Annual Report 2021

Pulling for Canadian Farmers

Annual Report

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On the cover: Hensall Co-op's 2021 Photo Contest Best in Show winning photo by Annemarie Kraft

Back cover:
Exeter Truck Repair Shop
by Maggie Thompson

Board of Directors President

TERRY VANDERWAL

Once again COVID-19 was the big story of 2021. Our employees worked hard to support Canadian agriculture through the challenges, just as they have from the beginning. Looking back on the past year, I feel tremendous pride at how our team helped members, customers and partners operate seamlessly under trying conditions. Due to their efforts, we closed the year strong and are well positioned to follow through on our strategies for growth.

While keeping our employees and stakeholders safe from COVID was our main focus throughout the year, we also faced a number of unprecedented challenges. With discipline and dedication in a demanding and volatile environment, our employees weathered supply chain disruptions; scarcity of everything from feed ingredients and fertilizer to equipment parts and shipping containers; a strike at a major port; labour shortages in general; and market volatility that drove large margin calls.

Despite these obstacles and building on the momentum we generated prior to the pandemic, our people delivered remarkable outcomes across the top and bottom lines in the fiscal year:

- revenues increased by $92 million to $897 million
- earnings before distributions and tax increased by $2 million to $13.4 million
- the Board declared a patronage dividend of 1% on eligible transactions
- cash reserves were available to address the steep increase in commodity prices

Our response throughout the pandemic has been guided by our values:

- being innovative, committed and empowered in everything we do
- acting honestly and with transparency
- working together with our members to navigate uncharted territory

Working together is literally what co-operative means. Most economic forecasts indicate challenges are likely to continue for some time. Our role as stewards of Canadian agriculture will become even more important. We see maintaining our emphasis on quality of service as we guide members through unprecedented volatility as the key to discovering new opportunities that will drive growth on our farms. Leveraging our success at navigating new logistics pitfalls has empowered us to provide a reliable, high-quality food supply to export markets and increased faith in Canadian suppliers' ability to meet demand. By reinforcing our standing as a dependable supplier, we fortify our capacity to pay solid premiums to our membership. On this foundation and by building value-added innovations such as Hensall Food Inc., we are capitalizing on the unprecedented faith the world has in Canadian farmers.

The pandemic may have redefined how markets operate, how commerce takes place and how we live and work together. It has not, however, altered in any way Hensall Co-op's core values. If anything, the power of our principles has only been reaffirmed. Our co-operative exists for the social and economic well-being of our members.

We have worked together the way rural communities always have and we have seen what that makes possible. In our business, volatility is not usually a good thing, but when the right people experience it together, it can also look like opportunity.

On behalf of the Board, I want to thank our employees for their hard work and dedication in a year unlike any we have seen before. I would also like to thank our members for the support and confidence in our Co-op. I trust you all share our pride in Hensall Co-op's success in 2021. I appreciate the enthusiasm I witness every day for our future plans.

Terry VanderWal,
President

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Chief Executive Officer

BRAD CHANDLER

While COVID-19 continued to cause disruptions unprecedented in scale and impact, our team at Hensall Co-op delivered strong results for our members with record revenues, a 17% increase in earnings before taxes and distributions and over $17 million accrued to members for interest and patronage. This success, amid unparallelled challenges across our business and businesses around the world, reflects the underlying strength of our people, our assets and our strategy.

Our people

It has been a gruelling time over the past two years and the Hensall Co-op employees continue to step up to keep everyone safe, to meet the needs of our customers and producers and to support our local communities in many capacities. They are our strength.

Our assets

We have a robust set of assets to provide growth. In 2021 we launched a cyber security initiative to protect them. We also continued to make strategic investments to expand our asset base. These investments included several projects to increase storage capacity to increase our flexibility, new fertilizer blending assets and several projects to improve productivity and throughput. We continue to find new ways of doing things to reduce costs for our producers and ourselves. Given the uncertain economic environment and inflationary pressures, we recognize good operational performance is necessary to keep us competitive in the global marketplace. We continue to focus on using real time data to improve our responsiveness and competitiveness and with the pressure of higher costs, we will continue to invest in our assets to drive productivity with the goal of continuing to reduce our departmental and general expenses.

Our strategy

In the midst of the challenges we were faced with in 2021, we ensured that we took action to address near-term pressures while remaining focused on the long-term growth opportunities. In 2021 we delivered several strategic initiatives to enhance value for our members. Among them, we launched Hensall Foods Inc. (HFI). HFI's goal is to develop and further grow new revenue streams through innovation to allow Hensall Co-op direct access to retail consumers and provide Canadian farmers more value-added opportunities. We made substantial headway on our first project which is the launch of a product in the growing ready-made meal space. Our innovative technology allows for a longer shelf life without the use of preservatives. We look forward to launching full scale production in fiscal 2022.

During the year Hensall Global acquired a majority interest in Overseas Container Forwarding Inc. (OCF) and a minority interest in Overseas Container Logistics Ltd. (OCL). OCF, with operations in Western Canada and Seattle, Washington. These acquisitions will provide immediate growth and will also be a catalyst in further expanding the Hensall Global business. In addition, providing exemplary service in a challenging logistics environment provides an opportunity to expand our export opportunities and increase demand for Canadian products around the world. Higher demand means more opportunities for premiums to Canadian growers.

With our people, our assets and our strategy, we are well-positioned for the global recovery and we anticipate we will capitalize on market and food trends that favour our business. Growth of the alternative foods markets and in particular the increase in plant-based alternatives will provide opportunity for our IP soybean and edible bean businesses. Higher meat consumption in developing countries should translate into exports for our livestock farmers. Demand for sustainability, transparency and traceability will work in our favour since we have developed many tools and processes to support these initiatives. Growth in demand for Canadian products will drive growth of crop services and energy solutions.

While we anticipate that the near term will be challenging, we are driving forward. We are focused on our strategy of providing value-added solutions to Canadian producers. We know we will continue to face difficulties, but we are confident we can overcome them just as we have done over the past two years. We enter fiscal 2022 ready to compete and win in a challenging environment.

I want to recognize the incredible achievements of Hensall Co-op's employees. It is difficult to describe the challenging environment every one of them has had to overcome during the pandemic. They embody our purpose "We help, serve and care … to experience the joy of adding value to peoples' lives everywhere." I can't thank them enough for their dedication and commitment.

I would also like to thank the Board of Directors for their dedication and commitment. Your guidance is invaluable.

Lastly, I would like to thank you, the members, for your continued support of our Co-op. As an organization we truly are "Pulling for Canadian Farmers" and your commitment to the co-op principles allows us to do just that.

