



# ANNUAL REPORT

## Management's Responsibility

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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.

March 19, 2024

*Brad Dewing*

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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, 2023, 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, 2023, 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.

## 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.

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

March 15, 2024

*MNP LLP*

Chartered Professional Accountants

**South Country Co-op Limited**  
**Balance Sheet**  
**As at November 30, 2023**

	<b>2023</b>	<b>2022</b>
<b>Current assets</b>		
Cash	\$ 3,432,980	\$ 2,262,644
FCL special deposit (Note 4(a))	7,237,766	-
Accounts receivable (Note 5)	32,853,279	50,860,373
Income taxes recoverable	3,462,869	6,419,409
Inventories (Note 6)	61,133,697	72,004,105
Prepaid expenses	3,054,733	6,404,920
Current portion long-term receivable (Note 7)	789,681	1,099,881
	111,965,005	139,051,332
<b>Long-term receivable</b> (Note 7)	638,603	462,862
<b>Investments</b>		
Federated Co-operatives Limited (Note 4(b))	75,039,573	68,697,611
Other organizations	368,188	332,526
<b>Property, plant and equipment</b> (Note 8)	76,571,419	76,083,716
<b>Intangible assets</b> (Note 9)	130,451	362,741
<b>Goodwill</b> (Note 10)	6,096,150	7,296,301
<b>Total assets</b>	<b>\$ 270,809,389</b>	<b>\$ 292,287,089</b>
<b>Current liabilities</b>		
Line of credit (Note 11)	\$ -	\$ 14,777,603
Accounts payable and trust liabilities (Note 12)	44,315,169	56,038,073
Customer prepaid accounts	5,250,241	6,501,570
Current portion of long-term debt (Note 13)	-	322,253
	49,565,410	77,639,499
<b>Long-term debt</b> (Note 13)	-	5,552,340
<b>Total liabilities</b>	49,565,410	83,191,839
<b>Members' equity</b>		
Share capital (Note 14)	88,943,276	85,914,273
Reserves and retained savings (Note 15)	132,300,703	123,180,977
	221,243,979	209,095,250
<b>Total liabilities and members' equity</b>	<b>\$ 270,809,389</b>	<b>\$ 292,287,089</b>
Subsequent event (Note 21)		
Commitment (Note 22)		
Contingent liability (Note 24)		

Approved on behalf of the Board of Directors

*Tony Steier*

Director

*Robert Weisgerber*

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, 2023**

	2023	%	2022	%
<b>Sales</b> (Note 16)	\$ 617,815,410	100.0	\$ 645,135,108	100.0
<b>Cost of goods sold</b>	<u>555,082,902</u>	<u>89.8</u>	<u>579,599,918</u>	<u>89.8</u>
<b>Gross margin</b>	<u>62,732,508</u>	<u>10.2</u>	<u>65,535,190</u>	<u>10.2</u>
<b>Expenses</b>				
Operating and administration	66,211,388	10.7	63,393,087	9.8
Net interest (Note 17)	<u>(914,791)</u>	<u>(0.1)</u>	<u>(1,034,633)</u>	<u>(0.2)</u>
	<u>65,296,597</u>	<u>10.6</u>	<u>62,358,454</u>	<u>9.6</u>
<b>Savings (loss) from operations</b>	(2,564,089)	(0.4)	3,176,736	0.6
FCL loyalty program (Note 4(d)(iii))	12,364,551	2.0	11,331,004	1.8
Patronage refunds	<u>21,041,849</u>	<u>3.4</u>	<u>17,711,793</u>	<u>2.7</u>
<b>Savings before gain on acquisition</b>	30,842,311	5.0	32,219,533	5.1
Gain on business combination	<u>-</u>	<u>-</u>	<u>568,962</u>	<u>0.1</u>
<b>Savings before income taxes</b>	30,842,311	5.0	32,788,495	5.2
Income tax expense (Note 20)	<u>2,234,303</u>	<u>0.4</u>	<u>1,329,745</u>	<u>0.2</u>
<b>Net savings</b>	<u><b>\$ 28,608,008</b></u>	<u>4.6</u>	<u><b>\$ 31,458,750</b></u>	<u>5.0</u>
<b>Retained savings, beginning of year</b>	<b>\$ 5,102,744</b>		<b>\$ 2,256,989</b>	
Net savings	28,608,008		31,458,750	
Transfer to general reserve (Note 15)	(7,833,900)		(6,586,100)	
Patronage allocation to members (Note 14)	<u>(19,898,969)</u>		<u>(22,026,895)</u>	
<b>Retained savings, end of year</b> (Note 15)	<u><b>\$ 5,977,883</b></u>		<u><b>\$ 5,102,744</b></u>	

