Otter Farm & Home Co-operative
Financial Statements
February 28, 2023

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Independent Auditor's Report

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Management's Responsibility

To the Members of Otter Farm & Home Co-operative:

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 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.

"Jack Nicholson"

Chief Executive Officer

"Eduardo Fuentes"

Chief Financial Officer

To the Members of Otter Farm & Home Co-operative:

Opinion

We have audited the financial statements of Otter Farm & Home Co-operative (the "Co-operative"), which comprise the balance sheet as at February 28, 2023, and the statements of net savings, 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 February 28, 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.

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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.

Abbotsford, British Columbia

MNP LLP

April 19, 2023

Chartered Professional Accountants

Otter Farm & Home Co-operative
Balance Sheet
As at February 28, 2023
($ in thousands)

	2023	*2022*
Assets		
Current		
Cash and cash equivalents	**7,417**	3,424
Accounts receivable *(Note 3)*	**13,426**	12,365
Income taxes recoverable	**2,091**	831
Inventory *(Note 4)*	**29,288**	24,098
Prepaid expenses	**802**	824
	53,024	41,542
Investments *(Note 5)*	**31,493**	30,098
Property, plant and equipment *(Note 6)*	**105,204**	74,423
Other assets *(Note 7)*	**126,086**	91,547
	315,807	237,610
Liabilities		
Current		
Accounts payable *(Note 8)*	**33,984**	39,214
Customer prepaid accounts	**346**	97
Current portion of long-term debt *(Note 10)*	**10,424**	8,657
	44,754	47,968
Long-term debt *(Note 10)*	**156,283**	94,412
	201,037	142,380
Commitments *(Note 11)*		
Subsequent events *(Note 20)*		
Members' Equity		
Share capital *(Note 13)*	**30,778**	28,821
General reserve and retained savings	**83,992**	66,409
	114,770	95,230
	315,807	237,610

Approved on behalf of the Board of Directors

"Charlie Fox"
Director

"Bryan Mcpherson"
Director

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

Otter Farm & Home Co-operative
Statement of Net Savings
For the year ended February 28, 2023
($ in thousands)

	2023	*2022*
Sales *(Note 14)*	**479,508**	375,079
Cost of sales	**416,154**	318,761
Gross margin	**63,354**	56,318
Operating expenses	**57,462**	46,948
Savings from operations	**5,892**	9,370
Other items		
Net interest *(Note 15)*	**(5,074)**	(2,512)
Patronage refunds *(Note 5)*	**6,972**	6,528
FCL loyalty payment *(Note 5)*	**5,389**	4,690
Gain on acquisition *(Note 17)*	**11,567**	-
	18,854	8,706
Savings before income taxes	**24,746**	18,076
Income taxes *(Note 16)*	**862**	1,074
Net savings	**23,884**	17,002

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

Otter Farm & Home Co-operative

Statement of General Reserve and Retained Savings

For the year ended February 28, 2023

($ in thousands)

	General Reserve	Retained Savings	***2023***	*2022*
Balance, beginning of year	**63,926**	**2,483**	**66,409**	55,259
Net savings	**-**	**23,884**	**23,884**	17,002
Patronage allocation	**-**	**(6,283)**	**(6,283)**	(5,852)
Appropriation from retained savings	**15,016**	**(15,016)**	**-**	-
Previous year allocation variance	**-**	**(18)**	**(18)**	-
Balance, end of year	**78,942**	**5,050**	**83,992**	66,409

The accompanying notes are an integral part of these financial statements

Otter Farm & Home Co-operative
Statement of Cash Flows
For the year ended February 28, 2023
($ in thousands)

