**

Subsequent event (Note 22)
Commitment (Note 23)
Contingent liability (Note 24)

Approved on behalf of the Board of Directors

Tony Steidel — Director

Bill Ressler — Director

The accompanying notes are an integral part of these financial statements

South Country Co-op Limited
Statement of Net Savings and Statement of Retained Savings
For the Year Ended November 30, 2021

	2021	%	2020	%
Sales (Note 15)	$ 511,479,551	100.0	$ 441,407,734	100.0
Cost of goods sold	453,039,412	88.6	381,874,239	86.5
Gross margin	58,440,139	11.4	59,533,495	13.5
Expenses				
Operating and administration	57,185,739	11.2	59,332,036	13.4
Net interest (Note 17)	(628,140)	(0.1)	(711,582)	(0.2)
	56,557,599	11.1	58,620,454	13.2
Savings from operations	1,882,540	0.3	913,041	0.3
FCL loyalty program (Note 4(c)(iii))	10,821,776	2.1	10,065,358	2.3
Patronage refunds	16,881,069	3.3	4,707,081	1.1
Savings before income taxes	29,585,385	5.7	15,685,480	3.7
Income tax expense (Note 20)	840,082	0.2	7,699,288	1.7
Net savings	**$ 28,745,303**	5.5	**$ 7,986,192**	2.0

	2021	2020
Retained savings (deficit), beginning of year	**$ (3,643,566)**	**$ 2,666,397**
Net savings	28,745,303	7,986,192
Transfer to general reserve (Note 14)	(4,879,300)	(2,108,100)
Patronage allocation to members (Note 22)	(17,965,448)	(12,188,055)
Retained savings (deficit), end of year (Note 14)	**$ 2,256,989**	**$ (3,643,566)**

The accompanying notes are an integral part of these financial statements

South Country Co-op Limited
Statement of Cash Flows
For the Year Ended November 30, 2021

	2021	2020
Operating activities		
Net savings	$ 28,745,303	$ 7,986,192
Adjustments for:		
Depreciation	7,457,502	7,455,608
FCL patronage refund	(16,832,966)	(4,656,686)
(Gain) Loss on the disposal of property, plant and equipment	(23,214)	28,666
Write-down of goodwill	339,602	1,148,168
Changes in non-cash operating working capital:		
Accounts receivable	(10,780,414)	8,107,627
Income taxes recoverable	(5,956,945)	2,287,012
Inventories	(2,199,517)	7,988,603
Prepaid expenses	1,320,309	2,039,743
Accounts payable and trust liabilities	14,298,028	(7,482,914)
Customer prepaid accounts	143,240	778,967
Income taxes payable	(4,898,780)	4,898,780
Cash provided by operating activities	11,612,148	30,579,766
Investing activities		
Redemption of FCL shares	6,017,459	20,387,145
Additions to property, plant and equipment	(8,237,353)	(10,951,590)
Proceeds from the disposal of property, plant and equipment	43,827	45,003
Net issuance of long term receivable	194,470	(528,721)
Investment in other organization	(11,968)	(13,230)
Cash provided by (used for) investing activities	(1,993,565)	8,938,607
Financing activities		
Repayment of long-term debt	(305,531)	(297,499)
Change in FCL lines of credit - included in long-term debt	(4,180,193)	(8,789,602)
Share capital issued	11,880	12,370
GST on allocation	376,559	505,528
Redemption of share capital	(9,807,305)	(12,486,722)
Cash used for financing activities	(13,904,590)	(21,055,925)
Net increase (decrease) in cash and cash equivalents	(4,286,007)	18,462,448
Cash and cash equivalents (borrowings), beginning of year	2,292,558	(16,169,890)
Cash and cash equivalents (borrowings), end of year	**$ (1,993,449)**	**$ 2,292,558**
Cash and cash equivalents (borrowings) are comprised of:		
Cash and cash equivalents	$ 954,178	$ 2,443,175
Line of credit	(2,947,627)	(150,617)
	$ (1,993,449)	**$ 2,292,558**

The accompanying notes are an integral part of these financial statements

1. Incorporation and operations

Medicine Hat Co-op Limited was incorporated under the Co-operatives Act of Alberta on April 13, 1956 and South Country Co-op Limited was incorporated under the Co-operatives Act of Alberta on January 16, 1961. On December 1, 2015, the two co-operatives amalgamated to form South Country Co-op Limited ("the Co-operative"). The primary business of the Co-operative is operating retail agriculture, food, liquor, pharmacy, petroleum, and property outlets in Southern Alberta.

