



ANNUAL REPORT

**SWAN VALLEY CONSUMERS COOPERATIVE LIMITED
ANNUAL MEETING AGENDA
JUNE 29th, 2020**

- Call to order
- Chair's opening remarks
- Approval of agenda
- Motion to extend speaking privileges to visitors
- Minutes of the last Annual Meeting
- Business arising from the Minutes
- Auditor's Report and Financial Statements
- Appointment of Auditors
- Nominating Committee Report & Declaration of Election Results
- Board President's Report
- General Manager's Report
- FCL Delegate's Report
- Question Period
- Presentation of Service Awards
- New business
- Adjournment

Summary of the Minutes of the 79th Annual Meeting of Swan Valley Consumers Cooperative Limited

At 7:30 pm on May 6, 2019 President Larry TerHorst called the Annual Meeting to order. He began by welcoming the members to our 79th Annual Meeting. President TerHorst introduced those at the head table and requested that those in attendance observe a moment of silence in remembrance of the lives of cooperators who have passed on.

John Sandborn – Preston Hartwig: That we accept the Agenda as printed.

CD

2 Door prizes were drawn, the winners being:

Anne Gnida, Lorna Munro

Lorna Munro – Lorne Shevernoha: That we extend speaking privileges to visitors.

CD

President TerHorst asked the members to locate the Summary of the Minutes of the last Annual Meeting and ensured that everyone had an opportunity to read through the summary.

Bob Tibble – Blaine Campbell: That we approve the minutes as circulated.

CD

There was no new business arising out of the Summary of the Minutes.

2 Door prizes were drawn, the winners being:

Kristin Brading, Danny Hansford

Kristin Brading presented the Auditor's Report, Financial Statements and current financial initiatives. Kristin read the Auditor's letter, reviewed the Balance Sheet and Statement of Net Savings and Retained Savings. She referred to the Statement of Cash Flow and the Notes, explaining that the notes provided more details to the statements. Kristin then made a short presentation outlining current financial initiatives.

Questions arising out the reading of the Financial Statements:

Bob Tibble: What is the reason behind the large amount of accounts receivable at year-end?

Kristin explained that the amount was due to the timing of the financial statements as well as the addition of 2 new accounts and assured that the accounts receivable balance was back in line with normal amounts.

Bob Tibble: Please explain the large increase in FCL patronage refund.

Kristin explained that the margins in fuel had been very tight throughout 2018 and FCL responded to the tight margins with an increase in patronage refund on fuel purchases.

Carol Peterson – John Sandborn: That we accept the Auditor's Report and Financial Statements as presented.

CD

President TerHorst called on Lorne Shevernoha to speak regarding the appointment of auditors.

Lorne Shevernoha – Bob Tibble: That we appoint MNP as our external auditor for the 2019 year.

CD

John Sandborn presented the Nominating Committee's Report. John stated that the terms of Rick Achter, Jodi Proctor and Larry TerHorst expired in 2019. The call for nominations was advertised as per the bylaws. Rick Achter and Larry TerHorst allowed their names to stand and a nomination form was accepted from Jessica Lacasse. All 3 individuals were elected by acclamation. John Sandborn thanked Jodi for her 12 years of service on the Swan Valley Co-op Board.

Larry TerHorst presented the President's Report.

Colin Peters presented the General Manager's Report.

Two Door prizes were drawn, the winners being:

Nicole Hrapsted, Katharina Brown

Lorna Munro presented the FCL Delegate's Report.

Preston Hartwig – Jodi Proctor: That we accept the President's Report, General Manager's Report, Nominating Committee's Report and the FCL Delegate's Report as presented.

CD

Question Period

No questions brought forward.

Service Awards

The following directors were recognized with service awards:

Jodi Proctor – 12 years of service

Rick Achter – 15 years of service (absent)

New Business

No new business was brought forward

Four Door prizes were drawn, the winners being:

Carma Masson, Colin Peters, Jim Sutherland, Amanda Matychuk

President TerHorst thanked the attendees for coming to the meeting and invited everyone to stay for refreshments.

Preston Hartwig: That we move to adjourn the Annual Meeting at 8:05 pm.

CD

Management's Responsibility

To the Members of Swan Valley Consumers Cooperative 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 primarily of Directors who are neither management nor employees of the Cooperative. 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 fulfills 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 Cooperative'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.

May 5, 2020

Signed "Kristin Brading"

Controller

Independent Auditor's Report

To the Members of Swan Valley Consumers Cooperative Limited:

Opinion

We have audited the financial statements of Swan Valley Consumers Cooperative Limited (the "Cooperative"), which comprise the balance sheet as at January 31, 2020, 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 Cooperative as at January 31, 2020, 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 Cooperative in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report is information included in the annual report, but does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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 Cooperative'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 Cooperative or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Cooperative'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.

