

Otter Farm & Home Co-operative
Financial Statements
February 28, 2021

Otter Farm & Home Co-operative Contents

For the year ended February 28, 2021

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Management's Responsibility

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

Management is responsible for the preparation and presentation of the accompanying financial statements, including responsibility for significant accounting judgments and estimates in accordance with Canadian accounting standards for private enterprises and ensuring that all information in the annual report is consistent with the statements. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

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

MNP LLP is appointed by the members to audit the financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Board and management to discuss their audit findings.



Chief Executive Officer



Chief Financial Officer

Independent Auditor's Report

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

Opinion

We have audited the financial statements of Otter Farm & Home Co-operative (the "Co-operative"), which comprise the balance sheet as at February 28, 2021, and the statements of net savings, retained savings and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Co-operative as at February 28, 2021, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises.

Basis for Opinion

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian accounting standards for private enterprises, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Co-operative's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Co-operative's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Co-operative to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Abbotsford, British Columbia

April 27, 2021

MNP LLP

Chartered Professional Accountants

Otter Farm & Home Co-operative

Balance Sheet

As at February 28, 2021

(\$ in thousands)

	2021	2020
Assets		
Current		
Cash and cash equivalents	11,460	3,095
Accounts receivable (Note 3)	7,485	8,880
Income taxes recoverable	-	650
Inventory (Note 4)	14,316	12,929
Prepaid expenses	365	277
	33,626	25,831
Investments (Note 5)	28,794	28,695
Property, plant and equipment (Note 6)	64,417	58,209
Other assets (Note 7)	13,548	8,393
	140,385	121,128
Liabilities		
Current		
Accounts payable (Note 8)	18,683	20,697
Trust liabilities (Note 9)	660	392
Income taxes payable	677	-
Customer prepaid accounts	48	46
Current portion of long-term debt (Note 11)	4,839	3,881
	24,907	25,016
Long-term debt (Note 11)	34,583	18,561
	59,490	43,577
Commitments (Note 12)		
Subsequent events (Note 22)		
Members' Equity		
Share capital (Note 15)	25,636	26,058
General reserve and retained savings	55,259	51,493
	80,895	77,551
	140,385	121,128

Approved on behalf of the Board of Directors



Director



Director

Otter Farm & Home Co-operative

Statement of Net Savings

For the year ended February 28, 2021

(\$ in thousands)

	2021	2020
Sales (Note 16)	245,676	249,137
Cost of sales	207,100	219,424
Gross margin	38,576	29,713
Operating expenses	35,551	31,424
Savings (loss) from operations	3,025	(1,711)
Other items		
Net interest (Note 17)	(696)	(680)
Patronage refunds (Note 5)	988	13,164
FCL Loyalty Payment (Note 5)	4,541	964
	4,833	13,448
Savings before income taxes	7,858	11,737
Income taxes (Note 18)	826	1,325
Net savings	7,032	10,412

The accompanying notes are an integral part of these financial statements

Otter Farm & Home Co-operative Statement of General Reserve and Retained Savings

For the year ended February 28, 2021

(\$ in thousands)

	General Reserve	Retained Savings	2021	2020
Balance, beginning of year	45,087	6,406	51,493	45,868
Net savings distributed to retained savings	-	7,032	7,032	10,412
Patronage allocation	-	(3,266)	(3,266)	(4,787)
Appropriation from retained savings	8,573	(8,573)	-	-
Balance, end of year	53,660	1,599	55,259	51,493

The accompanying notes are an integral part of these financial statements

Otter Farm & Home Co-operative

Statement of Cash Flows

For the year ended February 28, 2021

(\$ in thousands)