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, asset retirement obligations, 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 November 30.

(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).

(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	10 to 25 years & 4% to 10%
Parking lots & dykes	Declining balance	4% to 8%
Tanks	Declining balance	15% to 30%
Furniture & equipment	Declining balance	20%
Computer equipment	Straight-line & declining balance	5 years & 30% to 100%
Vehicles	Declining balance	30%

Construction in progress is not amortized until assets are in use.

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.

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.

(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. Patronage allocations are recognized in earnings when earned by the Co-operative.

(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) Government assistance

The Co-operative recognizes government assistance when there is a reasonable assurance that it will comply with the conditions required to qualify for the assistance, and that the assistance will be received. The Co-operative recognizes government assistance related to the Canada Emergency Wages Subsidy (“CEWS”) as a reduction to the expense which the assistance program is meant to fund.

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 (2020 - no 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 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.

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, 2021, the Co-operative purchased goods amounting to $378,817,965 (2020 - $304,263,418) 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:

	2021	2020
Opening investment balance	$ 53,810,758	$ 69,541,217
Patronage refund	16,832,966	4,656,686
Share redemptions	(6,017,459)	(20,387,145)
Closing investment balance	$ 64,626,265	$ 53,810,758

(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 26 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 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.

(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 December 2011. 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 $8,711,263 (2020 - $11,770,790). 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 2018. 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 at least 90% of its total goods from FCL and commits, to the best of its ability, to use FCL's services. If the eligibility requirements are met, FCL will pay the Co-operative, on a quarterly basis, a Loyalty Payment based on cents per litre. The Loyalty Payment revenue is accrued as earned.

(iv) Under the terms of the agreement with FCL, the Co-operative has committed to purchase all food, pharmacy, and food-related products, from FCL and continue to operate all food stores acquired through the Sobey’s acquisition over a thirty year period commencing from April 2014. Failure to meet this commitment would require the Co-operative to repay the assistance received on a prorated basis. Management intends to fulfill all commitments with FCL.

(v) Under the terms of the agreement with FCL, the Co-operative has committed to purchase fertilizer products at various fertilizer sites, at market price, from FCL over a thirty year period commencing from May 2017. 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.

(vi) Under the terms of the agreement with FCL, the Co-operative has committed to purchase petroleum products, from FCL and continue to operate petroleum sites over periods of ten to thirty years depending on the specific contract. Failure to meet this commitment would require the Co-operative to repay the assistance received on a prorated basis. Total assistance that would be repayable if commitments were not met without FCL approval as at November 2021 amounted to $3,875,124 (2020 - $3,875,124). Management intends to fulfill all commitments with FCL.

(vii) Under the terms of the agreement with FCL, the Co-operative has committed to purchase food, pharmacy, and food-related products, from FCL and continue to operate certain food stores over periods of ten to thirty years depending on the specific contract. Failure to meet this commitment would require the Co-operative to repay the assistance accrued and received on a prorated basis. Total assistance that would be repayable if commitments were not met without FCL approval as at November 2021 amounted to $664,670 (2020 - $388,237). Management intends to fulfill all commitments with FCL.

5. Accounts receivable - customer

Shown net of an allowance for doubtful accounts of $2,600,000 (2020 - $2,600,000).

6. Inventories

	2021	2020
Raw material	$ 9,939,503	$ 7,622,523
Goods for resale	54,384,093	54,501,556
	$ 64,323,596	$ 62,124,079

The cost of inventories recognized as an expense during the year was $452,343,324 (2020 - $381,259,492).