Independent Auditor's Report - Continued

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 Cooperative'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 Cooperative'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 Cooperative 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.

Brandon, Manitoba

May 5, 2020

MNP LLP

Chartered Professional Accountants

Swan Valley Consumers Cooperative Limited
Balance Sheet
As at January 31, 2020

	2020	2019
Current assets		
Cash and cash equivalents	\$ 1,863,603	\$ 2,959,346
FCL special deposit (Note 4(a))	-	4,200,000
Accounts receivable	3,520,162	4,084,572
- Customer (Note 5)		
- Other	393,133	192,766
Income taxes recoverable	589,395	61,635
Inventories (Note 6)	8,505,489	9,534,955
Prepaid agriculture suppliers	3,936,600	5,510,375
Prepaid expenses	231,670	148,623
Current portion long-term receivable (Note 7)	24,087	14,256
	19,064,139	26,706,528
 Long-term receivable (Note 7)	 4,686	 11,489
 Investments		
Federated Co-operatives Limited (Note 4(b))	11,366,234	10,569,451
 Property, plant and equipment (Note 8)	 14,799,714	 10,565,195
Assets under capital lease (Note 9)	2,558,261	2,885,549
Total assets	\$ 47,793,034	\$ 50,738,212
 Current liabilities		
Accounts payable and trust liabilities (Note 11)	\$ 9,844,938	\$ 11,535,143
Customer prepaid accounts	2,782,940	4,068,509
Current portion of obligation under capital lease (Note 12)	339,515	329,248
	12,967,393	15,932,900
 Long term obligation under capital lease (Note 12)	 2,109,316	 2,475,395
 Long-term debt (Note 13)	 483,511	 -
Asset retirement obligation (Note 4(c))	50,978	50,003
Total liabilities	15,611,198	18,458,298
 Members' equity		
Share capital (Note 14)	17,051,698	18,237,537
Reserves and retained savings (Note 15)	15,130,138	14,042,377
	32,181,836	32,279,914
Total liabilities and members' equity	\$ 47,793,034	\$ 50,738,212

Subsequent events (Note 20)
Commitment (Note 21)
Approved on behalf of the Board of Directors

Signed "John Sandborn"

Director

Signed "Lorna Munro"

Director

The accompanying notes are an integral part of these financial statements



Swan Valley Consumers Cooperative Limited
Statement of Net Savings and Statement of Retained Savings
For the Year Ended January 31, 2020

	2020	%	2019	%
Sales (Note 16)	\$ 87,243,174	100.0	\$ 88,267,571	100.0
Cost of goods sold	<u>76,934,786</u>	<u>88.2</u>	<u>77,381,970</u>	<u>87.7</u>
Gross margin	<u>10,308,388</u>	<u>11.8</u>	<u>10,885,601</u>	<u>12.3</u>
Expenses				
Operating and administration	11,910,220	13.7	10,633,317	12.0
Net interest (Note 17)	<u>(18,543)</u>	<u>-</u>	<u>(171,587)</u>	<u>(0.2)</u>
	<u>11,891,677</u>	<u>13.7</u>	<u>10,461,730</u>	<u>11.8</u>
Savings (loss) from operations	(1,583,289)	(1.9)	423,871	0.5
FCL loyalty program (Note 4(d))	229,709	0.3	-	-
Patronage refunds	<u>3,983,914</u>	<u>4.6</u>	<u>4,913,296</u>	<u>5.6</u>
Savings before income taxes	2,630,334	3.0	5,337,167	6.1
Income tax expense (Note 19)	<u>3,567</u>	<u>-</u>	<u>633,266</u>	<u>0.7</u>
Net savings	<u>\$ 2,626,767</u>	<u>3.0</u>	<u>\$ 4,703,901</u>	<u>5.4</u>
Retained savings, beginning of year	\$ 917,529		\$ 787,720	
Net savings	2,626,767		4,703,901	
Transfer to statutory reserve (Note 15)	-		(1,164,915)	
Transfer to general reserve (Note 15)	(263,033)		(533,717)	
Patronage allocation to members (Note 14)	<u>(1,560,960)</u>		<u>(2,875,460)</u>	
Retained savings, end of year (Note 15)	<u>\$ 1,720,303</u>		<u>\$ 917,529</u>	