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, 2023**

	<b>2023</b>	<b>2022</b>
<b>Operating activities</b>		
Net savings	\$ 28,608,008	\$ 31,458,750
Adjustments for:		
Depreciation	7,212,807	7,668,165
FCL patronage refund	(20,967,433)	(17,662,087)
Gain on business combination	-	(568,962)
Gain on the disposal of property, plant and equipment	(67,550)	(74,673)
Write-down of goodwill	1,200,151	1,329,881
 Changes in non-cash operating working capital:		
Accounts receivable	18,007,094	(15,660,310)
Income taxes recoverable	2,956,540	(462,464)
Inventories	10,870,408	(7,586,330)
Prepaid expenses	3,350,187	(5,684,275)
Accounts payable and trust liabilities	(11,722,904)	6,992,485
Customer prepaid accounts	(1,251,329)	993,794
 Cash provided by operating activities	<u>38,195,979</u>	<u>743,974</u>
 <b>Investing activities</b>		
Redemption of FCL shares	14,625,471	13,590,741
Additions to property, plant and equipment	(7,504,411)	(4,384,140)
Proceeds from the disposal of property, plant and equipment	103,741	83,059
Net issuance of long-term receivable	134,459	(479,451)
Investment in other organization	(35,662)	(11,018)
Cash consideration on business combination	-	(836,372)
 Cash provided by investing activities	<u>7,323,598</u>	<u>7,962,819</u>
 <b>Financing activities</b>		
Repayment of long-term debt	(322,253)	(313,781)
Change in line of credit	(5,552,340)	(5,691,844)
Share capital issued	16,540	15,540
GST on allocation	773,207	594,568
Redemption of share capital	(17,249,026)	(13,832,786)
 Cash used for financing activities	<u>(22,333,872)</u>	<u>(19,228,303)</u>
 <b>Net increase (decrease) in cash (borrowings)</b>	<b>23,185,705</b>	<b>(10,521,510)</b>
<b>Borrowings, beginning of year</b>	<b>(12,514,959)</b>	<b>(1,993,449)</b>
 <b>Cash (borrowings), end of year</b>	<b>\$ 10,670,746</b>	<b>\$ (12,514,959)</b>
 Cash (borrowings) are comprised of:		
Cash and cash equivalents	\$ 3,432,980	\$ 2,262,644
Line of credit	-	(14,777,603)
FCL special deposit	7,237,766	-
	<b>\$ 10,670,746</b>	<b>\$ (12,514,959)</b>

The accompanying notes are an integral part of these financial statements



**South Country Co-op Limited**  
**Notes to the Financial Statements**  
**For the Year Ended November 30, 2023**

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**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, intangible assets, goodwill, income taxes, asset retirement obligations, 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**

Cash is 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) Financial instruments**

The Co-operative recognizes its financial instruments when the Co-operative becomes party to the contractual provisions of the financial instrument.





**South Country Co-op Limited**  
**Notes to the Financial Statements**  
**For the Year Ended November 30, 2023**

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**(i) Arm's length financial instruments**

Financial instruments originated/acquired or issued/assumed in an arm's length transaction are initially recorded at their fair value. At initial recognition, the Co-operative may irrevocably elect to subsequently measure any arm's length financial instrument at fair value. The Co-operative has not made such an election during the year.