7. Long-term receivable

	Total	**2021** Current Portion	**2021** Deferred Portion	2020 Current Portion	2020 Deferred Portion
Petroleum tanks	$ 1,083,292	$ 838,541	$ 244,751	$ 798,431	$ 479,331

The Co-operative has long-term interest free receivables covering petroleum tank equipment which are recoverable over 3 years. The receivables are secured by the petroleum tank equipment.

8. Property, plant and equipment

	Original Cost	Accumulated Depreciation	**2021** Book Value	2020 Book Value
Land	$ 14,527,042	$ -	$ 14,527,042	$ 14,290,734
Buildings	57,528,446	20,419,344	37,109,102	31,958,165
Parking lots & dyke	16,022,644	4,695,227	11,327,417	8,665,686
Tanks	4,202,536	3,097,375	1,105,161	1,306,326
Furniture & equipment	31,936,809	21,058,478	10,878,331	9,733,980
Computer equipment	7,662,232	6,328,825	1,333,407	1,583,884
Vehicles	9,162,062	6,873,154	2,288,908	2,460,933
Leasehold improvements	251,000	251,000	-	-
Construction in progress	-	-	-	7,810,422
	$ 141,292,771	$ 62,723,403	$ 78,569,368	$ 77,810,130

Depreciation for the current year included in operating and administration expense was $7,457,502 (2020 - $7,455,608).

9. Goodwill

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

	2021	2020
Balance, beginning of year	$ 8,824,129	$ 9,972,297
Additions to goodwill	-	-
Impairment losses	339,602	1,148,168
Balance, end of year	$ 8,484,527	$ 8,824,129

During the year, the Co-operative performed an impairment test related to their reporting units. As a result, the excess of the carrying value over the fair value of a reporting unit in the amount of $339,602 (2020 - $1,148,168) has been reported as a provision for impairment in current year loss.

10. Lines of credit

(a) The Co-operative has a $50,000,000 line of credit with Servus Credit Union of which $2,947,627 has been drawn as at November 30, 2021 (2020 - $nil). The line of credit is secured by a General Security Agreement. Interest on the line of credit is prime rate (2.45%) (2020 - 2.45%). The line of credit is subject to certain measureable covenants. As at November 30, 2021, the Co-operative is in compliance with all such covenants (2020 - in compliance).

(b) The Co-operative has a $1,000,000 line of credit with TD Bank of which no amount has been drawn as at November 30, 2021 (2020 - $150,617). The line of credit is secured by a General Security Agreement and a Land Titles Act mortgage. Interest on the line of credit is prime rate (2.45%) (2020 - 2.45%).

11. Accounts payable and trust liabilities

	2021	2020
FCL payables	$ 41,647,775	$ 27,358,008
Other payables	5,615,754	5,845,854
Trust liabilities:		
Payroll deductions	342,159	266,715
Goods and services tax	20,458	-
Federal fuel charge	1,419,442	971,160
Workers Compensation Board	-	305,823
	$ 49,045,588	$ 34,747,560

12. Long-term debt

	Total	**2021** Current Portion	**2021** Deferred Portion	2020 Current Portion	2020 Deferred Portion
FCL lines of credit (1)	$ 11,244,184	$ -	$ 11,244,184	$ -	$ 15,424,377
FCL loan (2)	636,034	313,781	322,253	305,531	636,034
	$ 11,880,218	$ 313,781	$ 11,566,437	$ 305,531	$ 16,060,411

(1) Federated Co-operatives Limited lines of credit:

(i) The Lomond agro centre line of credit, bearing interest at prime rate, repayable via an annual reduction in available credit, matures June 2027. The loan is subject to certain non-financial covenants. The Co-operative believes it is in compliance with these covenants as at year-end and has been in compliance since the loan start date. Security for the credit is a promissory note and a General Security Agreement covering all present and after acquired assets. The available line of credit decreases as follows:

July 1, 2021- June 30, 2022	$ 2,640,000
July 1, 2022- June 30, 2023	2,200,000
July 1, 2023- June 30, 2024	1,760,000
July 1, 2024- June 30, 2025	1,320,000
July 1, 2025- June 30, 2026	880,000
July 1, 2026- June 30, 2027	440,000