The accompanying notes are an integral part of these financial statements



Swan Valley Consumers Cooperative Limited

Statement of Cash Flows

For the Year Ended January 31, 2020

	2020	2019
Operating activities		
Net savings	\$ 2,626,767	\$ 4,703,901
Adjustments for:		
Depreciation	1,665,252	1,316,431
Depreciation on assets under capital lease	298,645	158,457
Accretion	975	939
FCL patronage refund	(3,983,914)	(4,913,296)
Loss (gain) on the disposal of property, plant and equipment	81,913	(22,826)
Changes in non-cash operating working capital:		
Accounts receivable	364,043	(2,052,595)
Income taxes recoverable	(527,760)	(56,945)
Inventories	1,029,466	(1,462,689)
Prepaid agriculture suppliers	1,573,775	(3,012,244)
Prepaid expenses	(83,047)	(3,455)
Long-term receivables	(3,028)	(9,556)
Accounts payable and trust liabilities	(1,690,205)	6,431,503
Customer prepaid accounts	(1,285,569)	(74,922)
Cash provided by operating activities	67,313	1,002,703
Investing activities		
Redemption of FCL shares	3,187,131	4,018,630
Additions to property, plant and equipment	(6,005,026)	(2,529,197)
Proceeds from the disposal of property, plant and equipment	23,343	47,879
Cash (used for) provided by investing activities	(2,794,552)	1,537,312
Financing activities		
Repayment of capital lease obligation	(327,170)	(239,363)
Change in line of credit	483,511	-
Share capital issued	1,760	1,880
GST on allocation	64,080	60,759
Redemption of share capital	(2,790,685)	(2,604,524)
Cash used for financing activities	(2,568,504)	(2,781,248)
Net decrease in cash and cash equivalents (borrowings)	(5,295,743)	(241,233)
Cash and cash equivalents, beginning of year	7,159,346	7,400,579
Cash and cash equivalents, end of year	\$ 1,863,603	\$ 7,159,346
Cash and cash equivalents are comprised of:		
Cash and cash equivalents	\$ 1,863,603	\$ 2,959,346
FCL special deposit	-	4,200,000
	\$ 1,863,603	\$ 7,159,346

The accompanying notes are an integral part of these financial statements



Swan Valley Consumers Cooperative Limited
Notes to the Financial Statements
For the Year Ended January 31, 2020

1. Incorporation and operations

Swan Valley Consumers Cooperative Limited ("the Co-operative") was incorporated under the Co-operatives Act of Manitoba on April 17, 1940. The primary business of the Co-operative is operating retail agricultural, food and petroleum outlets in Swan River and area.

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, 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 January 31.

(b) Cash and cash equivalents

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

(c) Inventories

Inventories are valued using a weighted average formula, first-in first-out method, and the retail method. Inventories are stated at the lower of cost and net realizable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventories by the most appropriate method for that particular inventory class.

The Co-operative estimates net realizable value as the amount that inventories are expected to be sold for, taking into consideration fluctuations of retail price due to seasonality less estimated costs necessary to make the sale. Inventories are written down to net realizable value when the cost of inventories is determined to be not recoverable due to obsolescence, damage or permanent declines in selling prices.

(d) Investments

The Co-operative's investments are accounted for using the cost method. Accordingly, the investments are recorded at acquisition cost, less any provisions for permanent impairment or adjustments for patronage refunds or share redemptions. All transactions with FCL are disclosed in a separate note (Note 4).



Swan Valley Consumers Cooperative Limited
Notes to the Financial Statements
For the Year Ended January 31, 2020

(e) Financial instruments

Financial instruments are recorded at fair value on initial recognition and are subsequently recorded at amortized cost, unless management has elected to carry the instruments at fair value. The Co-operative has not elected to carry any such financial instruments at fair value. Financial instruments, which are subsequently measured at amortized cost, are adjusted by transaction and financing costs incurred on acquisition.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the Co-operative determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the Co-operative could realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

(f) Assets under capital lease

Leases, which transfer substantially all of the benefits and risks incident to ownership of property, are recorded as an acquisition of an asset and the incurrence of an obligation. Under this method of accounting for leases, the asset is depreciated over its estimated useful life and the obligation, including interest thereon, over the life of the lease. Rents on non-capital leases are expensed as incurred. Depreciation on the assets under capital lease are taken over the estimated useful lives of the assets using the following methods and rates:

NH3 tanks under capital lease	Declining balance	10%
Transport trailer under capital lease	Declining balance	15%

(g) 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:

Land improvements	Declining balance	4% to 10%
Buildings	Straight-line & declining balance	25 years & 10%
Tanks	Declining balance	10% & 20%
Vehicles	Declining balance	15% & 30%
Furniture & equipment	Declining balance	20% to 30%
Computer equipment	Declining balance	55% & 100%
Asset retirement cost	Straight-line	20 - 30 years

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.



Swan Valley Consumers Cooperative Limited
Notes to the Financial Statements
For the Year Ended January 31, 2020

(h) 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.

