ANNUAL REPORT 2023

Heritage Co-op
1997 Ltd.

AGENDA

95th ANNUAL MEETING – MAY 1, 2024

Registration	6:30 PM
Business Meeting	7:00 PM

1. Call to Order and Opening Remarks
2. Appointment of Chair and Secretary
3. Proof of Due Calling and Declaration of Quorum
4. Rules of Order
5. Introduction of Guests and Directors
6. Adoption of Agenda
7. Fiscal 2022 Annual General Meeting Minutes
8. Business Arising from the Minutes
9. Reports
    - Board Report
    - Financial Report
    - Nomination Committee Report
10. Director Election Proceedings
    - Nominee Address
    - Voting Process
11. New Business
    - Appointment of External Auditors for Fiscal 2024
    - Bylaw Amendment Resolutions (Special Resolution)
12. Questions
13. Director Election Results
14. Door Prizes
15. Adjournment

HERITAGE CO-OP 1997 LTD.

94th ANNUAL MEETING MINUTES

Wednesday April 26, 2023
Minnedosa Community Conference Centre

1. Call to Order and Opening Remarks

Board President Ian Gerrard called the meeting to order at 7:05 pm.

2. Appointment of Chair and Secretary

Following Bylaws 10.06 and 10.07, the Board appointed Ian Gerrard as Chair, and Jordan Jacobsen as Secretary for the 94th Annual General Meeting.

3. Proof of Due Calling and Declaration of Quorum

Ian reviewed the notice that was given regarding the meeting of the Members and declared that a quorum was present.

4. Rules of Order

Ian reviewed the Rules of Order for the meeting including the voting privileges and procedure, visitor privileges, and question cards.

5. Introduction of Guests, GM and Directors

Ian introduced the invited Guests, General Manager and current Board Members.

6. Adoption of Agenda

Ian Gerrard (#57487) proposed that the Nomination Committee report be moved to directly follow the Financial Report.
Moved by Mel Birmingham (#35201), seconded by Katharine Kingdon (#5305) that the agenda be adopted as amended. Carried.

7. Fiscal 2021 Annual General Meeting Minutes

Moved by Norval Lee (#12933), seconded by Allison Noto (#42504) that the Minutes from the 93rd Annual General Meeting held April 27, 2022 be adopted. Carried.

8. Business Arising from the Minutes.

There was no new business arising from the Minutes.

9. Reports

Board Report

- Ian Gerrard, Board Chair, presented the Board Report

GM Report

- Dennis Laing, General Manager, presented the General Manager Report

Financial Report

- Tamra Rapsky, Finance Operations Manager, presented the Financial Report
- Total sales of $ 287,151,574
- Local earnings of $ 5,547,489
- FCL loyalty program of $ 2,747,187
- FCL patronage refund of $ 6,507,055
- Net savings (before tax) of $ 14,634,162

Nomination Committee Report

- Bill Moorehead, Nomination Committee Chair, presented the Nomination Committee Report
- Seven nominations were received for four Director positions

Moved by Andrew Richards (#6131), seconded by Reg Clarke (#6628) that all reports be adopted as presented.

10. Director Election Proceedings

- Bill invited each nominee to address the Membership and answer any questions
- Nominees Randy Brown, Alain DeGagne, Ian Gerrard, Preston Hartwig, Keith Murray and Allison Noto addressed the Membership
- Wendy Petersen was absent from the meeting
- Bill then spoke to the voting process and asked each Member to cast their vote
- Votes were collected and counted by 3 representatives from Meyers Norris Penny who acted as Scrutineers for the meeting

11. New Business

Appointment of External Auditors

Moved by Randy Brown (#50072), seconded by Alain DeGagne (#42052) that MNP LLP be appointed as external auditors for the 2023 fiscal year. Carried.

12. Questions

Ian and Dennis answered questions that were submitted.

13. Director Election Results

As per Bylaw 4.09 the Board appointed 3 Scrutineers to ascertain the results of the election

Bill declared Allison Noto (#42504), Randy Brown (#50072), Ian Gerrard (#57487) as Directors on the Heritage Co-op Board of Directors for a term of three years and Keith Murray (#44006) as a Director on the Heritage Co-op Board of Directors for a term of two years.

