

SK LIVESTOCK FINANCE CO-OPERATIVE LTD.

FINANCIAL STATEMENTS

AUGUST 31, 2021

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying financial statements of **SK Livestock Finance Co-operative Ltd.** have been prepared by the Co-operative's management in accordance with Canadian accounting standards for private enterprises and necessarily include some amounts based on informed judgement and management estimates.

To assist management in fulfilling its responsibilities, a system of internal controls has been established to provide reasonable assurance that the financial statements are accurate and reliable and that assets are safeguarded.

The Board of Directors have reviewed and approved these financial statements.

These financial statements have been examined by the independent auditors, **Virtus Group LLP**, and their report is presented separately.



Sandra Moen
Chair, Board of Directors



Terry Wensley
General Manager

INDEPENDENT AUDITORS' REPORT

**To the Members,
SK Livestock Finance Co-operative Ltd.**

Opinion

We have audited the financial statements of **SK Livestock Finance Co-operative Ltd.**, which comprise the balance sheet as at August 31, 2021, and the statements of income, members equity (deficit) 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 August 31, 2021, and its financial performance and 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 Saskatchewan, 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 Matter

The financial statements of SK Livestock Finance Co-operative Ltd. for the year ended August 31, 2020, were audited by another auditor who expressed an unmodified opinion on those statements on February 17, 2021.

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.

INDEPENDENT AUDITORS' 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 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 significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

December 16, 2021
Regina, Saskatchewan

VIRTUS GROUP LLP
Chartered Professional Accountants

SK LIVESTOCK FINANCE CO-OPERATIVE LTD.
BALANCE SHEET
AS AT AUGUST 31, 2021
(with comparative figures for 2020)

ASSETS	<u>2021</u>	<u>2020</u>
Cash	\$ 287,483	\$ 1,686,188
Restricted cash - assurance funds (Note 3)	7,310,301	6,788,613
Short term investments (Note 4)	27,198	99,385
Accounts receivable	24,836	-
Interest receivable	1,083,656	1,482,010
Prepaid expenses	3,391	-
Member loans receivable (Note 5)	53,255,755	62,101,718
Property and equipment (Note 6)	18,012	18,214
	<u>\$ 62,010,632</u>	<u>\$ 72,176,128</u>
LIABILITIES		
Accounts payable and accrued liabilities	\$ 147,536	\$ 343,997
Government remittances payable	26,258	-
Income taxes payable	11,741	-
Assurance funds payable (Note 3)	7,310,301	7,488,408
Deferred membership revenue	48,167	-
Loans payable (Note 7)	54,432,331	64,439,103
	<u>61,976,334</u>	<u>72,271,508</u>
MEMBERS' EQUITY (DEFICIT)		
Members' equity (deficit)	<u>34,298</u>	<u>(95,380)</u>
	<u>\$ 62,010,632</u>	<u>\$ 72,176,128</u>
Commitment (Note 10)		

See accompanying notes to the financial statements.

APPROVED BY:



Director



Director

SK LIVESTOCK FINANCE CO-OPERATIVE LTD.
STATEMENT OF INCOME AND MEMBERS' EQUITY (DEFICIT)
FOR THE YEAR ENDED AUGUST 31, 2021
(with comparative figures for the year ended August 31, 2020)

	<u>2021</u>	<u>2020</u>
Revenue		
Interest	\$ 1,718,745	\$ 1,798,582
Inventory fees	128,054	124,590
Investment	27,723	43,900
Membership application fees	155,098	110,567
Ministry of Agriculture grant	24,032	130,300
Other	30,189	19,632
Purchasing fees	282,349	303,207
	<u>2,366,190</u>	<u>2,530,778</u>
Expenses		
Administration	47,185	66,320
Advertising and promotion	12,997	3,500
Amortization	2,171	1,777
Bad debts	50,000	-
Bank charges	11,641	12,980
Board of Director expenses	24,132	65,575
Consulting fees	83,547	181,866
Interest	1,036,923	1,147,790
Office and general	56,369	98,027
Professional services	46,284	113,364
Region expenses	258,995	247,859
Salaries and benefits	584,187	505,378
Security registration	10,340	10,678
	<u>2,224,771</u>	<u>2,455,114</u>
Income before income taxes	141,419	75,664
Income taxes	11,741	-
Net income	129,678	75,664
Members' equity (deficit) - beginning of year	<u>(95,380)</u>	<u>(171,044)</u>
Members' equity (deficit) - end of year	<u>\$ 34,298</u>	<u>\$ (95,380)</u>

See accompanying notes to the financial statements.