(i) 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.

(j) 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.

(k) 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.



Swan Valley Consumers Cooperative Limited
Notes to the Financial Statements
For the Year Ended January 31, 2020

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. Three customers account for 35% (2019 - one customer accounted for 18%) of the accounts receivable balance.

(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.

(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.



Swan Valley Consumers Cooperative Limited
Notes to the Financial Statements
For the Year Ended January 31, 2020

4. Transactions with Federated Co-operatives Limited (FCL)

(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 October 31, 2019, the Co-operative purchased goods amounting to \$75,380,432 (2019 - \$72,600,154) 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:

	2020	2019
Opening investment balance	\$ 10,569,451	\$ 9,674,785
Patronage refund	3,983,914	4,913,296
Share redemptions	<u>(3,187,131)</u>	<u>(4,018,630)</u>
Closing investment balance	<u>\$ 11,366,234</u>	<u>\$ 10,569,451</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 two sites under this program. Management believes that due diligence has been exercised. As of January 31, 2020, the Co-operative has accrued a liability in the amount of \$50,978 (2019 - \$50,003). A corresponding amount has been capitalized as an asset retirement cost and added to the carrying value of tanks. For the year ended January 31, 2020, the Co-operative has recorded \$975 in accretion expense (2019 - \$939).

The Co-operative has three fertilizer sites that are covered under the contaminated site management program established by FCL. Management cannot make a reasonable estimate of the future asset retirement obligation due to the uncertainty of the environmental impact from its fertilizer division.



Swan Valley Consumers Cooperative Limited
Notes to the Financial Statements
For the Year Ended January 31, 2020

(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 July 2011. Failure to meet this commitment would require the Co-operative to immediately pay outstanding gas bar and cardlock loan balances owed to FCL, plus repay any gas bar and cardlock grants received, including interest on the grants compounded annually at 10% from the grant date. Total grants received and receivable during this period amounted to approximately \$1,717,486 (2019 - \$1,755,343). 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 March 2016. Failure to meet this commitment would require the Co-operative to pay a portion of the capital costs of the bulk plant to FCL determined by a formula based upon usage. Management intends to fulfill all existing contracts with FCL.

(iii) Under the terms of the agreement with FCL, the Co-operative has committed to purchase fertilizer products, at market price, from FCL over a five year period commencing from July 2019. 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.

(iv) 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.

5. Accounts receivable - customer

Shown net of an allowance for doubtful accounts of \$55,000 (2019 - \$96,000).

6. Inventories

	2020	2019
Raw material	\$ 2,137,296	\$ 1,761,812
Goods for resale	<u>6,368,193</u>	<u>7,773,143</u>
	<u>\$ 8,505,489</u>	<u>\$ 9,534,955</u>

The cost of inventories recognized as an expense during the year was \$76,739,810 (2019 - \$77,249,507).



Swan Valley Consumers Cooperative Limited
Notes to the Financial Statements
For the Year Ended January 31, 2020

7. Long-term receivable

	Total	2020 Current Portion	2020 Deferred Portion	2019 Current Portion	2019 Deferred Portion
Petroleum tanks	\$ 28,773	\$ 24,087	\$ 4,686	\$ 14,256	\$ 11,489

The Co-operative has long-term interest free receivables covering tanks and bins which are recoverable over three years. The receivables are secured by the purchased tanks and bins.

8. Property, plant and equipment

	Original Cost	Accumulated Depreciation	2020 Book Value	2019 Book Value
Land	\$ 556,361	\$ -	\$ 556,361	\$ 507,269
Land development	2,017,336	916,130	1,101,206	1,022,613
Buildings	12,425,484	5,516,001	6,909,483	4,665,372
Tanks	688,760	512,885	175,875	205,572
Vehicles	3,332,362	2,189,268	1,143,094	1,110,950
Furniture & equipment	9,935,650	5,625,269	4,310,381	1,647,063
Computer equipment	655,065	483,750	171,315	169,880
Asset retirement obligation	37,430	25,228	12,202	13,000
Under construction	419,797	-	419,797	1,223,476
	<u>\$ 30,068,245</u>	<u>\$ 15,268,531</u>	<u>\$ 14,799,714</u>	<u>\$ 10,565,195</u>

Depreciation for the current year included in operating and administration expense was \$1,665,252 (2019 - \$1,316,431).

9. Assets under capital lease

	Original Cost	Accumulated Depreciation	2020 Book Value	2019 Book Value
NH3 Tanks	\$ 2,767,212	\$ 403,767	\$ 2,363,445	\$ 2,654,059
Transport Trailer	248,151	53,335	194,816	231,490
	<u>\$ 3,015,363</u>	<u>\$ 457,102</u>	<u>\$ 2,558,261</u>	<u>\$ 2,885,549</u>

Depreciation for the current year included in operating and administration expense was \$298,645 (2019 - \$158,457).