Investments in equity instruments not quoted in an active market are subsequently measured at cost less impairment, or adjustments for patronage refunds or share redemptions. All transactions with Federated Co-operatives Limited (FCL) are disclosed in a separate note (Note 4). All other financial assets and liabilities are subsequently measured at amortized cost.

Transaction costs and financing fees are added to the carrying amount for those financial instruments subsequently measured at cost or amortized cost.

**(ii) Financial asset impairment**

The Co-operative assesses impairment of all its financial assets measured at cost or amortized cost. The Co-operative groups assets for impairment testing when available information is not sufficient to permit identification of each individually impaired financial asset in the group, there are numerous assets affected by the same factors, or no asset is individually significant. Management considers whether the issuer is having significant financial difficulty, whether there has been a breach in contract, such as a default or delinquency in interest or principal payments, in determining whether objective evidence of impairment exists. When there is an indication of impairment, the Co-operative determines whether it has resulted in a significant adverse change in the expected timing or amount of future cash flows during the year.

The Co-operative reduces the carrying amount of any impaired financial assets to the highest of: the present value of cash flows expected to be generated by holding the assets; the amount that could be realized by selling the assets at the balance sheet date; and the amount expected to be realized by exercising any rights to collateral held against those assets.

Any impairment, which is not considered temporary, is included in current year net savings.

The Co-operative reverses impairment losses on financial assets when there is a decrease in impairment and the decrease can be objectively related to an event occurring after the impairment loss was recognized. The amount of the reversal is recognized in net savings in the year the reversal occurs.

**(e) 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 - 25 years & 4% to 10%
Parking lots & dykes	Declining balance	4% to 8%
Tanks	Declining balance	10% to 30%
Furniture & equipment	Declining balance	20% to 30%
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.



**South Country Co-op Limited**  
**Notes to the Financial Statements**  
**For the Year Ended November 30, 2023**

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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.

**(f) 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.

**(g) 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.

**(h) 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 savings when earned by the Co-operative.

**(i) 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 tax rates that are enacted or substantively enacted at the reporting date.

**(j) 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.



**South Country Co-op Limited**  
**Notes to the Financial Statements**  
**For the Year Ended November 30, 2023**

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**(k) Intangible assets**

Intangible assets are stated at cost less accumulated amortization and impairment losses, if any. Amortization is taken over the estimated useful lives of the assets using the following methods and rates once the intangible asset is functional:

Supply Agreement	Straight-line	two and seven years
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An impairment loss is recognized when the carrying amount of an intangible asset is not recoverable and exceeds its fair value. No such impairment loss was recorded during the year.

**(l) 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 (2022 - 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, funds on deposit, and debt. The Co-operative manages its exposure to interest rate risk through floating rate deposits and borrowings.



**South Country Co-op Limited**  
**Notes to the Financial Statements**  
**For the Year Ended November 30, 2023**

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**(c) Liquidity risk**

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

**(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**

**(a) FCL special deposit**

Amounts held with FCL as special deposits earn interest at rates based on prime rates.

**(b) 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, 2023, the Co-operative purchased goods amounting to \$514,957,960 (2022 - \$536,953,202) 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:

	<b>2023</b>	2022
Opening investment balance	\$ 68,697,611	\$ 64,626,265
Patronage refund	20,967,433	17,662,087
Share redemptions	<u>(14,625,471)</u>	<u>(13,590,741)</u>
Closing investment balance	<u>\$ 75,039,573</u>	<u>\$ 68,697,611</u>

**(c) 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 27 sites under this program. Management believes that due diligence has been exercised and that the impact of the asset retirement obligation to the Co-operative's financial statements is not significant.

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



**South Country Co-op Limited**  
**Notes to the Financial Statements**  
**For the Year Ended November 30, 2023**

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**(d) 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 January 2014. 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 \$6,199,546 (2022 - \$8,473,613). 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 market price, from FCL over a twenty year period commencing from May 2020. 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 2023 amounted to \$6,211,306 (2022 - \$4,894,207). Management intends to fulfill all existing contracts 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 received on a prorated basis. Total assistance that would be repayable if commitments were not met without FCL approval as at November 2023 amounted to \$664,670 (2022 - \$664,670). Management intends to fulfill all commitments with FCL.