Moved by Stephen Kennedy (#75549), seconded by Reg Clarke (#6628) to destroy the ballots of the Heritage Co-op Director election. Carried.

14. Door Prizes

Tickets were drawn for 3 prizes that were then presented to Members in attendance.

A draw was made for a $250 Co-op gift card for those Members who pre-registered for attendance at the meeting.

15. Adjournment

Moved by Mel Birmingham (#35201) that the meeting be adjourned at 8:47 pm.

BOARD REPORT
By: Ian Gerrard, Board Chair

On behalf of the Board of Directors it is my pleasure to report on another year of successes for Heritage Co-op.

The performance of a business is usually focused on financial results and from that perspective we can point to a solid track record. Total sales of Heritage Co-op have grown from just over $200 million in 2020 to $272 million in 2023. Keeping in mind that Covid had some unusual and unpredictable impacts on our business, we experienced rapid sales growth in 2021 and 2022 followed by a $15 million decline in sales this year. This decline in sales can be attributed to volatility in petroleum products, agriculture inputs and building supplies. Fortunately, the cost of inventory for sale also declined and therefore margins remained relatively consistent with 2022. Before tax earnings in 2023, including FCL patronage dividends were $13.5 million or 4.9% of sales. While earnings did not quite match the records set in 2021 and 2022 we are pleased with the overall financial picture of Heritage. The Board is satisfied that we are well placed to make the necessary investments to grow and improve our organization while ensuring we have the strength to withstand the unexpected. Once again, our Team has done a great job of bringing about a positive result in the face of innumerable challenges and, as a result, our organization sits on a strong foundation.

With strong results in 2023 we are very pleased to announce a patronage dividend of $6.6 million based on 2.82% of qualifying purchases. In addition, a cash repayment of $3.3 million will be made to members this year. Heritage Co-op has historically viewed dividends as a way to say thank you for your support and has focused on a strong dividend program. Heritage Co-op's ability to consistently allocate a meaningful dividend reflects our growth and strong financial performance over the long term. We recently changed our approach slightly to balance the importance of our dividend program with our focus on a strong and resilient organization with adequate resources to invest in the future.

In prior reports we have spoken about the importance of member ownership and engagement and your ability to have a say in "your business". The Board of Directors understands that a cooperative exists to serve the needs of the membership and we are focused on keeping this unique character of our organization alive. To that end, we have taken steps to increase awareness of opportunities to serve as a Director. In response we have received great interest with many inquiries. Thank you to all of our candidates for accepting a nomination for a position on the Board, we appreciate your commitment to the organization. The Board recognizes the importance of encouraging broader participation in the democratic process through improved access to our AGM and voting. To support this objective our members will be asked to vote in support of by-laws amendments. Bylaw amendments in 2022 expanded the options for members' meetings to allow online or hybrid venues. The changes proposed this evening are meant to facilitate flexible member voting options and encourage participation in the director election process.

In closing, I would like to extend a very sincere thank you to everyone who has made this organization the success it is today. We thank our Team of some 500 individuals who have worked very hard and done an excellent job of serving our members while also adapting to change and challenges. Our members who chose to do business with Heritage Co-op should be proud of our success, we thank you for your support. We also wish to recognize and thank FCL for their support and the contribution to our success. On behalf of the Board of Directors I would like to convey our sincere thank you to everyone's contribution to our success in 2023.

I would also like to take this opportunity to thank my fellow Directors for the guidance you have provided. Our Board works hard and each year Directors faithfully attend regular monthly meetings as well as several committee meetings, planning workshops, training and FCL events. Your dedication is appreciated, thank you.

Respectfully on behalf of the Board of Directors,
Ian Gerrard

Management's Responsibility

To the Members of Heritage Co-op 1997 Ltd.:

Management is responsible for the preparation and presentation of the accompanying consolidated 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 consolidated 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 consolidated financial statements.

The Board of Directors is composed entirely of Directors who are neither management nor employees of the Co-op. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Board fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management, internal auditors, and external auditors. The Board is also responsible for recommending the appointment of the Co-op's external auditors.

MNP LLP is appointed by the Members to audit the consolidated 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.