(ii) The Foremost agro centre line of credit, bearing interest at prime rate, repayable via an annual reduction in available credit, matures September 2027. The loan is subject to certain non-financial covenants. The Co-operative believes it is in compliance with these covenants as at year-end and has been in compliance since the loan start date. Security for the credit is a promissory note and a General Security Agreement covering all present and after acquired assets. The available line of credit decreases as follows:

October 1, 2021 - September 30, 2022	$ 5,040,000
October 1, 2022 - September 30, 2023	4,200,000
October 1, 2023 - September 30, 2024	3,360,000
October 1, 2024 - September 30, 2025	2,520,000
October 1, 2025 - September 30, 2026	1,680,000
October 1, 2026 - September 30, 2027	840,000

(iii) The Northlands food store line of credit, bearing interest at prime rate, repayable via an annual reduction in available credit, matures November 2022. The loan is subject to certain non-financial covenants. The Co-operative believes it is in compliance with these covenants as at year-end and has been in compliance since the loan start date. Security for the credit is a promissory note and a General Security Agreement covering all present and after acquired assets. The available line of credit decreases as follows:

December 1, 2020 - November 30, 2021	$ 1,200,000
December 1, 2021 - November 30, 2022	600,000

(iv) The Vauxhall and Oyen Cardlock line of credit, bearing interest at prime rate, repayable via an annual reduction in available credit, matures August 2028. The loan is subject to certain non-financial covenants. The Co-operative believes it is in compliance with these covenants as at year-end and has been in compliance since the loan start date. Security for the credit is a promissory note and a General Security Agreement covering all present and after acquired assets. The available line of credit decreases as follows:

September 1, 2021 - August 31, 2022	$ 2,520,000
September 1, 2022 - August 31, 2023	2,160,000
September 1, 2023 - August 31, 2024	1,800,000
September 1, 2024 - August 31, 2025	1,440,000
September 1, 2025 - August 31, 2026	1,080,000
September 1, 2026 - August 31, 2027	720,000
September 1, 2027 - August 31, 2028	360,000

(v) The Taber Cardlock line of credit, bearing interest at prime rate, repayable via an annual reduction in available credit, matures October 2026. The loan is subject to certain non-financial covenants. The Co-operative believes it is in compliance with these covenants as at year-end and has been in compliance since the loan start date. Security for the credit is a promissory note and a General Security Agreement covering all present and after acquired assets. The available line of credit decreases as follows:

November 1, 2021 - October 31, 2022	$ 1,187,500
November 1, 2022 - October 31, 2023	950,000
November 1, 2023 - October 31, 2024	712,500
November 1, 2024 - October 31, 2025	475,000
November 1, 2025 - October 31, 2026	237,500

(vi) The Dunmore Cardlock line of credit, bearing interest at prime rate, repayable via an annual reduction in available credit, matures November 2028. The loan is subject to certain non-financial covenants. The Co-operative believes it is in compliance with these covenants as at year-end and has been in compliance since the loan start date. Security for the credit is a promissory note and a General Security Agreement covering all present and after acquired assets. The available line of credit decreases as follows:

December 1, 2020 - November 30, 2021	$ 1,360,000
December 1, 2021 - November 30, 2022	1,190,000
December 1, 2022 - November 30, 2023	1,020,000
December 1, 2023 - November 30, 2024	850,000
December 1, 2024 - November 30, 2025	680,000
December 1, 2025 - November 30, 2026	510,000
December 1, 2026 - November 30, 2027	340,000
December 1, 2027 - November 30, 2028	170,000

(vii) The Strachan gas bar/liquor store line of credit, bearing interest at prime rate, repayable via an annual reduction in available credit, matures July 2029. The loan is subject to certain non-financial covenants. The Co-operative believes it is in compliance with these covenants as at year-end and has been in compliance since the loan start date. Security for the credit is a promissory note and a General Security Agreement covering all present and after acquired assets. The available line of credit decreases as follows:

July 5, 2021- July 5, 2022	$ 6,640,000
July 5, 2022- July 5, 2023	5,810,000
July 5, 2023- July 5, 2024	4,980,000
July 5, 2024- July 5, 2025	4,150,000
July 5, 2025- July 5, 2026	3,320,000
July 5, 2026- July 5, 2027	2,490,000
July 5, 2027- July 5, 2028	1,660,000
July 5, 2028- July 5, 2029	830,000

(viii) The Medicine Hat cardlock line of credit, bearing interest at prime rate, repayable via an annual reduction in available credit, matures July 2024. The loan is subject to certain non-financial covenants. The Co-operative believes it is in compliance with these covenants as at year-end and has been in compliance since the loan start date. Security for the credit is a promissory note and a General Security Agreement covering all present and after acquired assets. The available line of credit decreases as follows:

July 15, 2021- July 15, 2022	$ 600,000
July 15, 2022- July 15, 2023	400,000
July 15, 2023- July 15, 2024	200,000

(2) Federated Co-operatives Limited Lomond loan is repayable in annual instalments of $330,954 including interest, with an annual interest rate of 2.7% (2020 - 2.7%). The remaining balance is due in 2023.

The scheduled principal repayments on the long-term debt for the next five years and subsequent are as follows, provided the callable debt is not demanded:

2022	$ 313,781
2023	322,253
2024	489,184
2025	2,877,500
2026	2,877,500
Subsequent payments	5,000,000
	$ 11,880,218

13. Share capital

Authorized, unlimited @ $1	2021	2020
Balance, beginning of year	$ 69,524,175	$ 69,732,280
Allocation to members	17,965,448	12,188,055
Cash from new members	11,880	12,370
GST on allocation	376,559	505,528
Shares transferred from reserves	23,545	59,019
	87,901,607	82,497,252
General repayment	7,697,763	10,035,465
Shares transferred to reserves	519,897	486,355
Withdrawals and retirements	744,198	497,137
Withholding tax	1,365,344	1,954,120
	10,327,202	12,973,077
Balance, end of year	$ 77,574,405	$ 69,524,175

14. Reserves and retained savings (deficit)

	General Reserve	Retained Savings (Deficit)	2021	2020
Balance, beginning of year	$ 105,652,132	$ (3,643,566)	$ 102,008,566	$ 105,783,093
Net savings distributed to retained savings	-	28,745,303	28,745,303	7,986,192
Patronage allocation	-	(17,965,448)	(17,965,448)	(12,188,055)
Shares transferred	496,352	-	496,352	427,336
Reserve transfers	4,879,300	(4,879,300)	-	-
Balance, end of year	$ 111,027,784	$ 2,256,989	$ 113,284,773	$ 102,008,566

15. Sales

	2021	2020
Consumer division	$ 184,255,355	$ 177,183,126
Agro and commercial division	327,224,196	264,224,608
	$ 511,479,551	$ 441,407,734

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

16. Government assistance

In response to the negative economic impact of COVID-19 the Government of Canada has announced the Canada Emergency Wage Subsidy (CEWS) program in April 2020. CEWS provide wage subsidies on eligible remuneration, subject to limits per employee, to eligible employers based on certain criteria, which for CEWS includes demonstration of revenue declines as a result of COVID-19.

The Co-operative has determined that it has qualified for the CEWS. The Co-operative has applied for and has received $2,509,386 which has been reflected as a reduction to operating and administration expenses.

17. Net interest

	2021	2020
Interest expense on		
- Short-term debt	$ 169,895	$ 194,683
- Long-term debt	311,963	466,225
Interest revenue	(1,109,998)	(1,372,490)
	$ (628,140)	$ (711,582)

18. 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. At year end the cost of the property, plant and equipment held for leasing purposes was $8,585,109 (2020 - $8,560,135) and the accumulated depreciation was $6,570,940 (2020 - $6,352,361). Revenue generated from operating leases during the year is $733,972 (2020 - $596,002).

19. 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 $1,129,837 (2020 - $1,154,118) of expense relating to the plan. There were no significant changes to the rate of employer contributions during the year.