**South Country Co-op Limited**  
**Notes to the Financial Statements**  
**For the Year Ended November 30, 2023**

**5. Accounts receivable**

	<b>2023</b>	<b>2022</b>
Customer accounts receivable	\$ 34,278,295	\$ 51,927,630
Other accounts receivable	1,174,984	1,532,743
Allowance for doubtful accounts	<u>(2,600,000)</u>	<u>(2,600,000)</u>
	<u><u>\$ 32,853,279</u></u>	<u><u>\$ 50,860,373</u></u>

**6. Inventories**

	<b>2023</b>	<b>2022</b>
Raw material	\$ 5,618,281	\$ 11,314,932
Goods for resale	<u>55,515,416</u>	<u>60,689,173</u>
	<u><u>\$ 61,133,697</u></u>	<u><u>\$ 72,004,105</u></u>

The cost of inventories recognized as an expense during the year was \$554,315,167 (2022 - \$578,801,346).

**7. Long-term receivable**

	<b>2023</b>	<b>2023</b>	<b>2022</b>	<b>2022</b>
Total	Current Portion	Deferred Portion	Current Portion	Deferred Portion
Petroleum tanks	<u>\$ 1,428,284</u>	<u>\$ 789,681</u>	<u>\$ 638,603</u>	<u>\$ 1,099,881</u>
		<u>\$ 462,862</u>		

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

**8. Property, plant and equipment**

	Original Cost	Accumulated Depreciation	<b>2023</b> Book Value	<b>2022</b> Book Value
Land	\$ 14,527,042	\$ -	\$ 14,527,042	\$ 14,527,042
Buildings	59,988,396	25,369,175	34,619,221	35,195,350
Parking lots & dyke	16,227,819	6,456,617	9,771,202	10,595,360
Tanks	4,209,942	3,434,016	775,926	952,413
Furniture & equipment	35,114,646	25,383,466	9,731,180	9,138,536
Computer equipment	8,269,938	7,451,647	818,291	1,078,794
Vehicles	10,082,876	7,890,239	2,192,637	2,781,915
Leasehold improvements	291,943	262,917	29,026	35,199
Construction in progress	<u>4,106,894</u>	<u>-</u>	<u>4,106,894</u>	<u>1,779,107</u>
	<u><u>\$ 152,819,496</u></u>	<u><u>\$ 76,248,077</u></u>	<u><u>\$ 76,571,419</u></u>	<u><u>\$ 76,083,716</u></u>

Depreciation for the current year included in operating and administration expense was \$6,980,517 (2022 - \$7,435,875).



**South Country Co-op Limited**  
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**9. Intangible asset**

	Original Cost	Accumulated Amortization	<b>2023</b> Book Value	2022 Book Value
Fuel supply agreements	<u>\$ 595,031</u>	<u>\$ 464,580</u>	<u>\$ 130,451</u>	<u>\$ 362,741</u>

Amortization for the current year end included in operating and administration expenses was \$232,290 (2022 - \$232,290).

**10. Goodwill**

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

	2023	2022
Balance, beginning of year	\$ 7,296,301	\$ 8,484,527
Additions to goodwill	-	141,655
Impairment losses	<u>1,200,151</u>	<u>1,329,881</u>
Balance, end of year	<u>\$ 6,096,150</u>	<u>\$ 7,296,301</u>

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 \$1,200,151 (2022 - \$1,329,881) has been reported as a provision for impairment in current year loss.

**11. Line of credit**

(a) The Co-operative has a \$50,000,000 line of credit with Servus Credit Union of which no amount has been drawn as at November 30, 2023 (2022 - \$14,777,603). The line of credit is secured by a General Security Agreement. Interest on the line of credit is prime 7.2% (2022 - 5.95%). The line of credit is subject to certain measurable covenants. As at November 30, 2023, the Co-operative is in compliance with all such covenants (2022 - 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, 2023 (2022 - nil). 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 7.2% (2022 - 5.95%).