April 11, 2024

Signed "Tamra Rapsky"

General Manager

Independent Auditor's Report

To the Members of Heritage Co-op 1997 Ltd.:

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Heritage Co-op 1997 Ltd. (the "Co-op"), which comprise the consolidated balance sheet as at December 31, 2023, and the consolidated statements of earnings (loss), retained earnings and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Co-op as at December 31, 2023, and the results of its consolidated operations and its consolidated 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 Consolidated Financial Statements section of our report. We are independent of the Co-op in accordance with the ethical requirements that are relevant to our audit of the consolidated 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 Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Co-op'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-op or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated 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-op's internal control.

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- 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-op’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 consolidated 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-op to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Co-op to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

MNP LLP

April 11, 2024

Chartered Professional Accountants

Heritage Co-op 1997 Ltd.
Consolidated Balance Sheet
As at December 31, 2023

	2023	2022
Current assets		
Cash	$ 10,885,945	$ 30,273,728
FCL special deposit (Note 4(a))	16,402,702	6,221,132
Accounts receivable (Note 5)	5,540,957	7,078,941
Income taxes recoverable	745,668	76,483
Inventories (Note 6)	30,053,462	30,023,379
Prepaid agriculture suppliers	4,346,332	4,190,646
Prepaid expenses	5,075	257,513
Current portion long-term receivable (Note 7)	199,184	248,894
	68,179,325	78,370,716
Long-term receivable (Note 7)	75,875	220,768
Investments		
Federated Co-operatives Limited (Note 4(b))	27,117,723	25,640,108
Other organizations	320,295	279,080
Property, plant and equipment (Note 8)	31,233,524	28,810,529
Intangible asset (Note 9)	683,320	740,260
Goodwill	1,345,482	1,345,482
Total assets	**$ 128,955,544**	**$ 135,406,943**
Current liabilities		
Accounts payable and trust liabilities (Note 11)	$ 18,167,729	$ 34,904,464
Customer prepaid accounts	14,057,363	11,045,160
Current portion of long-term debt and callable debt (Note 12)	-	32,756
	32,225,092	45,982,380
Asset retirement obligation (Note 4(c))	192,910	171,806
Total liabilities	32,418,002	46,154,186
Members' equity		
Share capital (Note 13)	43,794,063	41,958,219
Reserves and retained savings (Note 14)	52,743,479	47,294,538
	96,537,542	89,252,757
Total liabilities and members' equity	**$ 128,955,544**	**$ 135,406,943**

Subsequent event (Note 20)
Commitment (Note 21)

Approved on behalf of the Board of Directors

Signed "Ian Gerrard"
Director

Signed "Brad Ross"
Director

The accompanying notes are an integral part of these financial statements

Heritage Co-op 1997 Ltd.
Consolidated Statement of Net Savings and Statement of Retained Savings
For the Year Ended December 31, 2023

	2023	%	2022	%
Sales (Note 15)	$ 272,244,264	100.0	$ 287,151,574	100.0
Cost of goods sold	236,569,017	86.9	251,034,993	87.4
Gross margin	35,675,247	13.1	36,116,581	12.6
Expenses				
Operating and administration	33,675,218	12.4	30,782,758	10.7
Net interest (Note 17)	(1,069,733)	(0.4)	(213,666)	(0.1)
	32,605,485	12.0	30,569,092	10.6
Savings from operations	3,069,762	1.1	5,547,489	2.0
Other income (expense) (Note 16)	40,285	-	(167,569)	(0.1)
Gain on acquisition (Note 22)	178,122	0.1	-	-
FCL loyalty program (Note 4(d)(ii))	2,842,708	1.0	2,747,187	1.0
Patronage refunds	7,390,324	2.7	6,507,055	2.3
Savings before income taxes	13,521,201	4.9	14,634,162	5.2
Income tax expense (Note 19)	1,430,175	0.5	1,996,475	0.7
Net savings	**$ 12,091,026**	4.4	**$ 12,637,687**	4.5

	2023	2022
Retained savings, beginning of year	**$ 90,453**	**$ 231,239**
Net savings	12,091,026	12,637,687
Transfer to special reserve (Note 14)	(1,902,755)	(3,379,392)
Transfer to general reserve (Note 14)	(3,530,454)	(2,032,742)
Patronage allocation to members (Note 13)	(6,637,333)	(7,366,339)
Retained savings, end of year (Note 14)	**$ 110,937**	**$ 90,453**

The accompanying notes are an integral part of these financial statements

Heritage Co-op 1997 Ltd.