SK LIVESTOCK FINANCE CO-OPERATIVE LTD.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2021
(with comparative figures for the year ended August 31, 2020)

	<u>2021</u>	<u>2020</u>
Cash provided by (used in) operating activities:		
Net income	\$ 129,678	\$ 75,664
Items not involving cash:		
- Amortization	2,171	1,777
	131,849	77,441
Non-cash operating working capital (Note 11)	(367,776)	(564,278)
	(235,927)	(486,837)
Cash provided by (used in) investing activities:		
Decrease (increase) in member loans receivable	8,845,963	(62,102,036)
Additions to property and equipment	(1,969)	(19,991)
	8,843,994	(62,122,027)
Cash provided by (used in) financing activities:		
Proceeds from loans payable	-	64,439,102
Repayment of loans payable	(10,006,772)	(1,500)
	(10,006,772)	64,437,602
Increase (decrease) in cash	(1,398,705)	1,828,738
Cash position - beginning of year	1,686,188	(142,550)
Cash position - end of year	\$ 287,483	\$ 1,686,188

See accompanying notes to the financial statements.

SK LIVESTOCK FINANCE CO-OPERATIVE LTD.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2021
(with comparative figures for the year ended August 31, 2020)

1. Nature of operations

SK Livestock Finance Co-operative Ltd. (the "Co-operative") was incorporated under *The Co-operatives Act, 1996* in the province of Saskatchewan on March 29, 2019. The Co-operative provides financing and supervisory services for livestock producers in Saskatchewan.

2. Summary of significant accounting policies

The financial statements have been prepared in accordance with Canadian accounting standards for private enterprises. The financial statements required 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 period. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the period in which they become known. The financial statements reflect the following policies:

Financial instruments

Financial assets and financial liabilities are recorded on the balance sheet when the Co-operative becomes party to the contractual provisions of the financial instrument. The Co-operative initially measures its financial assets and financial liabilities at fair value, except for certain related party transactions that are measured at the carrying amount or exchange amount, as appropriate. Transactions are added to the carrying value and recognized over the expected life of the instrument using the straight line method. The Co-operative subsequently measures all its financial assets and financial liabilities at cost or amortized cost.

The Co-operative's recognized financial instruments consist of cash, short term investments, accounts receivable, interest receivable, member loans receivable, accounts payable, accrued liabilities, assurance funds payable and loans payable. The fair value of these items approximate their carrying value given the nature of the accounts.

Financial asset impairment

The Co-operative assesses impairment of all financial assets measured at cost or amortized cost at each fiscal year end. With respect to member loans receivable, Management considers whether the borrower is having significant financial difficulty or whether there has been a breach in contract 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 asset to the highest of: the present value of cash flows expected to be generated by holding the asset; 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 the current year earnings. The Company 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 income in the year the reversal occurs.

SK LIVESTOCK FINANCE CO-OPERATIVE LTD.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2021
 (with comparative figures for the year ended August 31, 2020)

2. Summary of significant accounting policies (continued)

Property and equipment

Property and equipment are recorded at cost less accumulated amortization. Amortization is provided on the straight-line basis over the estimated useful life of the assets at the following rates:

Furniture and fixtures	5 years
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Leasehold improvements are amortized on the straight-line basis over the term of the lease.

Revenue recognition

Interest revenue is recognized on the accrual basis over the term of the loan. Inventory and purchasing fees are recognized as the services are provided to members. Membership revenue is recognized over the membership year, which runs on a January to December timeframe. Investment income is recognized on the accrual basis as it is earned. Other revenues are recognized as the goods or services are provided.

Income taxes

The Co-operative accounts for income taxes using the taxes payable method under which only current income taxes payable or recoverable for the period, determined in accordance with the rules established by taxation authorities, are recognized as an expense or recovery.

3. Restricted cash - assurance funds

Upon approval of a member loan, the Co-operative collects funds from the member in accordance with the program agreements. Funds collected are 5% of the amount borrowed under the feeder program, and 10% under the breeder program. Funds are held on deposit with the Co-operative and maintained separately from the operating activities. If a member defaults on a loan, the funds may be used to pay amounts outstanding on the loan. Once a loan is repaid in full, the assurance funds are repayable to the member.

4. Short term investments

Short term investments consists of guaranteed investment certificates bearing interest at 2.15% and maturing in December 2021.

5. Member loans receivable

	<u>2021</u>	<u>2020</u>
Feeder program. Loans bearing interest at prime plus 0.5%.	\$ 16,501,520	\$ 23,688,371
Breeder program. Loans bearing interest at prime plus 0.75%.	36,804,235	38,413,347
General allowance for uncollectable amounts	(50,000)	-
	<u>\$ 53,255,755</u>	<u>\$ 62,101,718</u>

The Co-operative holds collateral on the loans provided to members through the assurance funds held and a security interest in the livestock purchased.