Swan Valley Consumers Cooperative Limited
Notes to the Financial Statements
For the Year Ended January 31, 2020

10. Line of credit

The Co-operative has a \$8,000,000 line of credit at Swan Valley Credit Union of which no amount has been drawn as at January 31, 2020 (2019 - \$nil). The line of credit is secured by a Business Security Agreement and a General Security Agreement. Interest on the line of credit is prime less 0.25%.

11. Accounts payable and trust liabilities

	2020	2019
FCL payables	\$ 7,858,707	\$ 10,243,233
Other payables	1,851,534	1,179,519
Trust liabilities:		
Payroll deductions	-	56,887
Provincial sales tax	48,182	53,012
Federal fuel charge	83,670	-
Workers Compensation Board	2,845	2,492
	<u>\$ 9,844,938</u>	<u>\$ 11,535,143</u>

12. Obligation under capital lease

		2020	2020	2019	2019
	Total	Current Portion	Deferred Portion	Current Portion	Deferred Portion
NH3 Tanks ⁽¹⁾	\$ 2,265,837	\$ 307,891	\$ 1,957,946	\$ 298,575	\$ 2,290,476
Transport Trailer ⁽²⁾	182,994	31,624	151,370	30,673	184,919
	<u>\$ 2,448,831</u>	<u>\$ 339,515</u>	<u>\$ 2,109,316</u>	<u>\$ 329,248</u>	<u>\$ 2,475,395</u>

⁽¹⁾ The lease agreement for the NH3 tanks matures November 2026, requires semi-annual minimum lease payments of \$189,533 and has a nominal interest rate of 4.78%. This lease is secured by the NH3 tanks under capital lease (Note 9).

⁽²⁾ The lease agreement for the transport trailer matures May 2024, requires semi-annual minimum lease payments of \$18,339, has a nominal interest rate of 4.65%, and includes a buyout option at the end of the lease. This lease is secured by the transport trailer under capital lease (Note 9).

The scheduled principal repayments on the capital lease for the next five years and subsequent are as follows:

2021	\$ 339,515
2022	358,800
2023	374,665
2024	391,303
2025	420,805
Subsequent payments	563,743
	<u>\$ 2,448,831</u>



Swan Valley Consumers Cooperative Limited
Notes to the Financial Statements
For the Year Ended January 31, 2020

13. Long-term debt

	Total	2020 Current Portion	2020 Deferred Portion	2019 Current Portion	2019 Deferred Portion
FCL ⁽¹⁾	\$ 483,511	\$ -	\$ 483,511	\$ -	\$ -

⁽¹⁾ FCL line of credit, bearing interest at prime rate, repayable via an annual reduction in available credit, matures December 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 have been in compliance since the loan start date. Security for the credit is a Business Security Agreement and a General Security Agreement. The available line of credit decreases as follows:

December 1, 2019 - December 1, 2020	\$ 5,500,000
December 1, 2020 - December 1, 2021	4,400,000
December 1, 2021 - December 1, 2022	3,300,000
December 1, 2022 - December 1, 2023	2,200,000
December 1, 2023 - December 1, 2024	1,100,000

14. Share capital

Authorized, unlimited @ \$1	2020	2019
Balance, beginning of year	\$ 18,237,537	\$ 17,927,400
Allocation to members	1,560,960	2,875,460
Cash from new members	1,760	1,880
GST on allocation	64,080	60,759
Shares transferred from reserves	1,111	6,186
	<u>19,865,448</u>	<u>20,871,685</u>
General repayment	1,707,912	1,665,982
Shares transferred to reserves	23,065	29,624
Withdrawals and retirements	718,601	598,795
Withholding tax	364,172	339,747
	<u>2,813,750</u>	<u>2,634,148</u>
Balance, end of year	<u>\$ 17,051,698</u>	<u>\$ 18,237,537</u>



Swan Valley Consumers Cooperative Limited
Notes to the Financial Statements
For the Year Ended January 31, 2020

15. Reserves and retained savings

	Statutory Reserve	General Reserve	Retained Savings	2020	2019
Balance, beginning of year	\$ 5,221,575	\$ 7,903,273	\$ 917,529	\$ 14,042,377	\$ 12,190,498
Net savings distributed to retained savings	-	-	2,626,767	2,626,767	4,703,901
Patronage allocation	-	-	(1,560,960)	(1,560,960)	(2,875,460)
Shares transferred		21,954	-	21,954	23,438
Reserve transfers	-	263,033	(263,033)	-	-
Balance, end of year	<u>\$ 5,221,575</u>	<u>\$ 8,188,260</u>	<u>\$ 1,720,303</u>	<u>\$ 15,130,138</u>	<u>\$ 14,042,377</u>