Consolidated Statement of Cash Flows

For the Year Ended December 31, 2023

	2023	2022
Operating activities		
Net savings	$ 12,091,026	$ 12,637,687
Adjustments for:		
Depreciation	3,486,560	3,307,429
Depreciation for intangible asset	56,940	56,940
Accretion	7,858	4,193
FCL patronage refund	(7,388,076)	(6,504,364)
Gain on acquisition	(178,122)	-
Gain on the disposal of property, plant and equipment	(100,148)	(181,834)
Changes in non-cash operating working capital:		
Accounts receivable	1,537,984	178,291
Income taxes recoverable	(669,185)	301,597
Inventories	(30,083)	(2,679,572)
Prepaid agriculture suppliers	(155,686)	5,071,448
Prepaid expenses	252,438	(46,009)
Long-term receivables	194,603	166,903
Accounts payable and trust liabilities	(16,736,735)	16,881,365
Customer prepaid accounts	3,012,203	(2,142,520)
Asset retirement obligation	13,246	(53,638)
Cash provided by (used for) operating activities	(4,605,177)	26,997,916
Investing activities		
Redemption of FCL shares	5,910,461	5,203,491
Additions to property, plant and equipment	(5,818,221)	(1,537,405)
Proceeds from the disposal of property, plant and equipment	186,936	395,833
Investment in other organization	(41,215)	166,268
Cash provided by investing activities	237,961	4,228,187
Financing activities		
Repayment of long-term debt	(32,756)	(112,108)
Share capital issued	12,650	12,115
GST on allocation	185,641	205,149
Redemption of share capital	(5,004,532)	(6,068,866)
Cash used for financing activities	(4,838,997)	(5,963,710)
Net increase (decrease) in cash	**(9,206,213)**	**25,262,393**
Cash, beginning of year	**36,494,860**	**11,232,467**
Cash, end of year	**$ 27,288,647**	**$ 36,494,860**
Cash is comprised of:		
Cash	$ 10,885,945	$ 30,273,728
FCL special deposit	16,402,702	6,221,132
	$ 27,288,647	**$ 36,494,860**

The accompanying notes are an integral part of these financial statements

1. Incorporation and operations

Heritage Co-op 1997 Ltd. was incorporated under the Cooperatives Act of Manitoba on March 29, 1929 and Strathclair Co-operative Association Limited was incorporated under the Cooperatives Act of Manitoba on June 5, 1929. On December 30, 2018, the two co-operatives amalgamated under Heritage Co-op 1997 Ltd. ("the Co-operative"). The primary business of the Co-operative is operating retail agricultural, food, home centre and petroleum outlets in their trading areas.

2. Significant accounting policies

These financial statements have been prepared by management in accordance with Canadian accounting standards for private enterprises. A precise determination of many assets and liabilities is dependent upon future events and consequently, the preparation of these financial statements involves the use of estimates and approximations. Areas subject to estimation include valuation of accounts receivable, inventory, useful life of property, plant and equipment, impairment of long-lived assets, goodwill, intangible 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) Basis of consolidation

i. Subsidiaries
The consolidated financial statements include the accounts of the Co-operative and its subsidiaries. Subsidiaries are entities that the Co-operative controls. Subsidiaries are fully consolidated from the date that control commences until the date that control ceases.

ii. Transactions eliminated on consolidation
Inter-group balances and transactions, and any unrealized income and expenses arising from said transactions, are eliminated in preparing the consolidated financial statements.

(b) Definition of financial year

The Co-operative's financial year ends on the Saturday closest to December 31.

(c) Cash

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

(d) 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.

(e) Financial instruments

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

(f) Arm's length financial instruments

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

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

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

(ii) Financial asset impairment

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

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

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

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

(g) 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.