**12. Accounts payable and trust liabilities**

	2023	2022
FCL payables	\$ 35,451,320	\$ 47,415,638
Other payables	5,262,673	6,199,738
Trust liabilities:		
Payroll deductions	544,606	569,871
Goods and services tax	169,050	16,772
Federal fuel charge	<u>2,887,520</u>	<u>1,836,054</u>
	<u>\$ 44,315,169</u>	<u>\$ 56,038,073</u>



**South Country Co-op Limited**  
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**13. Long-term debt**

	Total	2023 Current Portion	2023 Deferred Portion	2022 Current Portion	2022 Deferred Portion
FCL line of credit <sup>(1)</sup>	\$ -	\$ -	\$ -	\$ -	\$ 5,552,340
FCL Loan <sup>(2)</sup>	-	-	-	322,253	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 322,253</u>	<u>\$ 5,552,340</u>

<sup>(1)</sup> Federated Co-operatives Limited lines of credit:

<sup>(i)</sup> 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, 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

<sup>(ii)</sup> 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, 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

<sup>(iii)</sup> 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, 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





**South Country Co-op Limited**  
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<sup>(iv)</sup> 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, 2023 - October 31, 2024	\$ 712,500
November 1, 2024 - October 31, 2025	475,000
November 1, 2025 - October 31, 2026	237,500

<sup>(v)</sup> 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, 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

<sup>(vi)</sup> 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, 2023 - July 3, 2024	\$ 4,980,000
July 5, 2024 - July 3, 2025	4,150,000
July 5, 2025 - July 3, 2026	3,320,000
July 5, 2026 - July 3, 2027	2,490,000
July 5, 2027 - July 3, 2028	1,660,000
July 5, 2028 - July 3, 2029	830,000

<sup>(vii)</sup> 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, 2023 - July 15, 2024	\$ 200,000
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<sup>(2)</sup> Federated Co-operatives Limited Lomond loan was fully paid on March 2023.



**South Country Co-op Limited**  
**Notes to the Financial Statements**  
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**14. Share capital**

Authorized, unlimited @ \$1	<b>2023</b>	2022
Balance, beginning of year	\$ 85,914,273	\$ 77,574,405
Allocation to members	19,898,969	22,026,895
Cash from new members	16,540	15,540
GST on allocation	773,207	594,568
Shares transferred from reserves	66,701	55,211
	<u>106,669,690</u>	<u>100,266,619</u>
General repayment	13,964,774	11,151,596
Shares transferred to reserves	477,388	519,560
Withdrawals and retirements	515,035	499,311
Withholding tax	2,769,217	2,181,879
	<u>17,726,414</u>	<u>14,352,346</u>
Balance, end of year	<u>\$ 88,943,276</u>	<u>\$ 85,914,273</u>

**15. Reserves and retained savings**

	<b>General Reserve</b>	<b>Retained Savings</b>	<b>2023</b>	2022
Balance, beginning of year	\$ 118,078,233	\$ 5,102,744	\$ 123,180,977	\$ 113,284,773
Net savings distributed to retained savings	-	28,608,008	28,608,008	31,458,750
Patronage allocation	-	(19,898,969)	(19,898,969)	(22,026,895)
Shares transferred	410,687	-	410,687	464,349
Reserve transfers	<u>7,833,900</u>	<u>(7,833,900)</u>	<u>-</u>	<u>-</u>
Balance, end of year	<u>\$ 126,322,820</u>	<u>\$ 5,977,883</u>	<u>\$ 132,300,703</u>	<u>\$ 123,180,977</u>



**South Country Co-op Limited**  
**Notes to the Financial Statements**  
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**16. Sales**

	<b>2023</b>	2022
Consumer division	\$ 212,665,447	\$ 206,778,732
Agro and commercial division	<u>405,149,963</u>	<u>438,356,376</u>
	<u><u>\$ 617,815,410</u></u>	<u><u>\$ 645,135,108</u></u>