Brad Chandler,
Chief Executive Officer

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Board of
DIRECTORS

Terry VanderWal
President, Denfield

Henry Vanderburgt
Vice-President, Dashwood

Peter Dinsmore
Past President, Gorrie

Robert Cornelis
Secretary, Ailsa Craig

Paul Gowing
Bluevale

Sebastian Kraft
Dungannon

Ed Mosterd
Shakespeare

Keith Strang
Hensall

Aise Van Beets
Bayfield

Steve Jansen
Seaforth

Ed Van Miltenburg
Seaforth

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Our
EXECUTIVE

Brad Chandler
Chief Executive Officer

Joey Groot
Corporate Operations Manager

Pablo Malacara
Chief Financial Officer

Jerry Groot
Grain Marketing & Energy Manager

Brad Borland
President, Hensall Global

Brad Grabham
General Manager of Food Products & Strategic Business Development

Jim Barclay
Crop Services Manager

Reta Byvelds
General Manager, Animal Nutrition

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2021 HIGHLIGHTS

Record revenues of $897 million

Launched Hensall Foods Inc. with entry into the ready-made meals market

Hensall FOODS

Acquired equity interest in Overseas Container Forwarding Inc. (OCF), Overseas Container Logistics Ltd. (OCL) with offices in Vancouver and Seattle

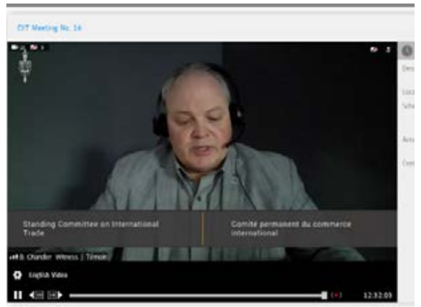
OCF Your LINK to World markets · Hensall GLOBAL · OVERSEAS CONTAINER LOGISTICS

Invested to expand storage and fertilizer blending capability in Seaforth and added storage in Hensall and Miami

12% increase in edible beans received

Photo credit: Tory Struyf

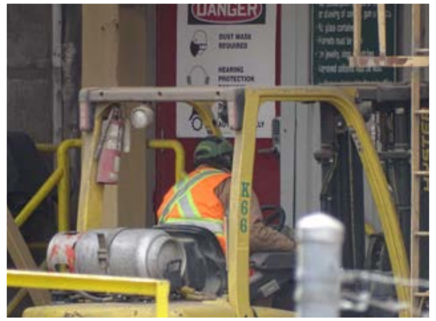
CEO Brad Chandler appeared before the International Trade Committee of Parliament to provide our perspective on Bill C18, "An Act to implement the Agreement on Trade Continuity between Canada and the United Kingdom of Great Britain and Northern Ireland"



Launched our S.E.E.D. (Success Enrichment Economic Development) Series of Webinars for Members

SUCCESS ENRICHMENT ECONOMIC DEVELOPMENT SEED

Compensable injuries were reduced to the lowest rate in the last 8 years



Launched our Strong Communities initiative and our Bright Futures Scholarship Program

HENSALL CO-OP BRIGHT FUTURES SCHOLARSHIP

HENSALL CO-OP STRONG COMMUNITIES INITIATIVE

Patronage and interest accrued to members increased by $1.5 million to $17.3 million

Fertilizer sales grew by more than 6% in volume year over year

Feed manufacturing throughput increased by 5.2% year over year

Photo credit: Craig Hebert

Three new delivery units were added to our Energy fleet

Our elevators increased volume handled by 5% year over year

Photo credit: Neil Driscoll

Overall grains and ingredients volume (including brokerage) increased by 10% year over year

Photo credit: Nickey Cornelis

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OUR **PEOPLE**

As we continued to feel the pressure of the COVID-19 pandemic in 2021, our employees once again were the backbone of our business, working tirelessly through uncertain times in a safe, cautious and efficient manner. We are celebrating another great year because of their dedication and are very appreciative of our team members who have continued to commit themselves to our Co-operative during these unprecedented times by working together.

Our team members are the most valuable asset supporting our members. We are committed to ensuring a safe work environment for everyone. While working through the uncertainty of COVID-19 and with workplace rules constantly changing, our employees were asked to support increased protection measures to ensure we continued to have the capacity to provide our essential services. Through discipline, hard work and a team commitment, we were able to deliver those services with no downtime resulting from COVID-19. At the same time, we reduced our compensable injuries to the lowest number in the past 8 years. This outstanding performance is the result of the commitment and dedication of our hard-working employees.

We are very pleased that over the past 24 months our fleet safety record, as reported in our commercial vehicle operator's registration (CVOR), has been running consistently at the safest levels the company has experienced. This outstanding performance is thanks to the efforts and participation of our drivers, yard operators and our fleet safety team.

Throughout the year, we have continued to improve and promote the Hensall Co-op culture. We have improved our on-boarding process and will further expand this Initiative with timely updates to our employee group. Enhanced onboarding and communication

will give us the opportunity to introduce our employees to the breadth of our operations. It will also offer more insight into all areas of the business, new Innovations and team successes while demonstrating the opportunity for us to grow together by being empowered.

Joey Groot

Corporate Operations Manager

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FINANCE AND ADMINISTRATION

During another year impacted by COVID-19, we made significant strides in improving our finance and administrative organization. We addressed limitations we had previously identified and strengthened our system infrastructure against new challenges and threats.

Our information technology processes have been enhanced by integrating real-time data into the business. The first phases of our SAGE system implementation, comprising of financial reporting and accounts payable, were completed and we made headway on improving integration of our Customer Relationship Management system with our financial systems. The new software allows us to access data more quickly and clearly, with enhanced management control measures for spending. We look forward to continuing to implement system upgrades across other reporting streams.

Responding to the elevated risk of cyber attack, we focused on bolstering cyber security across our entire business and across all platforms. This included systematic upgrading of our firewall defences, tightening of multiple procedures and enhancing cyber security training for all employees. We will continue to focus on protecting the information we have in our data systems.

We continued to execute on our paperless plan to drive efficiency in our office environments. As we develop more digital documents and systems, our employees can process valuable information without spending time and energy managing paper documents. As a result they have more time to take care of business. As we move forward with our plans, our goal will always be to ensure customer and member interaction is enhanced as well.

Photo Credit: Annemarie Kraft

We are extremely pleased our membership is continuing to increase. In 2021 we introduced our S.E.E.D. series of webinars. As we continue to provide our members with a variety of products and value-added services, we are pulling for Canadian Agriculture across all our communities and beyond.

Pablo Malacara,
Chief Financial Officer

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ANIMAL NUTRITION

Amid another year of challenges, we are grateful to our team for their dedication and support of our customers and the livestock and poultry industry in Ontario. Throughout the year we were faced with volume fluctuations driven by quota reductions and unplanned shutdowns at meat processing facilities. This created variability and disruptions across our value streams. We would not have made it through if not for the adaptability of our entire employee group. With their support, we shifted production across our facilities, allowing us to maintain efficiency without impacting service.