20. Income tax expense

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:

	2021	2020
Savings before income taxes	$ 29,585,385	$ 15,685,480
Expected income tax expense at the combined tax rate of 23% (2020 - 24.2%) net of the general rate reduction	6,804,639	3,795,886
Increase (decrease) in income tax expense resulting from:		
Non-taxable income and non-deductible expense	1,005,521	318,754
Deferral of patronage income inclusion	(2,800,545)	6,528,049
Patronage allocation to members of $17,965,448 (2020 - $12,188,055)	(4,132,053)	(2,949,509)
Income or expenses claimed in different periods for income tax purposes:		
Capital cost allowance in excess of depreciation	(309,560)	(16,959)
Other items that impact income taxes:		
Prior year tax adjustment	272,080	23,067
Income tax expense	$ 840,082	$ 7,699,288

21. Economic conditions

In March 2020, there was a global outbreak of COVID-19 (coronavirus), which has had a significant impact on businesses through the restrictions put in place by the Canadian, provincial and municipal governments regarding travel, business operations and isolation/quarantine orders. The Co-operative's operations were impacted by COVID-19 due to increased customer demand in some circumstances as well as supply chain disruptions. The impact of COVID-19 has been partially offset by available government programs for which the Co-operative was eligible. The future impact the COVID-19 outbreak may have on the Co-operative is unknown as this will depend on future developments that are highly uncertain and that cannot be predicted with confidence.

22. Subsequent event

Patronage allocation to members

Subsequent to November 30, 2021 the Board of Directors approved a patronage allocation to members in the amount of $17,965,448 (2020 - $12,188,055).

23. Commitment

The Co-operative is committed to the completion of a food store upgrade in Medicine Hat, Alberta. The estimated cost is $2,407,410 of which no amount has been setup as construction in progress. This amount will be financed with internally generated cash flows.

24. Contingent liability

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

25. Operating leases

(a) The Co-operative has entered into a lease agreement for a gas bar in Redcliff, Alberta. The lease expires on February 28, 2034. The rent is for a fixed monthly lease payment of $4,200.

(b) The Co-operative has entered into a lease agreement for the 13th Ave Liquor Store in Medicine Hat, Alberta. The rent is for a fixed monthly lease payment of $5,833 and is leased on a month to month basis.

(c) The Co-operative has entered into a lease agreement for the Redcliff Liquor Store in Redcliff, Alberta. The lease expires on September 30, 2023. The rent is for a fixed monthly lease payment of $4,470.

(d) The Co-operative has entered into a lease agreement for an agro operation in Broxburn, Alberta. The rent is for a fixed monthly lease payment of $6,500 and is leased on a month to month basis.

(e) The Co-operative has entered into a lease agreement for an agro operation in Broxburn, Alberta. The lease expires on November 30, 2024. The rent is for a fixed monthly lease payment of $12,200.

(f) The Co-operative has entered into a lease agreement for NH3 land in Medicine Hat, Alberta. The lease expires on August 31, 2025. The rent is for a fixed annual lease payment of $9,500.

(g) The Co-operative has entered into a lease agreement for the Brooks Liquor Store in Brooks, Alberta. The lease expires on November 30, 2024. The rent is for a fixed monthly lease payment of $6,357.

(h) The Co-operative has entered into a lease for Westgate land in Lethbridge, Alberta. The lease expires on January 31, 2034. The rent is for a fixed monthly lease payment of $11,500.

(i) The Co-operative has entered into a lease agreement for a Bulk Lube/DEF Storage in Duchess, Alberta. The rent is for a fixed monthly lease payment of $3,000 and is leased on a month to month basis.

(j) The Co-operative has entered into a lease agreement for the Brooks Gas Bar in Brooks, Alberta. The lease expires on October 31, 2029. The rent is for a fixed monthly lease payment of $1,250.

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

2022	$ 500,018
2023	493,879
2024	451,984
2025	229,300
2026	219,800
Subsequent payments	1,722,150
	$ 3,617,131

26. Comparative figures

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