	2023	2022
Cash provided by (used for) the following activities		
Operating activities		
Net savings	**23,884**	17,002
Depreciation of property, plant and equipment	**7,026**	5,614
FCL patronage refund	**(6,968)**	(6,525)
Gain on disposals of property, plant and equipment	**(49)**	(3,806)
Gain on acquisition	**(11,567)**	-
	12,326	12,285
Changes in working capital accounts		
Accounts receivable	**(1,061)**	(4,880)
Income taxes recoverable	**(1,260)**	(1,508)
Inventories	**(5,190)**	(9,782)
Prepaid expenses	**22**	(459)
Accounts payable	**(5,229)**	19,872
Customer prepaid accounts	**249**	49
	(143)	15,577
Financing activities		
Increase in long-term debt	**76,171**	72,325
Repayment of long-term debt	**(12,533)**	(8,678)
Share capital issued	**90**	66
GST on patronage allocation	**219**	97
Redemption of share capital	**(4,653)**	(2,830)
	59,294	60,980
Investing activities		
Additions to property, plant and equipment	**(11,432)**	(15,704)
Proceeds from the disposals of property, plant and equipment	**94**	3,891
Additions to other assets	**(20)**	(77,999)
Cash consideration on business acquisition	**(49,373)**	-
Net change in investments in other organizations	**(1)**	(1)
Redemption of FCL shares	**5,574**	5,220
	(55,158)	(84,593)
Increase (decrease) in cash resources	**3,993**	(8,036)
Cash resources, beginning of year	**3,424**	11,460
Cash resources, end of year	**7,417**	3,424

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

($ in thousands)

1. Incorporation and operations

Otter Farm & Home Co-operative (the "Co-operative") was incorporated under the Societies Act of British Columbia on November 13, 1922 and under the Co-operative Association Act of British Columbia on June 22, 1979. The primary business of the Co-operative is operating retail, agricultural, food and petroleum outlets in the Lower Mainland, Armstrong, West Kelowna & Penticton, British Columbia, and surrounding areas.

2. Significant accounting policies

The financial statements have been prepared in accordance with Canadian accounting standards for private enterprises using the following significant accounting policies:

Definition of financial year

The Co-operative's financial year ends on the Saturday closest to February 28. The 2023 fiscal year was 52 weeks (2022 - 52 weeks).

Cash and cash equivalents

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

Inventories

Inventories are valued using a weighted average cost formula, the first-in first-out method, and the retail method. Inventories are stated at the lower of cost and net realizable value.

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 estimated to be not recoverable due to obsolescence, damage, or permanent declines in selling prices. Inventories are the only component of cost of sales.

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 Note 5.

Property, plant and equipment

Property, plant and equipment are initially recorded at cost. Amortization is provided using the following methods at rates intended to amortize the cost of assets over their estimated useful lives.

	Method	*Rate*
Buildings	straight-line	25 years
Paved surfaces	declining balance	8 %
Furniture and equipment	declining balance	10 to 25 %
Vehicles	declining balance	15 to 40 %
Computer equipment	declining balance	45 to 100 %

2. Significant accounting policies *(Continued from previous page)*

Leasehold improvements are depreciated on a straight-line basis over the lease term. Property, plant and equipment under construction are not amortized.

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 savings from operations in the year of disposition.

Claims for assistance under various FCL grant programs are recorded as a reduction of the cost of related assets in the period in which eligible expenditures are incurred, with any amortization 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.

Long-lived assets

Long-lived assets consist of property, plant and equipment. Long-lived assets held for use are measured and amortized as described in the applicable accounting policies.

The Co-operative performs impairment testing on long-lived assets held for use whenever events or changes in circumstances indicate that the carrying amount of an asset, or group of assets, may not be recoverable. The carrying amount of a long-lived asset is not recoverable if the carrying amount exceeds the sum of the undiscounted future cash flows from its use and disposal. Impairment is measured as the amount by which the asset's carrying amount exceeds its fair value. Fair value is measured using prices for similar items. Any impairment is included in net savings for the year.

Asset retirement obligation

The Co-operative recognizes 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.

Goodwill and intangible assets

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.

Intangible assets with limited lives are amortized on a straight-line basis over the estimated life of the related asset when put in use.

Financial instruments

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

Arm’s length financial instruments

Financial instruments originated/acquired or issued/assumed in an arm’s length transaction (“arm’s length financial instruments”) 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.

2. Significant accounting policies *(Continued from previous page)*

Financial instruments *(Continued from previous page)*

The Co-operative subsequently measures investments in equity instruments quoted in an active market and all derivative instruments, except those designated in a qualifying hedging relationship or that are linked to, and must be settled by delivery of, unquoted equity instruments of another entity, at fair value. Fair value is determined by published price quotations. Investments in equity instruments not quoted in an active market and derivatives that are linked to, and must be settled by delivery of, unquoted equity instruments of another entity, are subsequently measured at cost less impairment. With the exception of financial liabilities indexed to a measure of the Co-operative's performance or value of its equity and those instruments designated at fair value, all other financial assets and liabilities are subsequently measured at amortized cost.