We look forward to continuing to provide robust solutions for the livestock and poultry industry in Ontario. As I write this we are awaiting delivery of two new delivery units, we have several projects on the go to improve the efficiency of our facilities and we continue to focus on the results our feed delivers in the field for our producers. We faced incredible volatility in commodity prices over the year and we doubled down in our efforts to ensure our feed solutions continue to provide the right balance of performance versus cost to maximize the profit on farm. Amid global issues related to freight and logistics, we have dedicated resources to increasing our material planning and procurement to ensure we can provide the best solutions on farm.

Photo Credit: Craig Hebert

With the unpredictability of the industry, we maintained our dedication to providing valuable services to our customers. Our service offerings, including vaccinations, forage testing and expertise, in-barn support and commodity bookings will always be an integral part of our offerings. In a year like no other, these services supported our customers through a very challenging time.

We thank our customers for choosing us in a turbulent time and we look forward to continuing to support the growth of the livestock and poultry industry in Ontario.

Reta Byvelds,
General Manager, Animal Nutrition

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CROP
SERVICES

Photo Credit:Dwyer Brown

When we began the year, we didn't think we would be faced with more challenges than in the previous year. Faced with the ongoing pressure of working within COVID-19 protocols, in 2021 we saw the beginning of the global value stream disruptions that are impacting so many parts of Canadian business. Logistics disruptions delayed products during the crucial planting season. Market conditions drove higher demand for crop inputs. Amid these unprecedented challenges, we successfully met increased demand for product and we fulfilled our customers' requirements.

While managing the day-to-day operations was more challenging and time consuming, we also successfully completed several projects to improve the support we provide to our producers:

- We launched FieldTrace® 1.0; our updated and secure web-based Crop Management System. FieldTrace® is also designed to be an integral part of Hensall Co-op's Quality Assurance System which is critical to maintaining our reputation with global food producers.
- We built a new fertilizer blender and storage facility in Seaforth to improve our responsiveness to the local customer base.
- We have a new 120 ft AgChem Rogator at the Hensall location and a second 90 ft John Deere Airflow unit at our Greenway location to increase our capacity during the tight application windows.

We anticipate the market volatility and value stream disruptions will continue in the near to mid-term future. We are fortunate to have in-house logistics expertise and solid relationships with our supply chain partners to support us as we address the challenges. By working closely with our producers, we will help them make decisions from planning to harvest that will drive their bottom lines notwithstanding the volatility.

Thank you to the Hensall Co-op employees and our producers for your support through a tumultuous time.

Jim Barclay,
Crop Retail Manager

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ENERGY
DEPARTMENT

We have completed what has been another challenging year, with COVID-19 disrupting the lives of our customers and our employees. The energy market has been greatly affected by the pandemic, with lock-downs softening global demand early on, to the easing of restrictions in 2021, we saw a near complete reversal in energy values from the prior year. The all-time lows we saw in 2020 have given way to near 7-year highs as the market reacts, perhaps over-reacts, to fluctuations in demand.

With rolling blackouts and energy shortages in various countries including China and the European Union, seasonal patterns are no longer consistent. Demand has rebounded more quickly than forecasted. Extreme weather events have also impacted energy infrastructure. These situations have contributed to volatility we are likely to continue to witness over the next year. Working with a strong energy partner will become increasingly important as producers navigate this ongoing instability.

Given the importance of providing energy solutions to our producers, Hensall Co-op has continued to invest in our Energy business. In 2021 we added 2 new delivery units: a propane unit, a fuel unit and also 1 new service unit. We are updating our software applications to improve our service levels to our customers as well. New applications, such as tank monitors, provide us the opportunity to improve our responsiveness while working more efficiently. These investments are made with a goal of providing better service with competitive pricing.

We were pleased 2021 gave the industry a very good harvest. Yields were good. The early harvest and drier conditions reduced our fall season volumes somewhat – but fortunately this was for the benefit of our producers.

I want to thank our employees for their perseverance through a difficult year. I would also like to thank our customers for their ongoing support of our energy business.

Jerry Groot,
Grain Marketing & Energy Manager

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FOOD PRODUCTS

A 'strategic supply chain partner' is how our clients now describe Hensall Co-op, as we delivered crucial food products to over 45 countries in some unprecedented times. It has been a difficult time for our staff as we had to deal with many scenarios we had not seen before and encountered more work to get the same product to our end users.

During the last 12 months, each market and country has responded differently on timing, demand and fluctuation due to COVID-19. We had to work harder to develop rapport with each end-user and to understand the conflicts in their local marketplace. Each end user had different effects from the COVID-19 pandemic, from sales dropping to nothing or spiking; or from lost business to new opportunities. Our clients worked very hard to make sure our products were top-of-mind during this difficult year.

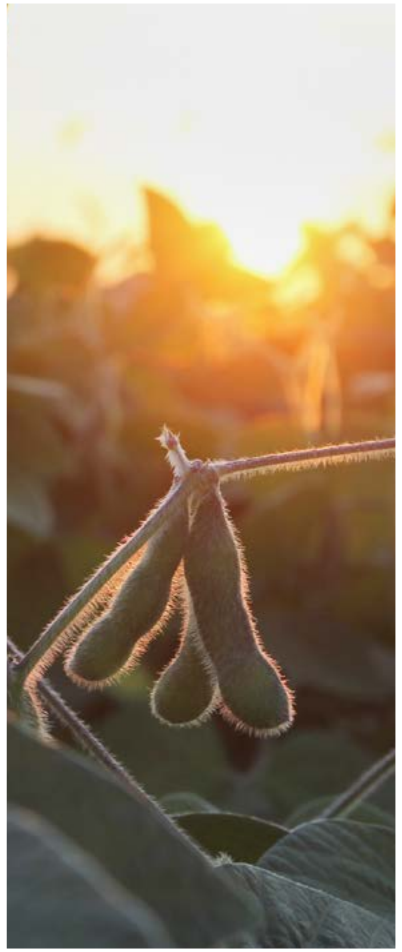

Photo Credit: Nickey Cornelis

We saw a tremendous increase in sales for all our products due to the marketing conditions and our reputation. This included expansion of our high-quality IP soybeans into China and other parts of Asia. The edible bean business has seen substantial demand and growth within our customer base so we took this opportunity to strategically increase our customer base.

Overall, our reputation will continue to strengthen our relationship with our end-users and allow us to continue being a leader in the food sector. Hensall Co-op's grower members are vital to our success as a strategic supply chain partner.

Brad Grabham,
General Manager of Food Products & Strategic Business Development

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GRAIN & INGREDIENT MARKETING

The 2021 harvest was a welcome bright spot after a challenging year. We saw good yields with corn coming in at the 175 bushels/acre range, soybeans around 52 bushels/acre and wheat in the range of 85 bushels/acre. Quality was good with solid test weights and low toxin levels. Prices started to rally as harvest began and continued to increase through completion as world demand continued to increase.