(h) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Depreciation is taken over the estimated useful lives of the assets using the following methods and rates:

Buildings	Straight-line & declining balance	1 - 25 years, 4% & 10%
Pavement	Straight-line & declining balance	15 years, 8% & 10%
NH3 plant & fence	Declining balance	10%
Tanks & fertilizer bins	Declining balance	20%
Furniture & equipment	Declining balance	20%
Vehicles	Declining balance	30%
Vehicle equipment	Declining balance	20%
Aircraft	Declining balance	5%
Computer equipment	Declining balance	30% & 55%
Asset retirement cost	Straight-line	25 - 35 years

In the year of acquisition, depreciation is prorated on a quarterly basis. No depreciation is taken on assets under construction.

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.

(i) 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.

(j) 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.

(k) Revenue recognition

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

(l) Income taxes

The Co-operative follows the taxes payable method whereby only current income tax assets and liabilities are recognized to the extent they remain unpaid or are recoverable. In addition, the benefit relating to a tax loss incurred in the current period and carried back to prior periods is recognized as a current asset. Current income tax assets and liabilities are measured using tax rates that are enacted or substantively enacted at the reporting date.

(m) Intangible assets

Intangible assets are stated at cost less accumulated amortization and impairment losses, if any. Finite life intangilbe assets are tested for impairment when events or circumstances indicate the carrying value may not be recoverable. When the recoverable amount is less than the carrying value, an impairment loss is recognized in net savings for the year. Intangible assets, once functional, are amortized on a straight-line basis over their useful lives.

(n) Goodwill

Goodwill resulting from business combinations represents the portion of the purchase price that was in excess of the fair value of the net identifiable assets acquired. Goodwill is not amortized and is tested for impairment whenever changes in circumstances indicate that the carrying amount of the reporting unit to which goodwill is assigned exceeds the fair value of the reporting unit. If the carrying value of the reporting unit to which goodwill has been assigned exceeds its fair value, then, with respect to the reporting unit's goodwill, any excess of its carrying value over its fair value is expensed. Impairment losses relating to goodwill cannot be reversed in future years.

(o) Business combinations

Business combinations are accounted for using the acquisition method. The application of this method requires certain estimates and assumptions especially concerning the determination of the fair value of the acquired intangible assets, property, plant and equipment, as well as the liabilities assumed at the date of the acquisition, based on information available at that date.

At the acquisition date, the Co-operative recognizes, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the subsidiary. Identifiable assets acquired and liabilities assumed are measured at their acquisition-date fair values. Any non-controlling interest in a subsidiary is measured either at fair value or at the non-controlling interest's proportionate share of the subsidiary's identifiable net assets.

The consideration transferred for each acquisition is measured as the sum of the acquisition-date fair values of the assets transferred, the liabilities incurred, and equity instruments issued by the Co-operative to obtain control of the subsidiary.

3. Financial instruments and risk management

The significant financial risks to which the Co-operative is exposed are credit risk, interest rate risk, liquidity risk, and commodity price risk.

(a) Credit risk

The Co-operative is exposed to credit risk on accounts receivable from its customers. The Co-operative manages credit risk through an active credit management program. The Co-operative does not have a significant exposure to any individual customer (2022 - no significant exposure to any individual customer).

(b) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in interest rates. Changes in market interest rates may have an effect on cash flows associated with some financial assets and liabilities, known as cash flow risk, and on the fair value of other financial assets or liabilities, known as price risk. The Co-operative's sensitivity to fluctuations in interest rates is limited to its cash, funds on deposit, and debt. The Co-operative manages its exposure to interest rate risk through floating rate deposits and borrowings.

(c) Liquidity risk

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

(d) Commodity price risk

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

4. Transactions with Federated Co-operatives Limited

(a) FCL special deposit

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

(b) Patronage refund

The Co-operative, along with other Co-operatives in Western Canada, own FCL. At the end of each year, FCL divides a substantial portion of its net savings among these retail Co-operatives in proportion to the business done by each with FCL. During FCL's fiscal year ended October 31, 2023, the Co-operative purchased goods amounting to $221,838,844 (2022 - $232,358,392) 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:

	2023	2022
Opening investment balance	$ 25,640,108	$ 24,339,235
Patronage refund	7,388,076	6,504,364
Share redemptions	(5,910,461)	(5,203,491)
Closing investment balance	$ 27,117,723	$ 25,640,108

(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 12 sites under this program. Management believes that due diligence has been exercised. At year end, the Co-operative has accrued a liability in the amount of $192,910 (2022 - $171,806). A corresponding amount has been capitalized as an asset retirement cost. Accretion for the current year included in operating and administration expense was $7,858 (2022 - $4,193).