16. Sales

	2020	2019
Consumer products	\$ 29,062,948	\$ 31,943,606
Petroleum and agro	<u>58,180,226</u>	<u>56,323,965</u>
	<u>\$ 87,243,174</u>	<u>\$ 88,267,571</u>

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

17. Net interest

	2020	2019
Interest expense on		
- Short-term debt	\$ 60,139	\$ 14,676
- Obligation under capital lease	120,880	35,764
Interest revenue	<u>(199,562)</u>	<u>(222,027)</u>
	<u>\$ (18,543)</u>	<u>\$ (171,587)</u>



Swan Valley Consumers Cooperative Limited
Notes to the Financial Statements
For the Year Ended January 31, 2020

18. Pension plan

The Co-operative participates in a multi-employer defined contribution plan whereby the Co-operative and participating employees contribute equal amounts up to the maximum allowed under the Income Tax Act. The Co-operative has no unfunded liability under this plan. During the year, the Co-operative recorded \$244,558 (2019 - \$217,229) of expense relating to the plan. There were no significant changes to the rate of employer contributions during the year.

19. Income taxes

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

	2020	2019
Savings before income taxes	\$ 2,630,334	\$ 5,337,167
Expected income tax expense at the combined tax rate of 27% (2019 - 27%) net of general rate reduction	710,190	1,441,035
Increase (decrease) in income tax expense resulting from:		
Non-taxable income and non-deductible expense	(63,398)	(68,351)
Patronage allocation to members of \$1,560,960 (2019 - \$2,875,460)	(421,459)	(776,374)
Income or expenses claimed in different periods for income tax purposes:		
Depreciation in excess of capital cost allowance	-	80,660
Capital cost allowance in excess of depreciation	(468,146)	-
Other items that impact income taxes:		
Manufacturing and processing investment tax credit	(6,542)	(1,626)
Patronage dividends available for carryforward	257,532	-
Prior year tax adjustment	(4,610)	(42,078)
	<u>\$ 3,567</u>	<u>\$ 633,266</u>
Income tax expense	<u>\$ 3,567</u>	<u>\$ 633,266</u>



Swan Valley Consumers Cooperative Limited
Notes to the Financial Statements
For the Year Ended January 31, 2020

20. Subsequent events

(a) Patronage allocation to members

Subsequent to January 31, 2020 the Board of Directors approved a patronage allocation to members in the amount of \$1,560,960 (2019 - \$2,875,460).

(b) COVID-19

Subsequent to year-end, there was a global outbreak of COVID-19 (coronavirus), which has had a significant impact on businesses through the restrictions put in place by the Canadian, provincial and municipal governments regarding travel, business operations and isolation/quarantine orders. At this time, it is unknown the extent of the impact the COVID-19 outbreak may have on the Co-operative as this will depend on future developments that are highly uncertain and that cannot be predicted with confidence. These uncertainties arise from the inability to predict the ultimate geographic spread of the disease, and the duration of the outbreak, including the duration of travel restrictions, business closures or disruptions, and quarantine/isolation measures that are currently, or may be put, in place by Canada and other countries to fight the virus.

21. Commitment

The Co-operative is committed to the renovation of the food store in Swan River. The estimated total cost of the project is \$5,500,000. Of this amount, \$4,510,756 has been capitalized or expensed and \$380,730 as been set up as construction in progress as at January 31, 2020. This project will be financed from an FCL operating loan.



Swan Valley Consumers Cooperative Limited
Statistical Information
For the Year Ended January 31, 2020

Record of Sales and Net Savings

	<u>Year</u>	<u>Sales</u>	<u>Net Savings</u>	<u>%</u>
From Date of Incorporation, April 7, 1940, to January 31,	2011	\$ 964,427,122	\$ 50,024,726	5.2
	2012	61,666,506	3,031,888	4.9
	2013	67,760,927	3,043,810	4.5
	2014	71,360,211	3,976,978	5.6
	2015	77,873,387	4,519,918	5.8
	2016	81,270,198	4,292,058	5.3
	2017	75,156,547	3,795,995	5.1
	2018	80,550,907	3,996,799	5.0
	2019	88,267,571	4,703,901	5.4
	2020	87,243,174	2,626,767	3.0
		<u>\$ 1,655,576,550</u>	<u>\$ 84,012,840</u>	<u>5.1</u>

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

Membership

Members purchasing during the year	5,529
Inactive members	<u>1,060</u>
Total members	<u>6,589</u>



Kevin Kirkpatrick



Kevin Kirkpatrick

I was born and raised in the Swan River Valley. I have been a member of the local Co-op since 1983. I have been involved in education for the last 38 years, the vast majority of that time was spent in the Swan River School Division as a Teacher and Administrator. I am currently a member of the Samtak board here in Swan River. I have a strong sense of community and I believe our local Coop shares this. I hope to be a positive and useful member for our Swan Valley Consumers Cooperatives.