Global weather and economic factors drove most of the market increases. Brazil saw very dry conditions during soybean planting. This ultimately delayed their harvest which put pressure on US exports just as global demand was increasing. As a result, Brazilian producers were also forced to delay their second crop corn planting. The delay had a detrimental impact on yield which put more upward pressure on prices. As the planting season shifted to North America, we experienced a spring and summer drought in the west of the U.S and Canada. The lack of moisture hurt the canola and spring wheat crops, putting pressure on the vegetable oil markets (palm, canola and soy oil) just as demand for biodiesels began to increase. The result has been strong markets for grains and oilseeds from August 2020 to May 2021:

- The flat price of corn increased 91% from $4.76/bu to $9.09/bu
- Wheat increased 58% from $5.95/bu to $9.42
- Soybeans before premiums increased 79% from $11.13 to $19.90

We enjoyed a terrific planting and growing season for the Ontario 2021 season. There were some challenges with the wheat harvest

Photo Credit: Adam Thompson

which occurred around year end. The late harvest and high rainfall had some impact on quality and the falling numbers. Yields, however, were very good.

We thank our members for their continued support of Hensall Co-op. We will continue to work hard to earn your business by providing good opportunities to take advantage of the market conditions as they arise.

Jerry Groot,
Grain Marketing & Energy Manager

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HENSALL GLOBAL
LOGISTICS

2021 proved to be an unprecedented year in transportation and logistics. The fallout from COVID-19 was the primary force behind a severely disrupted global supply chain. Record North American import volumes overwhelmed transport infrastructure, resulting in critical shipping delays.

Demand for ocean container freight rose to extraordinary levels, and vessel lines reacted by evacuating empty containers back to Asia to capitalize on high paying eastbound cargo. As a result, container availability for our international shipping programs was negatively impacted.

Additional key challenges during the year included ongoing labour issues at the Port of Montreal, fuel price increases in the range of 35%, and labour shortages across the entire logistics sector.

Despite these overwhelming challenges, 2021 was a successful year for Hensall Global. We recognize and thank our professional, expert team members as the most critical factor in that success. We achieved significant volume increases in both our international ocean container and domestic freight brokerage programs, up 8% and 19% respectively over the previous year. Volumes in both our intermodal and bulk agricultural trucking operations remained steady year over year. Our fleet maintenance facility realized a 21% increase in revenue over the previous year.

Hensall Global made several strategic acquisitions in 2021. In January, we purchased the land and buildings of our MVIS licenced fleet maintenance facility in Exeter. This facility enables us to provide critical maintenance services to our own fleet and those of external customers. In June, we acquired a majority interest in Overseas Container Forwarding Inc. and a minority interest in Overseas Container Logistics Ltd. Operating locations include Vancouver, Winnipeg, Calgary and Seattle, WA. These acquisitions have increased our ocean container shipping volumes significantly and have expanded our service offering to our global customer base.

Photo Credit: Krista Dowes

Looking forward to fiscal 2022, we expect continued, material disruptions in transportation and logistics. We remain committed to leveraging our strong market position, expertise, and systems, to provide supply chain solutions to our valued customers.

Brad Borland,
President, Hensall Global

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CORPORATE
OPERATIONS

In 2021 we spent a tremendous amount of time improving our facilities to improve the farmers' experience. During the year we completed many producer-focused projects including:

- Developed state-of-the-art fertilizer storage facilities at both our Seaforth and Hensall locations
- Redesigned the layout of our Aylmer facility for better traffic flow, improved the use of storage and replaced our dryer with a newer, energy-efficient model.
- Implemented efficiency and process improvements in Bloom, including changing the facility layout to increase receiving capabilities, adjusted the processing line to improve throughput and increased finished product storage to mitigate outbound pipeline challenges driven by the global value stream disruptions that impacted most supply channels
- Initiated improvements at our receiving facility in Miami

These projects continue to support the Hensall Co-op member base and are a major reason why we continue to see growth in inbound receipts of food-grade beans. In 2021 we received over 300,000 MT which represents an increase of 12% year over year.

In 2021, during the pandemic, we laid the groundwork for the implementation of a ready-made meal line. We are looking forward to the product launch in the fall of 2021.

Hensall Co-op continues to recognize and be thankful for the contributions of our employees and members. As we continue to grow, we will continue to be guided by our values: Committed, Empowered, Honest, Innovative and Together. We are pulling for Canadian agriculture and are proud to be farmer owned.

Joey Groot,
Corporate Operations Manager

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Photo credit: Dwyer Brown

Independent auditor's report

To the Members of Hensall District Co-operative, Incorporated

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Hensall District Co-operative, Incorporated and its subsidiaries (together, the Co-operative) as at July 31, 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 (ASPE).

What we have audited

The Co-operative's financial statements comprise:

- the consolidated balance sheet as at July 31, 2021;
- the consolidated statement of earnings for the year then ended;
- the consolidated statement of changes in retained earnings and non-controlling interest for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Co-operative in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with ASPE, 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-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 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 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 one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentation, 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 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Co-operative 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.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants
Waterloo, Ontario
October 15, 2021

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CONSOLIDATED BALANCE SHEET

As at July 31, 2021

	2021 $	2020 $
Assets (notes 13 and 16)		
Current assets		
Cash	2,710,535	62,675,947
Accounts receivable (note 6)	102,058,914	90,506,230
Fair value of open commodity and foreign exchange contracts (note 16)	9,903,453	3,439,773
Advances paid:		
Open commodity and foreign exchange contracts	23,319,064	3,212,017
Other	32,550	71,756
Inventories (note 7)	151,558,351	94,559,493
Prepaid expenses	2,506,332	2,249,900
Income taxes receivable	–	1,293,103
Future income taxes	171,000	161,000
	292,260,199	258,169,219
Investments (note 8)	1,282,566	990,117
Property, plant and equipment (note 9)	154,670,506	148,309,407
Intangible assets (note 10)	4,287,550	380,355
Goodwill	12,899,458	11,687,345
Deferred charges	397,220	159,188
Mortgage receivable	–	2,065,000
Total assets	**465,797,499**	**421,760,631**

Approved by the Board of Directors

President

Vice President

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET

continued

As at July 31, 2021

	2021 $	2020 $
Liabilities and member equity		
Current liabilities		
Operating line of credit (note 13)	8,984,800	–
Accounts payable and accrued expenses (note 11)	51,675,151	47,846,029
Fair value of open commodity and foreign exchange contracts (note 16)	7,109,105	4,868,915
Advances received	999,067	1,578,251
Income taxes payable	300,899	–
Short-term demand member loans (note 12)	33,522,643	27,812,647
Current portion of:		
Long-term debt (note 13)	5,546,222	5,546,222
Capital lease obligation	–	54,754
Special member loans (note 15)	52,442,672	26,329,202
	160,580,559	114,036,020
Long-term debt (note 13)	46,521,148	52,054,871
Other long-term payable	695,668	–
Future income taxes	15,181,453	13,886,000
	222,978,828	179,976,891
Member entitlements		
Mandatory member and patronage loans (note 14)	27,238,839	24,688,169
Special member loans (note 15)	158,772,587	168,491,844
Total liabilities	408,990,254	373,156,904
Member equity		
Retained earnings	56,435,075	48,603,727
Non-controlling interest	372,170	–
	56,807,245	48,603,727
Total liabilities and member equity	**465,797,499**	**421,760,631**