Transaction costs and financing fees directly attributable to the origination, acquisition, issuance or assumption of financial instruments subsequently measured at fair value are immediately recognized in net savings. Conversely, transaction costs and financing fees are added to the carrying amount for those financial instruments subsequently measured at cost or amortized cost.

Related party financial instruments

The Co-operative initially measures the following financial instruments originated/acquired or issued/assumed in a related party transaction ("related party financial instruments") at fair value:

- Investments in equity instruments quoted in an active market
- Debt instruments quoted in an active market
- Debt instruments when the inputs significant to the determination of its fair value are observable (directly or indirectly)
- Derivative contracts.

All other related party financial instruments are measured at cost on initial recognition. When the financial instrument has repayment terms, cost is determined using the undiscounted cash flows, excluding interest, dividend, variable and contingent payments, less any impairment losses previously recognized by the transferor. When the financial instrument does not have repayment terms, but the consideration transferred has repayment terms, cost is determined based on the repayment terms of the consideration transferred. When the financial instrument and the consideration transferred both do not have repayment terms, the cost is equal to the carrying or exchange amount of the consideration transferred or received.

At initial recognition, the Co-operative may elect to subsequently measure related party debt instruments that are quoted in active market, or that have observable inputs significant to the determination of fair value, at fair value.

The Co-operative subsequently measures investments in equity instruments quoted in an active market and all derivative instruments, except those designated in a qualifying hedging relationship or that are linked to, and must be settled by delivery of, unquoted equity instruments of another entity, at fair value. Fair value is determined by published price quotations. Financial instruments that were initially measured at cost and derivatives that are linked to, and must be settled by, delivery of unquoted equity instruments of another entity, are subsequently measured using the cost method less any reduction for impairment.

Transaction costs and financing fees directly attributable to the origination, acquisition, issuance or assumption of related party financial instruments are immediately recognized in net savings.

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 there are numerous assets affected by the same factors. Management considers whether the issuer is having significant financial difficulty 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.

2. Significant accounting policies *(Continued from previous page)*

Financial instruments *(Continued from previous page)*

With the exception of related party debt instruments and related party equity instruments initially measured at cost, 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.

For related party debt instruments initially measured at cost, the Co-operative reduces the carrying amount of the asset (or group of assets), to the highest of: the undiscounted cash flows expected to be generated by holding the asset, or group of similar assets, excluding the interest and dividend payments of the instrument; 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.

For related party equity instruments initially measured at cost, the Co-operative reduces the carrying amount of the asset (or group of assets), to the amount that could be realized by selling the asset at the balance sheet date.

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.

Revenue recognition

The Co-operative recognizes revenue when evidence of an arrangement exists, delivery or change of ownership has occurred, the price to the buyer has been determined, and collection is reasonably assured. Patronage allocations are recognized in earnings when allocated to the Co-operative.

Lease revenue

Certain assets are leased under an arrangement whereby the benefits and risks of ownership related to the leased assets are substantially retained by the lessor. Accordingly, the Co-operative records these assets as operating leases.

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.

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 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.

($ in thousands)

2. Significant accounting policies *(Continued from previous page)*

Measurement uncertainty (use of estimates)

The preparation of financial statements in conformity with Canadian accounting standards for private enterprises requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period.

Accounts receivable are stated after evaluation as to their collectability and an appropriate allowance for doubtful accounts is provided where considered necessary. Provisions are made for slow moving and obsolete inventories. Amortization is based on the estimated useful lives of property, plant and equipment.

The application of the acquisition 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. Moreover, the useful lives of the acquired intangible assets, and property, plant and equipment have to be determined.

These estimates and assumptions are reviewed periodically and, as adjustments become necessary they are reported in earnings in the years in which they become known.

