

SK LIVESTOCK FINANCE CO-OPERATIVE LTD.

FINANCIAL STATEMENTS

August 31, 2023

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 has 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.



Kristopher Webb
Chair, Board of Directors



T.J. (Terry) Wensley, FCUIC, BAC
Chief Executive Officer



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, 2023**, and the statements of income, members' equity 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, 2023, 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.

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

Management is responsible for the preparation and fair presentation of these 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 15, 2023
Regina, Saskatchewan

VIRTUS GROUP LLP
Chartered Professional Accountants

SK LIVESTOCK FINANCE CO-OPERATIVE LTD.
BALANCE SHEET
AS AT AUGUST 31, 2023
(with comparative figures for 2022)

ASSETS

	<u>2023</u>	<u>2022</u>
Cash	\$ 11,283	\$ 66,010
Restricted cash - assurance funds (Note 3)	6,915,690	6,910,975
Accounts receivable	9,071	15,617
Interest receivable	2,173,099	1,205,441
Prepaid expenses	11,954	8,417
Member schedules receivable (Note 4)	48,835,025	46,989,516
Property and equipment (Note 5)	16,734	16,161
	<u>\$ 57,972,856</u>	<u>\$ 55,212,137</u>

LIABILITIES

Accounts payable and accrued liabilities	\$ 173,511	\$ 156,630
Government remittances payable	5,837	16,367
Income taxes payable	3,372	14,326
Assurance funds payable (Note 3)	6,915,690	6,910,975
Deferred membership revenue	-	46,400
Loans payable (Note 6)	50,669,987	47,965,493
	<u>57,768,397</u>	<u>55,110,191</u>

MEMBERS' EQUITY

Members' equity	204,459	101,946
	<u>\$ 57,972,856</u>	<u>\$ 55,212,137</u>

See accompanying notes to the financial statements.

Approved on behalf of the board:





SK LIVESTOCK FINANCE CO-OPERATIVE LTD.
STATEMENT OF INCOME AND MEMBERS' EQUITY
FOR THE YEAR ENDED AUGUST 31, 2023
(with comparative figures for the year ended August 31, 2022)

	2023	2022
Revenue		
Interest	\$ 3,273,060	\$ 1,733,597
Inventory fees	102,650	111,567
Investment	304,387	66,895
Membership fees	177,722	138,987
Other	36,154	52,076
Purchasing fees	236,878	199,143
	<u>4,130,851</u>	<u>2,302,265</u>
Expenses		
Administration	72,140	56,590
Advertising and promotion	41,104	24,593
Amortization	2,554	2,206
Bad debts	246,217	80,571
Bank charges	11,931	16,641
Board of Director expenses	28,264	20,383
Consulting fees	37,490	50,289
Interest	2,598,477	1,034,906
Office and general	58,876	55,462
Professional services	58,445	43,740
Region expenses	223,063	220,625
Salaries and benefits	624,539	608,386
Security registration	7,540	5,899
	<u>4,010,640</u>	<u>2,220,291</u>
Income before income taxes	120,211	81,974
Income taxes (Note 7)	17,698	14,326
Net income	102,513	67,648
Members' equity - beginning of year	101,946	34,298
Members' equity - end of year	<u>\$ 204,459</u>	<u>\$ 101,946</u>

See accompanying notes to the financial statements.

SK LIVESTOCK FINANCE CO-OPERATIVE LTD.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2023
(with comparative figures for the year ended August 31, 2022)

	2023	2022
Cash provided by (used in) operating activities:		
Net income	\$ 102,513	\$ 67,648
Items not involving cash:		
Amortization	2,554	2,206
	<u>105,067</u>	<u>69,854</u>
Non-cash operating working capital (Note 10)	<u>(1,015,652)</u>	<u>(90,373)</u>
	<u>(910,585)</u>	<u>(20,519)</u>
Cash provided by (used in) investing activities:		
Decrease in member schedules receivable	(1,845,509)	6,266,239
Additions to property and equipment	(3,127)	(356)
	<u>(1,848,636)</u>	<u>6,265,883</u>
Cash provided by (used in) financing activities:		
Repayment of loans payable	<u>2,704,494</u>	<u>(6,466,838)</u>
Increase in cash	(54,727)	(221,474)
Cash position - beginning of year	<u>66,010</u>	<u>287,484</u>
Cash position - end of year	<u>\$ 11,283</u>	<u>\$ 66,010</u>

See accompanying notes to the financial statements.