Commitments and contingencies (note 18)

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF EARNINGS

For the year ended July 31, 2021

	2021 $	2020 $
Sales (note 5)	897,036,949	805,368,268
Cost of sales		
Materials	774,765,329	676,678,705
Direct department costs	70,482,578	75,395,894
Amortization	14,524,152	14,783,733
	859,772,059	766,858,332
Departmental margin	37,264,890	38,509,936
Administration expenses (income)		
General expenses	10,400,307	11,698,773
Amortization	259,715	218,185
Other Income	(2,104,451)	(1,718,889)
	8,555,571	10,198,069
	28,709,319	28,311,867
Interest expense		
Operating loan (note 13)	1,083,177	1,046,846
Long-term debt and capital leases (note 13)	2,547,089	2,568,317
Member loans (notes 14 and 15)	12,762,208	11,672,986
Other	312,138	304,711
	16,704,612	15,592,860
Earnings from operations before the following	12,004,707	12,719,007
Other gains and losses		
Gain (loss) on disposal and impairment of property, plant and equipment	1,377,083	(1,146,822)
Net derivative gains (losses) and other items (note 16)	50,527	(79,859)
	1,427,610	(1,226,681)
Earnings before distributions to members and income taxes	13,432,317	11,492,326
Distributions to members (note 14)		
Patronage dividend	4,315,294	3,945,655
Interest bonus on mandatory member loans	245,606	245,586
	4,560,900	4,191,241
Earnings before income taxes	8,871,417	7,301,085
Income taxes		
Current	(147,343)	564,756
Future	1,124,441	620,000
	977,098	1,184,756
Net earnings attributed to members	7,831,348	6,116,329
Net earnings attributed to non-controlling interest	62,971	-
Net earnings for the year	7,894,319	6,116,329

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN RETAINED EARNINGS AND NON-CONTROLLING INTEREST

For the year ended July 31, 2021

	Retained earnings $	Non-Controlling interest $	Total $
Balance - July 31, 2019	42,487,398	-	42,487,398
Net income for the year	6,116,329	-	6,116,329
Balance - July 31, 2020	48,603,727	-	48,603,727
Non-controlling interest acquired on acquisition	-	309,199	309,199
Net income for the year	7,831,348	62,971	7,894,319
Balance - July 31, 2021	56,435,075	372,170	56,807,245

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended July 31, 2021

	2021 $	2020 $
Cash provided by (used in)		
Operating activities		
Net earnings for the year	7,894,319	6,116,329
Payment of patronage dividend	(693,951)	(699,029)
Items not affecting cash		
Amortization of property, plant and equipment	14,666,373	14,859,393
Amortization of intangible assets	132,805	142,525
Amortization of deferred financing charges	159,188	231,748
Change in unrealized gain/loss on open commodity and foreign exchange contracts	(4,223,490)	5,609,202
Gain on disposal of marketable securities	–	(4,562)
(Gain) loss on disposal of property, plant and equipment	(1,377,083)	340,496
Impairment of property, plant and equipment	–	806,326
Net change in accrued interest on demand and special member loans	4,656,405	2,542,840
Patronage dividend included in net earnings for the year	4,315,294	3,945,655
Future income tax expense	1,285,453	620,000
Unrealized foreign currency exchange loss (gain) on cash	613,469	(319,541)
Non-cash patronage dividend earned on investments	(42,449)	(57,050)
	27,386,333	34,134,332
Net change in non-cash working capital balances	(83,735,144)	(9,049,470)
	(56,348,811)	25,084,862
Financing activities		
Borrowing from operating line of credit	8,984,800	–
Repayment of long-term debt	(5,533,723)	(10,269,666)
Payment of financing charges	–	(49,913)
Proceeds from capital lease obligation	–	52,720
Repayment of capital lease obligation	(54,754)	–
Repayment of mandatory member and patronage loans	(1,764,624)	(1,375,367)
Proceeds on issuance of special member and demand loans	64,712,842	72,552,860
Repayment of special member and demand loans	(47,265,039)	(34,690,368)
	19,079,502	26,220,266
Investing activities		
Acquisition of businesses, net of cash received (note 4)	(4,497,246)	–
Collection of mortgage receivable	2,065,000	84,213
Proceeds on disposal of marketable securities	–	1,100,129
Purchase of property, plant and equipment	(21,581,016)	(18,471,578)
Proceeds on disposal of property, plant and equipment	1,930,628	2,047,250
	(22,082,634)	(15,239,986)
Effect of exchange rate changes on cash	(613,469)	319,541
Net increase in cash	(59,965,412)	36,384,683
Cash - Beginning of year	62,675,947	26,291,264
Cash - End of year	2,710,535	62,675,947

The accompanying notes are an integral part of these financial statements.

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NOTES TO FINANCIAL STATEMENTS

1. Corporate status

Hensall District Co-operative, Incorporated (the Co-operative) was incorporated under the laws of the Province of Ontario on January 23, 1946, without share capital.

The Co-operative and its subsidiaries hold controlling stakes in the following legal entities:

Hensall Global Logistics Inc. which acts as a holding company for shares that have been acquired in other entities. The outstanding shares are 100% owned by the co-operative.

Overseas Container Forwarding Inc. which is a freight forwarding company. The outstanding shares are 79.87% owned by Hensall Global Logistics Inc.

2. Basis of presentation

These consolidated financial statements are prepared in accordance with Canadian accounting standards for private enterprises (ASPE) as issued by the Canadian Accounting Standards Board. These consolidated financial statements include, the financial statements of Hensall Global Logistics Inc. and partially owned subsidiary Overseas Container Forwarding Inc. (Since June 1, 2021).

3. Summary of significant accounting policies

Cash

Cash consists of cash on hand and deposits in bank.

Accounts receivable

Accounts receivable includes trade customer receivables net of allowance for doubtful accounts, and other receivables. The Co-operative makes an allowance to reduce the carrying value of accounts receivable identified as uncollectible to their estimated realizable amount. The allowance for doubtful accounts is the Co-operative's best estimate of the amount of probable credit losses in its existing accounts receivable. The Co-operative determines the allowance for doubtful accounts based on specifically identified accounts. The Co-operative reviews its allowance for doubtful accounts on a periodic basis. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

Inventories

Edible beans and feed inventories have been stated at their lower of cost and net realizable value. Cost is determined on the average weighted cost of purchase

The accompanying notes are an integral part of these financial statements.

Grain, corn and soybeans inventories have been stated at the quoted market prices obtained from the closing price quotations of a major commodity exchange plus or minus the local basis. The change in fair value is recognized in cost of sales – materials.