SK LIVESTOCK FINANCE CO-OPERATIVE LTD.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2021
(with comparative figures for the year ended August 31, 2020)

6. Property, plant and equipment

	2021		2020	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Furniture and fixtures	\$ 5,299	\$ 1,726	\$ 3,573	\$ 2,664
Leasehold improvements	16,661	2,222	14,439	15,550
	<u>\$ 21,960</u>	<u>\$ 3,948</u>	<u>\$ 18,012</u>	<u>\$ 18,214</u>

7. Loans payable

	<u>2021</u>	<u>2020</u>
Revolving loan payable to Bank of Montreal.	\$ 54,432,331	\$ 64,439,103
	<u>\$ 54,432,331</u>	<u>\$ 64,439,103</u>

The Co-operative has a lending facility with the Bank of Montreal, with an authorized limit of \$70,000,000 by way of prime loans bearing interest at prime, bankers' acceptance advances or Canadian Dollar Offered Rate (CDOR) loans bearing interest at CDOR plus 1.25%. The Co-operative also has access to a revolving working capital facility with an authorized limit of \$250,000, bearing interest at prime plus 1.00%.

Both lending facilities are due on demand and a general security agreement is pledged as security. The lending agreement includes certain covenants with which the Co-operative must comply. At year end, the Co-operative was in compliance with the debt covenants.

8. Reconciliation of income tax rates

The Co-operative's reported effective tax rate on accounting income differs from statutory rates as follows:

	<u>2021</u>	<u>2020</u>
Earnings before income taxes	\$ 141,419	\$ 75,664
Effective federal and provincial tax rate	9.16 %	11.00 %
Accounting income tax provision at statutory income tax rate	12,954	8,323
Non-capital loss carryforwards	(232)	(14,785)
Amortization in excess (deficiency) of CCA	(344)	6,462
Other differences	(667)	-
Income taxes	<u>\$ 11,711</u>	<u>\$ -</u>

SK LIVESTOCK FINANCE CO-OPERATIVE LTD.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2021
(with comparative figures for the year ended August 31, 2020)

9. Related party transactions

The Co-operative incurred the following related party transactions for the year:

	<u>2021</u>		<u>2020</u>
Membership fee revenue	\$ 3,500	\$	2,050
Salary and benefit expense	25,398		59,076

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

At the end of the year, the amounts included in assets and liabilities are as follows:

	<u>2021</u>		<u>2020</u>
Member loans receivable	\$ 2,691,599	\$	2,549,380
Assurance funds payable	250,950		233,242

10. Commitment

The Co-operative leases premises under agreements requiring aggregate minimum payments over the next four years as follows:

2022	\$ 32,025
2023	32,025
2024	32,025
2025	32,025

11. Non-cash operating working capital

Details of net change in each element of working capital relating to operations excluding cash are as follows:

	<u>2021</u>		<u>2020</u>
(Increase) decrease in current assets:			
Short term investments	\$ 72,187	\$	(99,385)
Accounts receivable	(24,836)		3,952
Interest receivable	398,354		(1,482,010)
Prepaid expenses	(3,391)		4,742
Restricted cash - assurance funds	(521,688)		(6,788,613)
	<u>(79,374)</u>		<u>(8,361,314)</u>

SK LIVESTOCK FINANCE CO-OPERATIVE LTD.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2021
(with comparative figures for the year ended August 31, 2020)

11. Non-cash operating working capital (continued)

Increase (decrease) in current liabilities:

Accounts payable and accrued liabilities	(196,461)	308,478
Government remittances payable	26,258	-
Income taxes payable	11,741	-
Assurance funds payable	(178,107)	7,488,408
Deferred revenue	48,167	150
	(288,402)	7,797,036
	\$ (367,776)	\$ (564,278)

12. Financial risk management

The Co-operative has a comprehensive risk management framework to monitor, evaluate and manage the principal risks assumed with financial instruments. The significant financial risks to which the Co-operative is exposed are:

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Co-operative is exposed to credit risk on the loans receivable from its members. In order to reduce its credit risk, the Co-operative has adopted credit policies, which include the review of a new customer's credit history and financial position before extending credit, obtaining a security position on the livestock purchased and holding assurance funds from members. Members are concentrated in the livestock industry, but are located throughout the province of Saskatchewan. The Co-operative has established a general allowance in 2021 to mitigate the risk of future losses. The Co-operative has incurred insignificant bad debt expense during the past two years.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Co-operative's exposure to interest rate risk is limited to the member loans receivable and loans payable as the interest rate on both instruments is variable. The interest rates are tied to prime and have been established using a pre-determined margin, and thus, as interest rates change, the amounts earned on the member loans receivable and expensed on the loans payable will maintain the pre-determined margin. Therefore, interest rate risk is not significant.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Co-operative's exposure to liquidity risk is dependent on the receipt of funds from its operations, external borrowings and other related sources. Funds from these sources are primarily used to finance working capital and capital expenditure requirements, and are considered adequate to meet the Co-operative's financial obligations.

SK LIVESTOCK FINANCE CO-OPERATIVE LTD.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2021
(with comparative figures for the year ended August 31, 2020)

13. Significant event

On March 11, 2020, the World Health Organization declared a global pandemic for the COVID-19 virus. The Co-operative is following health advisories and mandatory requirements from local, provincial and national health and government organizations. The Co-operative has continued to operate since the pandemic was declared. The future impact on the Co-operative's operations and finances, if any, is unknown at this time.

14. Comparative figures

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

The comparative year's financial statements were audited by other accountants.