3. Accounts receivable

	2023	*2022*
Customer	**12,713**	11,865
Other	**893**	682
	13,606	12,547
Allowance for doubtful accounts	**(180)**	(182)
	13,426	12,365

4. Inventory

	2023	*2022*
Retail Division	**6,035**	6,037
Feed Division	**4,278**	3,784
Petroleum Division	**3,879**	2,491
Liquor Division	**15,096**	11,786
	29,288	24,098

The cost of inventories recognized as an expense and included in cost of sales amounted to $416,154 (2022 – $318,761).

($ in thousands)

5. Investments

	2023	2022
Federated Co-operatives Limited	**31,484**	30,090
Other organizations, at cost	**9**	8
	31,493	30,098

Transactions with Federated Co-operatives Limited "FCL"

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, 2022 the Co-operative purchased goods amounting to $204,039 (2022 - $138,065) 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. During the year, FCL, based on its available cash flow, redeemed an amount of shares held by the Co-operative. The amounts of the patronage refund and shares redeemed are as follows:

	2023	2022
Opening investment balance	**30,090**	28,785
Patronage refund	**6,968**	6,525
Share redemptions	**(5,574)**	(5,220)
Closing investment balance	**31,484**	30,090

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 per site as long as the Co-operative continues to exercise due diligence. The Co-operative has 21 (2022 - 13) sites under this program. Management believes that due diligence has been exercised and that the impact of the asset retirement obligation on the Co-operative's financial statements is not significant.

Petroleum purchase commitment

Under the terms of an agreement with FCL, the Co-operative has committed to purchase petroleum products, at market price, from FCL for its gas bar and cardlock operations over a ten year period commencing from March 2007. 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 plus interest on the grants compounded annually at 10% from the grant date. Total grants received during this period amounted to approximately $18,559 (2022 - $18,559). Management intends to fulfill all existing contracts with FCL.

Loyalty program refund

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 FCL loyalty payment revenue is accrued as earned.

In 2023, the Co-operative received $5,389 in loyalty payments (2022 - $4,690).

($ in thousands)

6. Property, plant and equipment

	Cost	***Accumulated depreciation***	***2023 Net book value***	*2022 Net book value*
Land	**37,480**	**-**	**37,480**	21,984
Buildings	**41,095**	**14,983**	**26,112**	21,259
Paved surfaces	**8,866**	**3,880**	**4,986**	4,175
Furniture and equipment	**45,327**	**27,946**	**17,381**	14,632
Vehicles	**4,023**	**3,638**	**385**	404
Computer equipment	**4,122**	**2,905**	**1,217**	932
Leasehold improvements	**7,250**	**960**	**6,290**	6,136
Assets not available for use	**11,353**	**-**	**11,353**	4,901
	159,516	**54,312**	**105,204**	74,423

Depreciation for the current year and included in operating and administration expense was $7,026 (2022 - $5,614).

7. Other assets

	2023	*2022*
Goodwill	**89,421**	67,558
Liquor and food vending rights	**27,347**	23,989
Supply agreements	**9,318**	-
	126,086	91,547

Liquor and food vending rights, issued under the Government of BC Liquor Control and Licensing Act, are recorded at cost.

8. Accounts payable

	2023	*2022*
FCL	**17,397**	23,667
Other	**15,130**	13,801
Trust liabilities	**1,457**	1,746
	33,984	39,214

($ in thousands)

9. Lines of credit

The Co-operative has a $250 line of credit bearing interest at prime plus 1% with Gulf & Fraser, of which no amount has been drawn as at February 28, 2023. The line of credit is unsecured.

The Co-operative has a $5,000 line of credit bearing interest at prime plus 0.5% with First West Credit Union, of which no amount has been drawn as at February 28, 2023. The line of credit is secured by a general security agreement as disclosed in Note 10.