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

**17. Net interest**

	<b>2023</b>	2022
Interest expense on		
- Short-term debt	\$ 308,098	\$ 189,404
- Long-term debt	347,699	287,159
Interest revenue	<u>(1,570,588)</u>	<u>(1,511,196)</u>
	<u><u>\$ (914,791)</u></u>	<u><u>\$ (1,034,633)</u></u>

**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 \$11,027,003 (2022 - \$9,209,740) and the accumulated depreciation was \$7,104,352 (2022 - \$6,816,370). Revenue generated from operating leases during the year is \$1,047,391 (2022 - \$789,529).

**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 \$1,213,968 (2022 - \$1,148,002) of expense relating to the plan. There were no significant changes to the rate of employer contributions during the year.



**South Country Co-op Limited**  
**Notes to the Financial Statements**  
**For the Year Ended November 30, 2023**

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**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:

	<b>2023</b>	<b>2022</b>
Savings before income taxes	\$ 30,842,311	\$ 32,788,495
Expected income tax expense at the combined tax rate of 23.0% (2022 - 23.0%) net of the general rate reduction	7,093,732	7,541,354
Increase (decrease) in income tax expense resulting from:		
Non-taxable income and non-deductible expense	282,227	176,931
Deferral of patronage income inclusion	(760,230)	(190,698)
Patronage allocation to members of \$19,898,969 (2022 - \$22,026,895)	(4,576,763)	(5,066,186)
Patronage carryforward claimed	-	(1,156,368)
Income or expenses claimed in different periods for income tax purposes:		
Depreciation in excess of capital cost allowance	-	24,869
Capital cost allowance in excess of depreciation	(18,058)	-
Allowance for doubtful accounts	213,643	-
Other items that impact income taxes:		
Prior year tax adjustment	<u>(248)</u>	<u>(157)</u>
Income tax expense	<u><u>\$ 2,234,303</u></u>	<u><u>\$ 1,329,745</u></u>

**21. Subsequent event**

**Patronage allocation to members**

Subsequent to November 30, 2023 the Board of Directors approved a patronage allocation to members in the amount of \$19,898,969 (2022 - \$22,026,895).

**22. Commitment**

The Co-operative is committed to the completion of a cardlock in Bassano, Alberta. The Estimated cost is \$4,458,432 of which \$4,096,894 has been set up as construction in progress. This amount will be financed with internally generated cash flows, FCL line of credit and a FCL loan.



**South Country Co-op Limited**  
**Notes to the Financial Statements**  
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**23. Business combination**

On September 13, 2022 the Co-operative acquired two Husky retail fuel sites and two fuel supply agreements from Federated Co-operatives Ltd. The Co-operative determined the acquisition constituted a business combination and accounted for using the acquisition method. This method results in the acquirees' identifiable assets acquired being measured at their acquisition date fair values. For cash consideration in the amount of \$836,372, the Co-operative purchased capital assets net of FCL investment, with a fair value of \$574,469, inventory of \$94,179, and intangible assets of \$595,031, resulting in \$141,655 goodwill and a bargain purchase gain of \$568,962 being recorded. The value of the assets and liabilities associated with the Husky acquisition were finalized on September 13, 2023, no adjustments were made to the purchase price allocation.

**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 \$4,800.
- (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, 2028. 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 \$12,733.
- (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 agreement 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 on Alberta Street in Brooks, Alberta. The lease expires on October 31, 2029. The rent is for a fixed monthly lease payment of \$1,250.
- (k) The Co-operative has entered into a lease agreement for the Brooks Gas Bar on Cassils Road in Brooks, Alberta. The lease expires on December 31, 2026. The rent is for a fixed monthly lease payment of \$3,721.



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

2024	\$ 552,988
2025	331,721
2026	323,447
2027	280,713
2028	265,485
Subsequent payments	<u>1,282,550</u>
	<u><u>\$ 3,036,904</u></u>

**26. Comparative figures**

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