The Co-operative's has four 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.

(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 May 2014. Failure to meet this commitment would require the Co-operative to immediately pay outstanding gas bar and cardlock loan balances owed to FCL, plus repay any gas bar and cardlock grants received, including interest on the grants compounded annually at 10% from the grant date. Total grants received during this period amounted to approximately $3,273,006 (2022 - $3,836,343). 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 at least 90% of its total goods from FCL and commits, to the best of its ability, to use FCL's services. If the eligibility requirements are met, FCL will pay the Co-operative, on a quarterly basis, a Loyalty Payment based on cents per litre. The Loyalty Payment revenue is accrued as earned.

(iii) Under the terms of the agreement with FCL, the Co-operative has committed to purchase food, pharmacy, food-related products, petroleum products and agro-related products from FCL and continue to operate certain food stores, agro and cardlock operations over periods of ten to thirty years depending on the specific contract. Failure to meet this commitment would require the Co-operative to repay the assistance received on a prorated basis. Total assistance that would be repayable if commitments were not met without FCL approval as at December 31, 2023 amounted to $1,989,424 (2022 - $1,711,945). Management intends to fulfill all commitments with FCL.

(iv) 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.

5. Accounts receivable

	2023	2022
Customer accounts receivable	$ 5,987,256	$ 7,544,889
Other accounts receivable	653,701	634,052
Allowance for doubtful accounts	(1,100,000)	(1,100,000)
	$ 5,540,957	$ 7,078,941

6. Inventories

	2023	2022
Inventories at cost	$ 29,733,918	$ 25,402,162
Inventories at net realizable value	319,544	4,621,217
	$ 30,053,462	$ 30,023,379

The cost of inventories recognized as an expense during the year was $235,849,990 (2022 - $250,391,541).

At December 31, 2023, the cost of inventories recognized as an expense includes no amount in respect of write-downs of inventory to net realizable value (2022 - $1,040,250).

7. Long-term receivable

	Total	**2023** Current Portion	**2023** Deferred Portion	2022 Current Portion	2022 Deferred Portion
J&P Grocery(1)	$ 16,700	$ 8,400	$ 8,300	$ 8,400	$ 16,700
Tanks(2)	258,359	190,784	67,575	240,494	204,068
	$ 275,059	$ 199,184	$ 75,875	$ 248,894	$ 220,768

(1) The Co-operative has a long-term interest free receivable covering the purchase of J&P Grocery's building and equipment which is recoverable over 7.75 years. The receivable is secured by a promissory note and personal guarantees.

(2) The Co-operative has a long-term interest free receivables covering petroleum and fertilizer tank equipment which are recoverable over 3 years. The receivables are secured by the petroleum or fertilizer tank equipment.

8. Property, plant and equipment

	Original Cost	Accumulated Depreciation	**2023** Book Value	2022 Book Value
Land	$ 4,733,433	$ -	$ 4,733,433	$ 4,459,314
Buildings	23,850,443	13,438,429	10,412,014	10,507,205
Pavement	4,179,857	2,477,003	1,702,854	1,850,847
NH3 plant & fence	181,941	127,047	54,894	36,126
Tanks & fertilizer bins	3,700,237	3,369,596	330,641	399,377
Furniture & equipment	18,619,845	13,640,142	4,979,703	3,572,476
Vehicles	12,176,797	8,774,810	3,401,987	1,963,229
Vehicle equipment	729,727	510,200	219,527	274,409
Aircraft	7,068,406	1,896,827	5,171,579	5,370,789
Computer equipment	2,022,320	1,828,127	194,193	62,888
Asset retirement cost	118,510	85,811	32,699	21,715
Under construction	-	-	-	292,154
	$ 77,381,516	$ 46,147,992	$ 31,233,524	$ 28,810,529

Depreciation for the current year included in operating and administration expense was $3,486,560 (2022 - $3,307,429).