10. Long-term debt

	2023	*2022*
First West Credit Union term loan bears interest at 2.79% per annum and is repayable in blended monthly payments of $392 due on February 28, 2041.	**64,836**	67,443
FCL revolving term loan bears interest at 5.00% per annum, with a maximum credit limit of $37,390 and has a maximum credit reduction of $2,059 per year, due on June 17, 2042.	**37,390**	-
FCL operating line of credit bears interest at the bank prime rate (currently at 6.7%) per annum and is due on demand.	**25,000**	-
First West Credit Union term loan bears interest at 3.60% per annum and is repayable in blended monthly payments of $59 due on April 22, 2042.	**9,713**	-
FCL revolving term loan bears interest at the bank prime rate (currently at 6.70% (2022 - 2.45%)) per annum, with a maximum credit limit of $7,280 and has a maximum credit reduction of $910 per year, due on August 10, 2030.	**7,280**	8,190
FCL revolving term loan bears interest at the bank prime rate (currently at 6.70% (2022 - 2.45%)) per annum, with a maximum credit limit of $3,850 and has a maximum credit reduction of $550 per year, due on November 30, 2029.	**3,850**	4,400
FCL revolving term loan bears interest at the bank prime rate (currently at 6.70% (2022 - 2.45%)) per annum, with a maximum credit limit of $3,250 and has a maximum credit reduction of $650 per year, due on October 31, 2027.	**3,250**	3,900
FCL revolving term loan bears interest at the bank prime rate (currently at 6.70% (2022 - 2.45%)) per annum, with a maximum credit limit of $3,120 and has a maximum credit reduction of $390 per year, due on July 29, 2030.	**3,120**	3,510
FCL revolving term loan bears interest at the bank prime rate (currently at 6.70% (2022 - 2.45%)) per annum, with a maximum credit limit of $2,360 and has a maximum credit reduction of $590 per year, due on September 30, 2026.	**2,360**	2,950
FCL revolving term loan bears interest at the bank prime rate (currently at 6.70% (2022 - 2.45%)) per annum, with a maximum credit limit of $2,400 and has a maximum credit reduction of $400 per year, due on January 31, 2029.	**2,400**	2,800
FCL revolving term loan bears interest at the bank prime rate (currently at 6.70% (2022 - 2.45%)) per annum, with a maximum credit limit of $2,200 and has a maximum credit reduction of $440 per year, due on September 30, 2027.	**2,200**	2,640
FCL revolving term loan bears interest at the bank prime rate (currently at 6.70% (2022 - 2.45%)) per annum, with a maximum credit limit of $2,100 and has a maximum credit reduction of $300 per year, due on August 31, 2029.	**2,100**	2,400

($ in thousands)

10. Long-term debt *(Continued from previous page)*

	2023	2022
FCL revolving term loan bears interest at the bank prime rate (currently at 6.70% (2022 - 2.45%)) per annum, with a maximum credit limit of $1,492 and has a maximum credit reduction of $497 per year, due on September 30, 2025.	**1,492**	1,989
FCL revolving term loan bears interest at the bank prime rate (currently at 6.70% (2022 - 2.45%)) per annum, with a maximum credit limit of $800 and has a maximum credit reduction of $200 per year, due on September 30, 2026.	**800**	1,000
FCL revolving term loan bears interest at the bank prime rate (currently at 6.70% (2022 - 2.45%)) per annum, with a maximum credit limit of $700 and has a maximum credit reduction of $140 per year, due on September 30, 2027.	**700**	840
FCL loan bears no interest and is repayable at $108 annually due on February 28, 2024.	**216**	325
FCL loan repaid in year.	**-**	682
	166,707	103,069
Less: current portion of long-term debt	**10,424**	8,657
	156,283	94,412

Principal repayments on long-term debt in each of the next five years, assuming all term debt is subject to contractual terms of repayment, are estimated as follows:

2024	10,424
2025	10,542
2026	10,530
2027	10,133
2028	9,445
	51,074

FCL reserves the right to take a security interest in the property and associated assets of the Co-operative at any time, upon reasonable notice to the Co-operative, over the term of the loan or until all amounts owing have been repaid in full.

FCL has waived its right to demand repayment of the operating line of credit prior to March 1, 2024. Accordingly, this amount has been presented as non-current.

For the First West Credit Union term loan the Co-operative has pledged certain property as collateral as part of a general security agreement.

Long-term debt with First West Credit Union and FCL is subject to certain financial covenants. The Co-operative is in compliance with all such covenants at February 28, 2023.

11. Commitments

The Co-operative is committed by contract to take future deliveries of grain at specified prices. The total of these contracts at February 28, 2023 amounts to approximately $11,164 (2022 - $10,682).