	2021	2020
Cash provided by (used for) the following activities		
Operating activities		
Net savings	7,032	10,412
Depreciation of property, plant and equipment	4,947	4,424
FCL patronage refund	(984)	(13,161)
Gain on disposal of property, plant and equipment	(42)	(11)
	10,953	1,664
Changes in working capital accounts		
Accounts receivable	1,395	(561)
Income taxes recoverable (payable)	1,327	(796)
Inventories	(1,387)	(1,858)
Prepaid expenses	(88)	46
Accounts payable	(2,014)	28
Trust liabilities	268	224
Customer prepaid accounts	2	1
	10,456	(1,252)
Financing activities		
Increase in long-term debt	20,180	13,928
Repayment of long-term debt	(3,199)	(2,487)
Share capital issued	85	76
GST on patronage allocation	157	231
Redemption of share capital	(3,930)	(5,448)
	13,293	6,300
Investing activities		
Additions to property, plant and equipment	(11,241)	(12,565)
Proceeds from the disposal of property, plant and equipment	127	30
Purchase of other assets	(5,155)	(3,167)
Investments	(1)	(1)
Redemption of FCL shares	886	10,528
	(15,384)	(5,175)
Increase (decrease) in cash resources	8,365	(127)
Cash resources, beginning of year	3,095	3,222
Cash resources, end of year	11,460	3,095

The accompanying notes are an integral part of these financial statements

Otter Farm & Home Co-operative

Notes to the Financial Statements

For the year ended February 28, 2021
(\$ in thousands)

1. Incorporation and operations

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

Impacts of Covid-19

In March 2020, the World Health Organization declared a global pandemic known as COVID-19. The expected impacts on global commerce are expected to be far reaching. This will impact demand for the Co-operative's products and services in the near term and will impact the Co-operative's supply chains. It may also impact expected credit losses on amounts due from customers. The duration and impact of the COVID-19 outbreak is unknown at this time and it is not possible to reliably estimate the length and severity of these developments.

2. Significant accounting policies

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

Definition of financial year

The Co-operative's financial year ends on the Saturday closest to February 28. The 2021 fiscal year was 52 weeks (2020 - 52 weeks).

Cash and cash equivalents

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

Inventories

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

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

Investments

The Co-operative's investments are accounted for using the cost method. Accordingly, the investments are recorded at acquisition cost, less any provisions for permanent impairment or adjustments for patronage refunds or share redemptions. All transactions with FCL are disclosed in Note 5.

Property, plant and equipment

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

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

Otter Farm & Home Co-operative

Notes to the Financial Statements

For the year ended February 28, 2021
(\$ in thousands)

2. Significant accounting policies (Continued from previous page)

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

Expenditures for maintenance and repairs are charged to operating expenses as incurred. Significant expenditures for improvements are capitalized. Gains or losses realized on the disposal of property, plant and equipment are reflected in operations in the year of disposition.

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

An impairment loss is recognized when the carrying amount of a long-lived asset is not recoverable and exceeds its fair value. No such impairment loss was recorded during the year.

Long-lived assets

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

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

Asset retirement obligation

The Co-operative recognizes a liability for an asset retirement obligation in the period in which a legal liability is incurred. The liability is based on management's best estimate. The liability is subsequently adjusted for the passage of time, which is recognized as an accretion expense in the statement of operations. The liability is also adjusted due to revisions in either the timing or the amount of the original estimated cash flows associated with the liability. Actual costs incurred upon settlement of the asset retirement obligations are charged against the asset retirement obligation to the extent of the liability recorded.

Goodwill and intangible assets

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

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

Financial instruments

The Co-operative recognizes its financial instruments when the Co-operative becomes party to the contractual provisions of the financial instrument. All financial instruments are initially recorded at their fair value, including financial assets and liabilities originated and issued in a related party transaction with management. Financial assets and liabilities originated and issued in all other related party transactions are initially measured at their carrying or exchange amount in accordance with CPA Canada Handbook Section 3840 *Related Party Transactions*.

At initial recognition, the Co-operative may irrevocably elect to subsequently measure any financial instrument at fair value. The Co-operative has not made such an election during the year.

Otter Farm & Home Co-operative

Notes to the Financial Statements

For the year ended February 28, 2021
(\$ in thousands)

2. Significant accounting policies (Continued from previous page)

The Co-operative subsequently measures investments in equity instruments quoted in an active market and all derivative instruments, at fair value. Fair value is determined by published price quotations. Investments in equity instruments not quoted in an active market are subsequently measured at cost less impairment. All other financial assets and liabilities are subsequently measured at amortized cost.

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

Financial asset impairment

The Co-operative assesses impairment of all its financial assets measured at cost or amortized cost. The Co-operative groups assets for impairment testing when no asset is individually significant. Management considers 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. If so, 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; 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.