Retail and wholesale inventories have been stated at the lower of cost and net realizable value. Cost is determined substantially on a first-in, first-out basis.

Marketable securities

Short-term investments in publicly traded marketable securities are carried at quoted market prices, with unrealized gains or losses recorded in the statement of earnings. The market value is based on the closing bid price at the end of the period, as reported on recognized securities exchanges.

Investments

Investments that the Co-operative does not control are accounted for at cost less any reduction for impairment. Investments are assessed annually for indicators of impairment and when a significant adverse change in expected timing or amount of future cash flows is noted, the carrying value of the investment is reduced to the higher of present value of expected cash flows from holding the investment, and the amount that could be realized by selling the investment.

Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated amortization. Amortization is calculated using the declining balance method and at the following annual rates:

Roadways and services	4% and 8%
Buildings	5%
Concrete silos	5%
Steel storage bins	8%
Leasehold improvements	10%
Equipment	15%
Mobile machinery and trucks	20%
Computer equipment	25%

Borrowing costs related to the construction of property, plant and equipment are not capitalized.

Intangible assets and goodwill

Intangible assets consist of finite-lived producer and customer relationships and are carried at cost less accumulated amortization. They are amortized over their estimated useful lives of 10 years on a straight-line basis.

Goodwill is accounted for at cost. The Co-operative tests for impairment only when events or circumstances indicate that it might be impaired. In the event that the carrying amount of a reporting unit which contains goodwill exceeds its fair value, a goodwill impairment loss will be recognized in the statement of earnings in an amount equal to the excess.

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Impairment of long-lived assets

Long-lived assets are tested for recoverability whenever indicators of impairment exist. An impairment loss is recognized when the carrying value exceeds the total undiscounted cash flows expected from their use and eventual disposition. The amount of impairment loss is determined as the excess of the carrying value of the asset over its fair value.

Accounts payable and accrued expenses

Accounts payable and accrued expenses include trade payables, employee-related obligations and accrued expenses, and are payable in less than one year.

Income taxes

The future income taxes method of accounting for income taxes is used. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. Future income taxes and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities as well as for the benefits of losses available to be carried forward to future years for tax purposes that are more likely than not to be realized. They are measured using the substantively enacted tax rates and laws in effect when the differences are expected to be realized.

Demand, special member, mandatory member and patronage loans

The demand and special member loans are carried at cost plus accrued interest. Mandatory member and patronage loans are carried at cost. On an annual basis, the Co-operative can elect to declare patronage dividends to members. Any declared patronage dividends

The accompanying notes are an integral part of these financial statements.

will be allocated to patronage loans based on the member's prorated portion of active business. The Co-operative also has the right to declare patronage repayment and to have a portion of the patronage loans paid out to members in cash, with the remaining portion added to the carrying balance of mandatory member loans. The remaining portion of unpaid patronage dividends is then paid out over a period of time as determined by the Board of Directors of the Co-operative.

Revenue recognition

The Co-operative earns revenue from the sale of crop inputs, grain, soybeans, edible beans, feed, propane and petroleum. Generally, revenue from product sales is recorded upon shipment except in circumstances where product is shipped by sea, in which case revenue is recognized when title transfers based on shipping terms.

The Co-operative also provides processing, handling, storage and logistics services in relation to its commodity business which are recognized as revenue when services are performed.

Derivative instruments and hedge accounting

Derivatives - commodity contracts

The Co-operative manages its exposure to changes in commodity prices through the use of derivative instruments. The Co-operative enters into exchange-traded futures and option contracts to manage the risk of changes in the market price of commodities such as corn, soybeans, and grain. The fair value of these contracts is determined at each reporting period and included within the balance sheet as fair value of open commodity and foreign exchange contracts, with the realized and unrealized gains or losses associated with these contracts included in the cost of sales - materials within the statement of earnings.

Derivatives - currency contracts

Certain commodity derivative contracts are denominated in foreign currency, and so the Co-operative manages its exposure to changes in currency through the use of exchange-traded futures, forward currency and option contracts. The fair value of the exchange-traded futures, option and certain forward currency contracts are determined at each reporting period and included within the balance sheet as fair value of open commodity and foreign exchange contract. For contracts used as part of the Co-operative's currency risk management program, the realized and unrealized gains or losses are included in cost of sales. For contracts that are used for other purposes, the realized and unrealized gains or losses are included in other gain and losses.

Derivatives - open purchase and sale contracts

In the normal course of business, the Co-operative enters into various contracts to purchase and sell commodities. For contracts to purchase or sell grain, corn or soybeans traded in an active market, the contracts are recorded at fair value as non-financial derivatives within the balance sheet as fair value of open commodity and foreign exchange contracts. For contracts to purchase or sell other grain or feed, no recognition of the contract's fair value is made until settlement of the contract. Gains or losses resulting from the change in fair value of these contracts are included in the cost of sales - materials within the statement of earnings.

Derivatives - currency contracts qualifying for hedge accounting

The Co-operative has determined that certain forward currency contracts qualify for hedge accounting, including an evaluation of critical terms match, and as such the fair value of these are not recorded on the balance sheet at the end of each reporting period. The realized gains and losses upon settlement are recorded within cost of sales - realized (gains) losses on foreign exchange contracts on the statement of earnings.

Financial instruments

Under CPA Handbook Section 3856 - Financial Instruments, financial assets and liabilities, including derivative instruments not designated in a qualifying hedging relationship, are initially recognized at fair value. Subsequently all financial instruments are measured at amortized cost except for:

- Investments in equity instruments that are not quoted in an active market, which are measured at cost less any reduction for impairment;
- Investments in equity instruments that are quoted in an active market and derivative instruments not designated in a qualifying hedging relationship, which are measured at fair value with any gains or losses recorded in net earnings;
- Derivative instruments designated in a qualifying hedging relationship for anticipated transactions, which are not recognized until maturity at which point any gain or loss is recorded in net earnings.

Transaction costs relating to other financial liabilities other than operating loans are netted against the carrying value of the liability and then amortized over the expected life of the instrument using the effective interest method. Transaction costs relating to operating loans are included in deferred charges and amortized over the expected life of the instrument.

Foreign currency translation

Monetary assets and liabilities of the Co-operative that are denominated in foreign currencies are translated into Canadian dollars, which is both the presentation and functional currency of the Co-operative, at exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities and revenue and expenses are translated at rates of exchange in effect at the time of those transactions. Gains or losses on foreign currency translation are recorded in the cost of sales within the statement of earnings.

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Use of estimates

The preparation of financial statements in conformity with ASPE requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the balance sheet date, as well as revenues and expenses for the year. The Co-operative regularly assesses these estimates and, while actual results may differ, management believes the estimates are reasonable.