Lorna Munro



Lorna Munro

Lorna Jean Munro has served on the Board of Directors of the Swan Valley Co-op for the past eight years. Time, commitment, and a shared vision have been key standards that Lorna shares with her colleagues. She graduated in 1993 with a Bachelor of Education from Brandon University. She is currently the Indigenous Academic Achievement Coordinator for the Swan Valley Division. Lorna has been working for the SVSD for 15 years. She is a band member of the Sapotaweyak Cree Nation. Her interests are golf, fishing, HGTV, and spending time with family and friends.

Inge Orf



Inge Orf

What I could bring is a background in both education and agriculture to the Cooperatives Board. I taught in the Valley, Shamattawa, Ontario and overseas. I also have 9 years of farming experience. I am an advocate for shopping and initiatives within the community. I will listen to your concerns and find solutions based on accurate information and collaboration. In the past I have been a Credit Union Board Member and helped organize Valley Arts. I fought hard to get dialysis in the Swan River Hospital and continue to be an advocate for the environment. I would like to see our coop continue to support our community by improving on past success and new opportunities. I am retired but not tired of advocating for a strong community and a healthy environment.

John Sandborn



John Sandborn

I am a grain farmer from Benito area. Presently I serve as Vice President of the Board of Directors. Previously, I have served as President and Vice President. My 6 years of experience as a Federated Co-operatives Ltd. director, representing Retail Co-operatives in Western Manitoba from Elkhorn in the south, to as far as Thompson in the north, has provided me with a wide range of learning opportunities. I feel that this leadership experience will be a beneficial asset in discussions around the Swan Valley Co-op board table in the upcoming years.

President's Report

Your Swan Valley Co-op recorded sales of \$87.24 million during the 2019 fiscal year with net savings of over \$2.6 million. These results were achieved thanks to the continued patronage of our members and the combined efforts of team leaders and team members as well as the Board of Directors. Throughout the 2019 year there were 176 new membership applications, cash repayments of \$1.70 million and an equity allocation of \$2.87 million to members based on 2018 purchases.

Looking forward to 2020, an allocation of \$1.56 million to members based on 2019 purchases has been approved. This allocation will be based on 2.0% of agro purchases and 3.5% of petroleum purchases. Due to the renovation of the food store there will be no allocation on 2019 food purchases.

This year the Board of Directors, in consultation with the Management Team, made the necessary decision to completely renovate the Food store. After 15 years much of the equipment and work areas were in need of replacement and upgrades to be compliant with codes and regulations. I wish to thank you, the members, and the food store team for working together through the disruption of the renovation process. Unfortunately, the arrival of the COVID-19 pandemic did not allow for a return to normal operation as the renovation was completed. Our Management Team has done an excellent job of implementing policies and procedures to keep our team and members safe during this unexpected and difficult situation.

Your Board of Directors held 11 meetings during the year as well as sustainability, governance, property, and nominating committee meetings, as necessary. Our ongoing commitment to provide excellent service, products and facilities for our customers allows our co-op to generate revenues and profits. This gives us the opportunity to provide equity and cash back to our members as well as scholarships and donations to community events throughout the Swan Valley.

Your Board holds an annual strategic planning session to discuss the future needs and direction for your Co-op. Members of the property committee tour our facilities and meet with department team leaders to discuss asset requirements and potential opportunities. This information, along with a five-year financial forecast, forms the basis of the planning session. Together with the General Manager and leadership team, we develop our revolving five-year corporate goals, understanding that we need to evolve with the ever changing retail landscape to ensure our long term viability as a co-op.

A number of directors attended the June District 13 meeting in Flin Flon as well as the FCL Fall Leadership Conference in Saskatoon. Delegates to FCL's 91st AGM in Saskatoon were Jessica Lacasse, Don Hagman and Larry TerHorst with John Sandborn attending as a visiting Director. District 13 was represented by our District Director and FCL President Sharon Alford.

In closing, we thank our members for their continued support and our employees for their service and dedication. Our goal is to provide strong leadership into the future so that we achieve our vision of being the retailer of choice in the communities we serve.