The Co-operative has entered into operating lease agreements for several locations with expiry dates from August 2023 to October 2050. Total minimum lease payments over the remaining terms of the leases are $135,797 (2022 - $139,161). Minimum annual lease payments for the next five years are as follows:

2024	7,193
2025	7,394
2026	7,734
2027	7,811
2028	8,035
	38,167

12. 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 $640 (2022 - $628) of expense relating to the plan. There were no significant changes to the rate of employer contributions during the year.

13. Share capital

Authorized, unlimited number of common shares with a par value of $10 each (not in thousands).

	2023	*2022*
Balance, beginning of year	**28,821**	25,636
Allocation to members	**6,283**	5,852
Cash from new members	**90**	66
GST on allocation	**219**	97
	35,413	31,651
General repayment	**(3,902)**	(2,375)
Withdrawals and retirements	**(164)**	(194)
Withholding tax	**(569)**	(261)
	(4,635)	(2,830)
Balance, end of year	**30,778**	28,821

($ in thousands)

14. Sales

	2023	2022
Feed Division	**65,725**	56,586
Petroleum Division	**259,100**	175,132
Retail Division	**49,917**	50,477
Liquor Division	**104,766**	92,884
	479,508	375,079

15. Net interest

	2023	2022
Interest on long-term debt	**5,310**	2,646
Interest revenue	**(236)**	(134)
	5,074	2,512

16. Income taxes

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

	2023	2022
Expected income tax expense at the combined tax rate of 27% (2022 - 27%) net of the general rate reduction	**6,681**	4,881
Decrease in income tax expense resulting from:		
Capital cost allowance in excess of depreciation	**(1,823)**	(1,989)
Patronage allocation to members of $6,283 (2022 - $5,852)	**(876)**	(1,268)
Non-taxable income and non-deductible expense	**(3,120)**	(550)
Income tax expense	**862**	1,074

($ in thousands)

17. Business combinations

On September 13, 2022, the Co-operative acquired 25 Husky retail fuel sites ("Husky") from FCL. The acquisition has been accounted for as a business combination. The value of the of the assets and liabilities associated with the acquisition may be revised if new information becomes available regarding the facts and circumstances that existed at the date of acquisition.

The following table summarizes the recognized amounts of the assets acquired and liabilities assumed:

	Fair value at the acquisition date
Acquired assets and assumed liabilities	
Property, plant and equipment	**24,950**
Supply agreements	**10,035**
Goodwill on acquisition	**15,820**
Net identifiable asset and liabilities	**50,805**
Gain on acquisition	**(11,567)**
Total cost of acquisition	**39,238**
Consideration	
Cash	**39,238**

The Co-operative acquired 100% of the assets of two entities during the year with details as follows:

	Fair value at the acquisition date
Acquired assets and assumed liabilities	
Liquor rights	**2,008**
Other assets	**416**
Net identifiable asset and liabilities	**2,424**
Goodwill on acquisition	**4,811**
Total cost of acquisition	**7,235**
Consideration	
Cash	**7,235**

The Co-operative acquired 100% of the voting equity interest of a company during the year for cash consideration of $2,900. The company was subsequently wound up into the Co-operative.

18. Economic dependence

The Co-operative is a shareholder of FCL who is the primary supplier of merchandise that the Co-operative purchases for resale. While the Co-operative's ability to continue viable operations is not dependent upon maintaining its membership in FCL, finding a replacement supplier would be very disruptive to the operations.

19. Financial instruments

The Co-operative, as part of its operations, carries a number of financial instruments. It is management's opinion that the Co-operative is not exposed to significant interest, currency, credit, liquidity or other price risks arising from these financial instruments except as otherwise disclosed.

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.

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, FCL special deposit and variable rate debt.

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 accounts payable and long-term debt. The Co-operative's ability to meet obligations depends on funds generated by its operations.

Commodity price risk

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

Capital management

The Co-operative applies prudent fiscal management policies and practices designed to generate adequate levels of net savings, member’s equity and other appropriate financial strengths. The Co-operative builds reserves so there are adequate levels of capital on hand to meet the short term and long term needs of the organization and pay out cash dividends to its members. Cash is monitored through the budgeting and planning cycle to analyze the Co-operatives capital structure under various potential scenarios.

20. Subsequent events

Patronage allocation to members

Subsequent to February 28, 2023, the Board of Directors approved a patronage allocation to members in the amount of $6,283 (2022 - $5,852).