Business combinations

The Company accounts for business combinations using the purchase method of accounting. Identifiable assets acquired, and liabilities assumed are recorded at their acquisition date fair values. Goodwill represents the excess of the purchase price over the fair value of identifiable assets and liabilities acquired as a result of the business combination. Acquisition related costs, including advisory, legal, accounting, valuation and other costs are expensed in the periods in which the costs are incurred.

4. Acquisitions

On June 17, 2021 , the Co-operative acquired 79.87% of outstanding shares of Overseas Container Forwarding Inc. (OCF Inc.) for total consideration of $5,927,231. This transaction has been accounted for as a business consolidation and the results of the business operations have been included in the financial statements since the date of acquisition. Cash acquired was $1,563,995 and net liabilities of $27,985. The portion of this attributable to the Co-operative is $1,226,811. The remaining value of $4,700,420 was allocated to goodwill and intangible assets.

In 2020, the Co-operative made no acquisitions.

5. Sales

The major categories of sales for the Co-operative include the following:

	2021 $	2020 $
Edible beans and feed	302,410,680	304,805,803
Grain, corn and soybeans	404,238,899	312,682,048
Retail, wholesale and services	190,387,370	187,880,417
	897,036,949	805,368,268

6. Accounts receivable

Accounts receivable is presented net of allowance for doubtful accounts of $2,896,219 (2020 – $2,750,000). Bad debt expense of $247,396 (2020 – $1,061,511) was recognized during the year within general expenses.

7. Inventories

	2021 $	2020 $
Edible beans and feed	49,485,714	28,431,065
Grain, corn and soybeans	77,336,375	49,153,526
Retail, wholesale and services	24,736,262	16,974,902
	151,558,351	94,559,493

8. Investments

Included in investments is 69,500 (2020 – 69,500) common shares of CanAgri Insurance Alliance SCC representing 46.33% (2020 – 46.33%) of ownership.

CanAgri Insurance Alliance SCC is a captive insurance group that the Co-operative uses for certain property coverage. The Co-operative makes payments to the captive insurance group based on actuarial analysis of risks and terms. The carrying amount of this investment also includes preferred shares in various segregated cell companies within the CanAgri Insurance Alliance SCC group as well as additional paid-in capital.CanAgri Insurance Alliance SCC is a captive insurance group that the Co-operative uses for certain property coverage. The Co-operative makes payments to the captive insurance group based on actuarial analysis of risks and terms. The carrying amount of this investment also includes preferred shares in various segregated cell companies within the CanAgri Insurance Alliance SCC group as well as additional paid-in capital.

9. Property, plant and equipment

			2021
	Cost $	Accumulated amortization $	Net $
Land	11,448,117	-	11,448,117
Roadways and services	11,002,275	3,027,899	7,974,376
Buildings	50,938,195	19,152,708	31,785,487
Concrete silos	27,678,756	9,939,128	17,739,628
Steel storage bins	43,178,429	18,963,312	24,215,117
Equipment	146,415,678	96,189,182	50,226,496
Mobile machinery and trucks	21,832,593	12,952,705	8,879,888
Computer equipment	3,214,546	2,505,279	709,267
Construction in progress	1,692,130	-	1,692,130
Leasehold Improvements	41,667	41,667	-
	317,442,386	162,771,880	154,670,506

			2020
	Cost $	Accumulated amortization $	Net $
Land	9,651,701	–	9,651,701
Roadways and services	9,787,713	2,717,564	7,070,149
Buildings	43,734,221	18,163,587	25,570,634
Concrete silos	27,535,605	9,006,963	18,528,642
Steel storage bins	42,164,890	16,937,181	25,227,709
Equipment	141,008,193	88,434,772	52,573,421
Mobile machinery and trucks	19,914,424	11,707,221	8,207,203
Computer equipment	2,652,032	2,015,215	636,817
Construction in progress	843,131	-	843,131
	297,291,910	148,982,503	148,309,407

The Co-operative recognized amortization expense of $14,666,373 (2020 – $14,859,393) related to property, plant and equipment during the year.

The Co-operative has assets under capital lease arrangements with a cost of $109,502 (2020 – $109,502) and accumulated amortization of $39,352 (2020 – $15,969).

10. Intangible assets

Intangible assets include producer and customer relationships as follows:

	2021 $	2020 $
Cost	5,965,259	1,925,259
Accumulated amortization	(1,677,709)	(1,544,904)
	4,287,550	380,355

In the year, the Co-operative recognized $4,040,000 of intangible assets on the acquisition of OCF Inc. The Co-operative recognized amortization expense of $132,805 (2020 - $142,525) related to intangible assets during the year.

11. Government remittances

Included in accounts payable and accrued expenses are $110,880 of government remittances payable (2020 – $118,909), none of which are in arrears.

12. Short-term demand member loans

The demand member loans are unsecured and accrue interest at a rate of 1.5% (2020 - 2.0%). The accrued interest is included in the balance of the outstanding demand member loans.

13. Long-term debt and operating loan facilities

	2021 $	2020 $
Agri-Food Canada term loan, with interest at 0% repayable in monthly installments of $18,519 starting on March 31, 2016, maturity date March 1, 2025	814,815	1,037,037
FCC term loan, with interest at 4.450% repayable in monthly installments of $222,222 plus interest starting on January 1, 2016, maturity date January 2, 2030	21,777,778	24,444,445
FCC term loan, with interest at 4.866% repayable in monthly installments of $48,667 plus interest starting on June 1, 2018, maturity date June 1, 2028	7,105,333	7,689,333
FCC term loan, with interest at 4.408% repayable in monthly installments of $55,556 plus interest starting on July 17, 2019, maturity date August 1, 2029	8,888,889	9,555,556
FCC term loan, with interest at 3.950% repayable in monthly installments of $117,222 plus interest starting on June 1, 2017, maturity date May 1, 2030	13,480,555	14,887,222
	52,067,370	57,613,593
Less: Deferred financing charges	-	12,500
	52,067,370	57,601,093
Less: Current portion	5,546,222	5,546,222
	46,521,148	52,054,871

The aggregate amount of principal payments required in each of the next five years and thereafter to meet retirement provisions of the term loans, is as follows:

	$
Year ending July 31, 2022	5,546,222
2023	5,546,222
2024	5,546,222
2025	5,546,222
2026	5,546,222
2027 and thereafter	24,336,260
	52,067,370

The Farm Credit Canada (FCC) term loans are secured by a first charge over all real property and a fourth charge over working capital assets.

The Co-operative has a JPMorgan operating loan facility which, in July 2021, was extended out until July 29, 2024. The facility provides the Co-operative with $115,000,000 USD, subject to availability on their borrowing base calculations, and allows for temporary increases of up to $150,000,000 USD during peak season (as stipulated within the facility agreement). Interest charges on this facility vary by the type of borrowing but approximated 2.19% (2020 – 3.53%) during the year. The operating loan is secured by a first charge over working capital assets and a second charge over designated real property. As at July 31, 2021, $4,000,000 CAD and $4,000,000 USD have been drawn on this facility (2020 – $nil).