Revenue recognition

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

Lease revenue

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

Income taxes

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

Business combinations

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

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

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

Otter Farm & Home Co-operative

Notes to the Financial Statements

For the year ended February 28, 2021
(\$ in thousands)

2. Significant accounting policies (Continued from previous page)

Measurement uncertainty (use of estimates)

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

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

The application of the acquisition method requires certain estimates and assumptions especially concerning the determination of the fair value of the acquired intangible assets, property, plant and equipment, as well as the liabilities assumed at the date of the acquisition. Moreover, the useful lives of the acquired intangible assets, and property, plant and equipment have to be determined.

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

3. Accounts receivable

	2021	2020
Customer	7,400	8,505
Other	277	567
	<u>7,677</u>	<u>9,072</u>
Allowance for doubtful accounts	<u>(192)</u>	<u>(192)</u>
	<u>7,485</u>	<u>8,880</u>

4. Inventory

	2021	2020
Retail Division	8,256	6,939
Feed Division	3,549	3,127
Petroleum Division	2,511	2,863
	<u>14,316</u>	<u>12,929</u>

The cost of inventories recognized as an expense and included in cost of goods sold amounted to \$207,100 (2020 – \$219,424).

Otter Farm & Home Co-operative

Notes to the Financial Statements

For the year ended February 28, 2021
(\$ in thousands)

5. Investments

	2021	2020
Federated Co-operatives Limited	28,785	28,687
Other organizations, at cost	9	8
	28,794	28,695

Transactions with Federated Co-operatives Limited "FCL"

Patronage refund

The Co-operative, along with other Co-operatives in Western Canada, own FCL. At the end of each year, FCL divides a substantial portion of its net savings among these retail Co-operatives in proportion to the business done by each with FCL. During FCL's fiscal year ended October 31, 2020 the Co-operative purchased goods amounting to \$122,264 (2020 - \$126,111) from FCL in the normal course of operations.

These purchases resulted in a patronage refund from FCL which was received as non-cash consideration in the form of additional shares in FCL. During the year, FCL, based on its available cash flow, redeemed an amount of shares held by the Co-operative. The amounts of the patronage refund and shares redeemed are as follows:

	2021	2020
Opening investment balance	28,687	26,054
Patronage refund	984	13,161
Share redemptions	(886)	(10,528)
Closing investment balance	28,785	28,687

Asset retirement obligation

The Co-operative participates in a contaminated site management program established by FCL to manage its asset retirement obligations. This program limits the Co-operative's liability to \$25 per site as long as the Co-operative continues to exercise due diligence. The Co-operative has 13 (2020 - 13) sites under this program. Management believes that due diligence has been exercised and that the impact of the asset retirement obligation on the Co-operative's financial statements is not significant.

Petroleum purchase commitment

Under the terms of an agreement with FCL, the Co-operative has committed to purchase petroleum products, at market price, from FCL for its gas bar and cardlock operations over a ten year period commencing from March 2007. Failure to meet this commitment would require the Co-operative to immediately pay outstanding gas bar and cardlock loan balances owed to FCL plus repay any gas bar and cardlock grants received plus interest on the grants compounded annually at 10% from the grant date. Total grants received during this period amounted to approximately \$18,235 (2020 - \$18,235). Management intends to fulfill all existing contracts with FCL.

Loyalty program refund

Under the terms of the agreement with FCL, the Co-operative has committed to purchase at least 90% of its total goods from FCL and commits, to the best of its ability, to use FCL's services. If the eligibility requirements are met, FCL will pay the Co-operative, on a quarterly basis, a loyalty payment based on cents per litre. The FCL loyalty payment revenue is accrued as earned.

In 2021, the Co-operative received \$4,541 in loyalty payments (2020 - \$964).

Otter Farm & Home Co-operative Notes to the Financial Statements

For the year ended February 28, 2021
(\$ in thousands)

6. Property, plant and equipment

	<i>Cost</i>	<i>Accumulated depreciation</i>	<i>2021 Net book value</i>	<i>2020 Net book value</i>
Land	19,244	-	19,244	16,167
Buildings	31,483	12,615	18,868	19,355
Paved surfaces	8,040	3,473	4,567	4,967
Furniture and equipment	37,579	25,337	12,242	11,172
Vehicles	4,566	4,002	564	837
Computer equipment	3,725	2,877	848	701
Leasehold improvements	3,864	398	3,466	1,463
Assets not available for use	4,618	-	4,618	3,547
	113,119	48,702	64,417	58,209

Depreciation for the current year and included in operating and administration expense was \$4,947 (2020 - \$4,424).