SK LIVESTOCK FINANCE CO-OPERATIVE LTD.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2023
(with comparative figures for the year ended August 31, 2022)

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 amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount 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 accounting 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. Transaction costs 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 of its financial assets and financial liabilities at cost or amortized cost.

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

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 schedules 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 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 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.

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 annual 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.

SK LIVESTOCK FINANCE CO-OPERATIVE LTD.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2023
(with comparative figures for the year ended August 31, 2022)

2. Summary of significant accounting policies (continued)

Revenue recognition

Interest revenue is recognized on the accrual basis over the term of the schedule. Inventory and purchasing fees are recognized as the services are provided to members. Membership revenue is recognized when a membership application is approved. 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.

Change in accounting policy

Effective August 31, 2023, the Co-operative chose to early adopt the changes to ASPE 3400 *Revenue*. Under the new accounting standard, non refundable membership revenue is recognized when received rather than deferred and recognized over the term of the membership. The change was not applied retrospectively as the amounts in the prior period was not significant.

3. Restricted cash - assurance funds

Upon approval of a member schedule, 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 operating activities. If a member defaults on a schedule, the funds may be used to pay amounts outstanding on the schedule. Once a schedule is repaid in full, the assurance funds are repayable to the member.

4. Member schedules receivable

	2023	2022
Breeder program: bearing interest at prime plus 0.75%	\$ 31,493,038	\$ 33,818,824
Feeder program: bearing interest at prime plus 0.5%	17,691,635	13,301,263
Specific allowance for uncollectable amounts	(149,648)	(30,571)
General allowance	(200,000)	(100,000)
	\$ 48,835,025	\$ 46,989,516

The Co-operative refers to the scheduled agreements advancing funds to members with specific repayment terms as schedules. The Co-operative holds collateral on the amounts advanced to members through the assurance funds held and a security interest in the livestock purchased.

5. Property and equipment

	2023		2022	
	Cost	Amortization	Value	Value
Furniture and fixtures	\$ 8,780	\$ 4,264	\$ 4,516	\$ 2,832
Leasehold improvements	16,661	4,443	12,218	13,329
	\$ 25,441	\$ 8,707	\$ 16,734	\$ 16,161

SK LIVESTOCK FINANCE CO-OPERATIVE LTD.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2023
(with comparative figures for the year ended August 31, 2022)

6. Loans payable

	2023	2022
Revolving loan payable to Bank of Montreal.	\$ 50,669,987	\$ 47,965,493

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.

7. Reconciliation of income tax rates

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

	2023	2022
Earnings before income taxes	\$ 120,211	\$ 81,974
Effective federal and provincial tax rate	9.17%	9.00%
Accounting income tax provision at statutory income tax rate	11,023	7,378
Adjustments:		
Amortization in excess (deficiency) of CCA	(439)	(265)
Other differences	7,114	7,213
Income tax expense	\$ 17,698	\$ 14,326

8. Related party transactions

The Co-operative incurred the following related party transactions with directors in the year:

	2023	2022
Membership fee revenue	\$ 2,950	\$ 3,650
Salary and benefit expense	16,400	18,750

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:

	2023	2022
Member schedules receivable	\$ 1,082,262	\$ 2,419,114
Assurance funds payable	183,808	260,481

9. Commitment

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

2024	\$	32,025
2025		32,025

SK LIVESTOCK FINANCE CO-OPERATIVE LTD.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2023
(with comparative figures for the year ended August 31, 2022)

10. Non-cash operating working capital

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

	2023	2022
(Increase) decrease in current assets:		
Restricted cash - assurance funds	\$ (4,715)	\$ 399,326
Short term investments	-	27,198
Accounts receivable	6,546	9,219
Interest receivable	(967,658)	(121,785)
Prepaid expenses	(3,537)	(5,026)
	<u>(969,364)</u>	<u>308,932</u>
Increase (decrease) in current liabilities:		
Accounts payable and accrued liabilities	16,881	9,094
Government remittances payable	(10,530)	(9,891)
Income taxes payable	(10,954)	2,585
Assurance funds payable	4,715	(399,326)
Deferred revenue	(46,400)	(1,767)
	<u>(46,288)</u>	<u>(399,305)</u>
	<u>\$ (1,015,652)</u>	<u>\$ (90,373)</u>

11. Financial risk management

The Co-operative has a 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 schedules 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 to mitigate the risk of future losses.

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 schedules 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 schedules 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.