On behalf of the Board of Directors,

Larry TerHorst,

President

General Manager's Report

Swan Valley Co-op surpassed \$87 million in sales and incurred a local loss of over \$1.5 million before FCL patronage repayments. After FCL patronage, our net earnings totaled \$2.6 million. The local loss is reflective of the significant capital investments of our food store renovation, opening of our new Agro Centre at The Pas, and the closure of the Family Fashion Gallery. My report will highlight our operations for the last year and touch on a few of the items we're working on in 2020.

Our Co-op is focused on proactive approach to our business with the continued use of Corporate Performance Management and Talent Management. These measurable goals-based frameworks will help us achieve our mission of **achieving growth by creating an excellent shopping experience for our members** and our vision of **being the retailer of choice in the communities we serve**. The ultimate goal for our Co-op is to remain relevant in a rapidly increasing competitive retail environment and create long term sustainable value for our members.

Last year, our Co-op embarked on a major food store renovation that had its challenges and disruption. I am very proud of how our team responded to the difficult working environment and continued to serve our members the Co-op way. Both our directors and employees are proud to offer the best in class shopping experience that the renovation has provided, current crisis environment excluded of course!

Our major capital investments this year include the construction of a truck shelter for our petroleum delivery units and continued work on our lease tenant development that will include renovation of the space later this year.

I'd also like to share a brief update regarding our COVID-19 response. Since prior to the State of Emergency declared by the province, our team has taken an aggressive and proactive approach to managing this crisis. I'm grateful for our team's approach in the face of the increased risk they faced working on the front lines of our essential services. Thank you also to the many community members who stepped forward to take on roles in areas like grocery order picking, and entrance and exit monitoring.

Your Co-op continues to support local groups and organizations by assisting them with their fundraising activities. Last year we invested over \$71,000 back into our local economy through donations to these groups. Another significant contribution this year was an additional \$25,000 grant for a playground renovation to The Pas Families Building a Better Community through the FCL Community Spaces program. We are proud to be part of your community and happy to lend a hand toward projects and partnerships that are doing great things close to home.

I want to close by thanking our team. Without them we could not serve our community as we have for the past 80 years. Also, the dedicated service and determination of our employees throughout our current health crisis has been exemplary. You truly make a difference in our members lives every day.

Thank you to the Board for their strategic direction, support, and trust they place in our team in moving toward our vision of being the retailer of choice in the communities we serve. And, of course without the support of our members we would not exist. Thank you for your business.

Colin Peters
General Manager

Delegate's Report

The 91st Annual Meeting of the Members the Federated Co-operatives Limited (FCL) was held in Saskatoon, SK from February 29 – March 2, 2020. I attended the meeting with directors Don Hagman, Larry TerHorst, guest John Sandborn as well as the first ever female Chair of FCL, Sharon Alford.

On Saturday Feb 29, 2020, CEO Scott Banda and members of the leadership team hosted targeted portfolio presentations highlighting strategic areas of focus. Leaders highlighted commitments to continuous quality improvement, flexibility, and innovation in order to maintain and grow through significant and unprecedented industry regulation and downward market trend in energy. The leadership team also allowed unprecedented access via multiple open microphone and question periods throughout the day to allow delegates to bring forward questions, comments as well as bring forward pressing concerns.

FCL Chair and local community member, Sharon Alford, shared strategic direction and vision for FCL and its retail members on Sunday, March 1, 2020. Co-operative values were highlighted and demonstrated. Information was shared regarding the proposal to reorganize the districts from 15 to 5 along with new physical boundaries, which was carried. Our rural communities are changing, and FCL must ensure that it is meeting the needs of our communities now and in the future.

The 91st Meeting was held on March 2, 2020, where the Auditors report, appointment of Auditors, and CRS Awards were addressed.

In closing, I would like to share that throughout the weekend, a real can do, pull together and move forward spirit was demonstrated. Looking back at the events that have transpired since March 2, I can say I am very proud of the Co-operative model and organization for recognizing and living those important values as we move confidently forward together into this next year.

Jessie Lacasse, Board Member
District 13 FCL Delegate
March 2020

Board of Directors

Director	Address	Office	Term Expires
John Sandborn	Benito	Director	2020
Lorna Jean Munro	Mafeking	Director	2020
Brenda Bielik	Benito	Director	2020
Don Hagman	Swan River	Director	2021
Jason Sakal	Swan River	Director	2021
Lorne Shevernoha	Swan River	Director	2021
Rick Achter	Durban	Secretary	2022
Jessica Lacasse	Swan River	Director	2022
Larry TerHorst	Kenville	President	2022

As indicated above, the terms of the following Directors expire this year

Years of Service		
John Sandborn	Benito	26
Lorna Jean Munro	Mafeking	8
Brenda Bielik	Benito	4