7. Other assets

	<i>2021</i>	<i>2020</i>
Goodwill	7,628	5,106
Liquor and food vending rights	5,920	3,286
	13,548	8,392

The above goodwill amount represents the carrying amount of goodwill.

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

8. Accounts payable

	<i>2021</i>	<i>2020</i>
Federated Co-operatives Limited	11,678	15,567
Other	7,005	5,130
	18,683	20,697

9. Trust liabilities

	<i>2021</i>	<i>2020</i>
Payroll remittances	455	223
Provincial Sales Tax	166	135
Workers Compensation Board	39	34
	660	392

10. Line of credit

The Co-operative has a \$250,000 line of credit bearing interest at prime plus 1% with Aldergrove Credit Union, of which no amount has been drawn as at February 28, 2021. The line of credit is unsecured.

Otter Farm & Home Co-operative

Notes to the Financial Statements

For the year ended February 28, 2021
(\$ in thousands)

11. Long-term debt

	2021	2020
Federated Co-operatives Limited revolving term loan bears interest at the bank prime rate (currently at 2.45%) per annum, with a maximum credit limit of \$9,100 and has a maximum credit reduction of \$910 per year, due on August 10, 2030.	7,472	-
Federated Co-operatives Limited revolving term loan bears interest at the bank prime rate (currently at 2.45%) per annum, with a maximum credit limit of \$4,950 and has a maximum credit reduction of \$550 per year, due on November 30, 2029.	4,950	-
Federated Co-operatives Limited revolving term loan bears interest at the bank prime rate (currently at 2.45% (2020 - 3.95%)) per annum, with a maximum credit limit of \$4,550 and has a maximum credit reduction of \$650 per year, due on October 31, 2027.	4,550	5,200
Federated Co-operatives Limited revolving term loan bears interest at the bank prime rate (currently at 2.45%) per annum, with a maximum credit limit of \$3,900 and has a maximum credit reduction of \$390 per year, due on July 29, 2030.	3,900	-
Federated Co-operatives Limited revolving term loan bears interest at the bank prime rate (currently at 2.45% (2020 - 3.95%)) per annum, with a maximum credit limit of \$3,540 and has a maximum credit reduction of \$590 per year, due on September 30, 2026.	3,540	4,130
Federated Co-operatives Limited revolving term loan bears interest at the bank prime rate (currently at 2.45% (2020 - 3.95%)) per annum, with a maximum credit limit of \$3,200 and has a maximum credit reduction of \$400 per year, due on January 31, 2029.	3,200	2,042
Federated Co-operatives Limited revolving term loan bears interest at the bank prime rate (currently at 2.45% (2020 - 3.95%)) per annum, with a maximum credit limit of \$3,080 and has a maximum credit reduction of \$440 per year, due on September 30, 2027.	3,080	3,520
Federated Co-operatives Limited revolving term loan bears interest at the bank prime rate (currently at 2.45% (2020 - 3.95%)) per annum, with a maximum credit limit of \$2,700 and has a maximum credit reduction of \$300 per year, due on August 31, 2029.	2,700	-
Federated Co-operatives Limited revolving term loan bears interest at the bank prime rate (currently at 2.45% (2020 - 3.95%)) per annum, with a maximum credit limit of \$2,486 and has a maximum credit reduction of \$497 per year, due on September 30, 2025.	2,486	2,984
Federated Co-operatives Limited loan bears no interest and is repayable at \$682 on March 31, 2021 and \$682 due on March 31, 2022.	1,364	2,046
Federated Co-operatives Limited revolving term loan bears interest at the bank prime rate (currently at 2.45% (2020 - 3.95%)) per annum, with a maximum credit limit of \$1,200 and has a maximum credit reduction of \$200 per year, due on September 30, 2026.	1,200	1,400
Federated Co-operatives Limited revolving term loan bears interest at the bank prime rate (currently at 2.45% (2020 - 3.95%)) per annum, with a maximum credit limit of \$980 and has a maximum credit reduction of \$140 per year, due on September 30, 2027.	980	1,120
	39,422	22,442
Less: current portion of long-term debt	4,839	3,881
	34,583	18,561

Otter Farm & Home Co-operative

Notes to the Financial Statements

For the year ended February 28, 2021
(\$ in thousands)

11. Long-term debt (Continued from previous page)

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

2022	4,839
2023	5,000
2024	5,000
2025	5,000
2026	5,000
	<hr/>
	24,839

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

12. Commitments

The Co-operative is committed by contract to take future deliveries of grain at specified prices. The total of these contracts at February 28, 2021 amounts to approximately \$6,194 (2020 - \$6,194).