9. Intangible asset

	Original Cost	Accumulated Amortization	**2023** Book Value	2022 Book Value
Intangible asset	$ 1,138,840	$ 455,520	$ 683,320	$ 740,260

Intangible asset with a definite life is amortized on a straight-line basis over 20 years. Amortization for the current year end included in operating and administration expenses was $56,940 (2022 - $56,940).

10. Lines of credit

(a) The Co-operative has a $2,500,000 line of credit with Sunrise Credit Union of which no amount has been drawn as at December 31, 2023 (2022 - $nil). The line of credit is secured by a registered security agreement on accounts receivables. Interest on the line of credit is Sunrise Credit Union prime rate plus 0.25% (7.45%) (2022 - 6.7%).

(b) The Co-operative has a $18,000,000 line of credit with Federated Co-operatives Limited. As of December 31, 2023, no amount has been drawn (2022 - $nil). The line of credit is secured by the property and associated assets of the Co-operative. Interest on the line of credit is prime rate (7.2%) (2022 - 6.45%). The line of credit is subject to certain measurable covenants. As at December 31, 2023, the Co-operative is in compliance with such covenants.

11. Accounts payable and trust liabilities

	2023	2022
FCL payables	$ 11,912,524	$ 19,242,157
Other payables	5,048,370	14,877,325
Trust liabilities:		
Payroll deductions	347,405	-
Workers' compensation	3,556	327
Goods and services tax	15,265	46,721
Provincial sales tax	197,850	163,579
Federal fuel charge	642,759	574,355
	$ 18,167,729	$ 34,904,464

12. Callable and long-term debt

	Total	2023 Current Portion	2023 Deferred Portion	2022 Current Portion	2022 Deferred Portion
FCL line of credit (1-3)	$ -	$ -	$ -	$ -	$ -
Mortgage (4)	-	-	-	32,756	-
	$ -	$ -	$ -	$ 32,756	$ -

(1) Federated Co-operative Limited line of credit, bearing interest at prime rate, repayable via an annual reduction in available credit, matures February 2025. Security is a promissory note and a general security agreement covering all present and after acquired property. The available line of credit decreases as follows:

March 1, 2023 - February 29, 2024	$ 1,000,000
March 1, 2024 - February 28, 2025	500,000

(2) Federated Co-operative Limited line of credit, bearing interest at prime rate, repayable via an annual reduction in available credit, matures March 2025. Security is a promissory note and a general security agreement covering all present and after acquired property. The available line of credit decreases as follows:

April 1, 2023 - March 31, 2024	$ 1,420,000
April 1, 2024 - March 31, 2025	710,000

(3) Federated Co-operative Limited line of credit, bearing interest at prime rate, repayable via an annual reduction in available credit, matures February 2030. Security is a promissory note and a general security agreement covering all present and after acquired property. The available line of credit decreases as follows:

February 1, 2023 - February 1, 2024	$ 6,300,000
February 1, 2024 - February 1, 2025	5,400,000
February 1, 2025 - February 1, 2026	4,500,000
February 1, 2026 - February 1, 2027	3,600,000
February 1, 2027 - February 1, 2028	2,700,000
February 1, 2028 - February 1, 2029	1,800,000
February 1, 2029 - February 1, 2030	900,000

The loans are subject to certain measurable covenants. As at December 31, 2023, the Co-operative is in compliance with all such covenants.

(4) The mortgage with Sunrise Credit Union is repayable on demand with blended monthly payments of $9,659 including interest at 4.056%. The balance was fully paid in 2023.

13. Share capital

Authorized, unlimited @ $1	**2023**	2022
Balance, beginning of year	$ 41,958,219	$ 40,435,062
Allocation to members	6,637,333	7,366,339
Cash from new members	12,650	12,115
GST on allocation	185,641	205,149
Shares transferred from reserves	4,752	8,515
	48,798,595	48,027,180
General repayment	3,046,924	4,769,584
Shares transferred to reserves	-	95
Withdrawals and retirements	1,089,399	369,436
Withholding tax	868,209	929,846
	5,004,532	6,068,961
Balance, end of year	$ 43,794,063	$ 41,958,219