The Co-operative has entered into operating lease agreements for one gas bar location, two food store locations, one pharmacy location, three liquor store locations, and one pub location with expiry dates from September 2021 to October 2035. Total minimum lease payments over the remaining terms of the leases are \$12,611. Minimum annual lease payments for the next five years are as follows:

2022	1,434
2023	1,323
2024	1,251
2025	1,251
2026	1,142
	<hr/>
	6,401

13. 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 \$618 (2020 - \$595) of expense relating to the plan. There were no significant changes to the rate of employer contributions during the year.

14. Operating leases

The Co-operative leases properties to others. The leases are classified as operating leases and rental revenues are included in operating and administrative expenses. The cost of the properties held for leasing purposes are \$9,912 (2020 - \$8,367) and the accumulated depreciation is \$3,532 (2020 - \$2,043).

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(\$ in thousands)

15. Share capital

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

	2021	2020
Balance, beginning of year	26,058	26,411
Allocation to members	3,266	4,787
Cash from new members	85	76
Goods and Services Tax on allocation	157	231
	29,566	31,505
General repayment	(3,174)	(4,467)
Withdrawals and retirements	(322)	(280)
Withholding tax	(434)	(700)
	(3,930)	(5,447)
Balance, end of year	25,636	26,058

16. Sales

	2021	2020
Feed Division	49,179	43,205
Petroleum Division	128,101	162,450
Retail Division	68,396	43,482
	245,676	249,137

17. Net interest

	2021	2020
Interest on long-term debt	811	852
Interest revenue	(115)	(172)
	696	680

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18. 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:

	2021	2020
Expected income tax expense at the combined tax rate of 27% (2020 - 27%) net of the small business deduction and general rate reduction	2,122	3,168
Increase (decrease) in income tax expense resulting from:		
Capital cost allowance in excess of depreciation	(409)	(567)
Patronage allocation to members of \$3,266 (2020 - \$4,787)	(882)	(1,292)
Non-taxable income and non-deductible expense	(5)	20
Non-capital losses carried forward from previous years	-	(4)
Income tax expense	826	1,325

19. Business combinations

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

	Fair value at the acquisition date
Acquired assets and assumed liabilities	
Property, plant and equipment	3,599
Licenses	2,634
Other assets	579
Net identifiable asset and liabilities	6,812
Goodwill on acquisition recognized	2,522
Total cost of acquisition	9,334
Consideration	
Cash	9,334

20. Economic dependence

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

21. Financial instruments

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

Otter Farm & Home Co-operative

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21. Financial instruments *(Continued from previous page)*

Credit risk

The Co-operative is exposed to credit risk on accounts receivable from its customers. The Co-operative manages credit risk through an active credit management program. The Co-operative does not have a significant exposure to any individual customer.

Interest rate risk

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

Liquidity risk

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

Commodity price risk

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

Capital management

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

22. Subsequent events

Patronage allocation to members

Subsequent to February 28, 2021, the Board of Directors approved a patronage allocation to members in the amount of \$3,266 (2020 - \$4,787).

Business combination

Effective February 15, 2021, the Co-operative and Alcanna Inc. (TSX: CLIQ) entered into an asset purchase agreement (the "Agreement"), which is binding on both parties subject to customary conditions and consents and the completion of the Co-operative's financing arrangements. As per the agreement, Alcanna agreed to sell nineteen (19) convenience-format liquor stores in British Columbia to the Co-operative.

On March 31, 2021, the transaction was successfully closed, and the total purchase price was approximately \$81 million, inclusive of inventory and other assets.

The Co-operative partnered with First West Credit Union to obtain a secured term loan to cover the majority of the transaction (\$72 million); the remaining balance was paid with internally-generated funds.

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23. Comparative figures

Certain comparative figures have been reclassified to conform with current year presentation.