14. Reserves and retained savings

	General Reserve	Special Reserve	Retained Savings	2023	2022
Balance, beginning of year	$ 27,591,752	$ 19,612,333	$ 90,453	$ 47,294,538	$ 42,031,610
Net savings distributed to retained savings	-	-	12,091,026	12,091,026	12,637,687
Patronage allocation	-	-	(6,637,333)	(6,637,333)	(7,366,339)
Shares transferred	(4,752)	-	-	(4,752)	(8,420)
Reserve transfers	1,902,755	3,530,454	(5,433,209)	-	-
Balance, end of year	$ 29,489,755	$ 23,142,787	$ 110,937	$ 52,743,479	$ 47,294,538

15. Sales

	2023	2022
Business to Business	$ 158,765,919	$ 168,693,577
Business to Consumer	113,478,345	118,457,997
	$ 272,244,264	$ 287,151,574

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

16. Other income (expense)

Other income (expense) consists of earnings received from Canadian Applicators Insurance Reciprocal.

17. Net interest

	2023	2022
Interest expense on		
- Short-term debt	$ 59,366	$ 35,200
- Long-term debt	11,218	163,503
Interest revenue	(1,140,317)	(412,369)
	$ (1,069,733)	$ (213,666)

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 $653,243 (2022 - $606,261) of expense relating to the plan. There were no significant changes to the rate of employer contributions during the year.

19. Income tax expense

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

	2023	2022
Savings before income taxes	$ 13,521,201	$ 14,634,162
Expected income tax expense at the combined tax rate of 27.0% (2022 - 27.0%) net of the general rate reduction	3,673,620	3,951,224
Decrease (increase) in income tax expense resulting from:		
Non-taxable income and non-deductible expense	(118,094)	7,890
Patronage allocation to members of $6,637,333 (2022 - $7,366,339)	(1,792,080)	(1,988,912)
Income or expenses claimed in different periods for income tax purposes:		
Depreciation in excess of capital cost allowance	-	145,874
Capital cost allowance in excess of depreciation	(226,945)	-
Allowance for doubtful accounts	49,904	(111,866)
Other items that impact income taxes:		
Manufacturing and Processing Investment Tax Credit	(156,223)	(6,728)
Prior year tax adjustment	(7)	(1,007)
Income tax expense	$ 1,430,175	$ 1,996,475

20. Subsequent event

Patronage allocation to members

Subsequent to December 31, 2023 the Board of Directors approved a patronage allocation to members in the amount of $6,637,333 (2022 - $7,366,339).

21. Commitment

The Co-operative is committed to a renovation to the food store in Minnedosa. The estimated total cost of the project is $4,920,000. This project will be financed from operations or a loan.

22. Business combination

On March 31, 2023 the Co-operative acquired one Husky retail fuel site from Federated Co-operative Ltd. Total cash consideration was $881,103. The Co-operative determined the acquisition constituted a business combination and applied the acquisition method to record the transaction. This method resulted in the acquirees' identifiable assets being measured at their acquisition date fair values. The businesses have been integrated and are reported within the Business to Consumer division from the date of acquisition.

The purchase price allocation was as follows:

Land	$ 303,000
Building	661,700
Furniture & equipment	94,525
Net identifiable assets acquired	1,059,225
Gain on acquisition	178,122
Total cost of acquisition	$ 881,103
Cash consideration	$ 881,103

Heritage Co-op 1997 Ltd.
Unaudited Statistical Information
For the Year Ended December 31, 2023

Record of Sales and Net Savings

	Year	Sales	Net Savings	%
From Date of Incorporation, March 29, 1929, to December 31,	2014	$ 1,437,387,234	$ 82,805,714	5.8
	2015	151,532,258	4,187,938	2.8
	2016	153,226,387	6,210,560	4.1
	2017	164,997,980	7,716,062	4.7
	2018	182,323,490	10,708,863	5.8
	2019	197,526,709	13,441,158	6.8
(1)	2020	202,668,501	8,201,873	4.0
	2021	229,676,109	12,851,460	5.5
	2022	287,151,574	12,637,687	4.5
	2023	272,244,264	12,091,026	4.4
		$ 3,278,734,506	$ 170,852,341	5.2

(1) beginning in 2020 - consolidated financial statistics

Membership

Members purchasing during the year	27,501
Inactive members	5,846
Total members	33,347