The Co-operative has $19,000,000 (2020-$19,000,000) of availability through an FCC advance which extends out until November 2025. This advance has a variable interest rate based on the FCC variable mortgage rate plus 0.05% and has the same security as the FCC term loans detailed above. As at July 31, 2021, no amounts have been drawn on this facility (2020 – $nil).

No covenants have been breached for the above facilities during the year.

14. Mandatory member and patronage loans and member distributions

	2021 $	2020 $
Mandatory member loans - interest at 5%	8,793,975	8,186,200
Patronage loans - non-interest bearing	18,444,864	16,501,969
	27,238,839	24,688,169

On October 7, 2021 (2020 – October 1, 2020), the Board of Directors declared that a patronage dividend of $4,317,437 (2020 - $3,945,655) would be paid for the year to members of record as at the year-end date and mandatory member loan bonus interest of $245,606 (2020 – 245,586) would be paid on 5% member loans.

When a patronage dividend is declared, the dividend, net of withholding tax, is added to patronage loans and paid out to members over a pre-determined period, with the remaining amount remitted as withholding tax to the tax authorities. This pre-determined period is set at the declaration of the patronage dividend. Although the Co-operative has discretion at setting the pre-determined period, it has regularly been set at 10 years. When these annual payments are made, approximately 50% of the amount is paid out in cash and the remaining amount is added to mandatory member loans. Mandatory member loans then accumulate, accruing an annual interest of 5% until a member passes away, sells all their farm assets or moves away from the Co-operative's service area.

During the year, an amount of $693,951 (2020 - $699,029) of patronage dividend was paid out in cash with the remaining balance added to mandatory member and patronage loans.

15. Special member loans

The balance of outstanding special member loans, including accrued interest and maturity dates of March 31 of the listed year, is summarized as follows:

	2021	2020
	$	$
2.00% due 2023	3,071,090	-
2.50% due 2022 to 2024 (2020 – due 2022)	3,034,100	20,667
3.00% due 2023 to 2024 (2020 – due 2023)	407,832	35,750
3.25% due 2025	95,000	-
3.75% due 2025	1,952,192	-
4.00% due 2022 to 2026 (2020 – due 2022)	17,948,403	14,125,893
4.25% due 2023 to 2025 (2020 – due 2023 to 2024)	7,560,682	6,161,592
4.50% due 2022 to 2026 (2020 – due 2021 to 2025)	20,068,857	15,147,357
4.75% due 2023 to 2028 (2020 – due 2023 to 2024)	2,698,265	1,670,648
5.00% due 2022 to 2026 (2020 – due 2021 to 2025)	22,174,093	25,998,357
5.25% due 2022 to 2031 (2020 – due 2021 to 2025)	8,173,482	4,676,941
5.50% due 2022 to 2031 (2020 – due 2021 to 2030)	15,566,262	16,448,269
5.75% due 2022 to 2031 (2020 – due 2021 to 2030)	18,089,622	18,158,811
6.00% due 2022 to 2031 (2020 – due 2021 to 2030)	5,577,836	5,527,732
6.25% due 2023 to 2030 (2020 – due 2023 to 2030)	3,093,002	2,993,282
6.50% due 2022 to 2026 (2020 – due 2021 to 2026)	12,169,950	13,283,694
6.75% due 2022 to 2030 (2020 – due 2022 to 2030)	10,447,193	10,420,912
7.00% (2020 – due 2021)	-	440,000
7.25% due 2022 to 2029 (2020 – due 2022 to 2029)	59,087,398	55,701,597
7.50% (2020 – due 2021)	-	2,009,544
	211,215,259	194,821,046
Less: Current portion	52,442,672	26,329,202
	158,772,587	168,491,844

Included in the above balance of outstanding special member loans is accrued interest of $10,091,586 (2020 – $7,661,805).

The aggregate amount of principal and accrued interest payments required in each of the next five years and thereafter to meet retirement provisions of the principal and accrued interest as of July 31, 2021 are as follows:

	$
Year ending July 31, 2022	52,422,672
2023	25,584,761
2024	26,362,102
2025	23,600,276
2026	33,731,748
2027 and thereafter	49,493,700
	211,215,259

16. Fair value of open commodity and foreign exchange contracts

Derivatives - commodity and currency contracts

As at July 31, 2021, the balance sheet includes an asset associated with an unrealized gain on derivative contracts of $1,234,800 (2020 - $3,439,773) and a liability associated with an unrealized loss on derivative contracts of $7,109,105 (2020 – $nil). In respect of the commodity derivative contracts, net realized and unrealized losses of $49,677,688 (2020 – gains of $9,493,852) were recognized in cost of sales. In respect of the foreign currency derivative contracts, net realized and unrealized gains of $6,242,256 (2020 – losses of $819,914) during the year were recognized within cost of sales.

Outstanding derivative commodity and currency contracts, including those qualifying for hedge accounting, include the following at year-end:

The accompanying notes are an integral part of these financial statements.

	Dates	Volume	2021 Price US $
Future contracts – buy wheat	Dec 2021	50,000 bushels	6.7352
Future contracts – buy corn	Dec 2021 - Dec 2022	1,940,000 bushels	4.2520 - 5.3425
Future contracts – buy soybeans	Nov 2021	955,000 bushels	13.5572
Future contracts – buy soybean meal	Sep 2021	3,276 metric tonnes	393.26
Future contracts – buy CAD	Sep 2021 - Dec 2021	$216,900,000 USD	1.2037 - 1.2770 CAD
Forward currency contracts - buy USD	Nov 2021 - Aug 2022	$6,500,000 USD	1..251 - 1.4114 CAD
Future contracts – sell wheat	Sep 2021 - Dec 2022	4,420,000 bushels	6.2808 - 6.7438
Future contracts – sell corn	Sep 2021 - Jul 2023	8,415,000 bushels	4.2520 - 5.9258
Future contracts – sell soybeans	Sep 2021 - Nov 2022	5,155,000 bushels	11.8008 - 13.8636
Future contracts – sell soybean meal	Oct 2021 - Dec 2021	637 metric tonnes	419.65 - 430.10
Future contracts – sell canola	Nov 2021	60 metric tonnes	481.05
Future contracts – sell CAD	Sep 2021	$1,300,000 USD	1.2387 - 1.2565 CAD
Forward currency contracts – sell USD	Aug 2021 - Jan 2024	$148,000,000 USD	1.2035 – 1.4445 CAD

	Dates	Volume	2020 Price US $
Future contracts – buy wheat	Sep 2020	25,000 bushels	5.1065
Future contracts – buy corn	Dec 2020 – Mar 2021	375,000 bushels	3.4774 – 3.6715
Future contracts – buy soybeans	Nov 2020 – Nov 2021	370,000 bushels	8.3918 – 8.9250
Future contracts – buy soybean meal	Dec 2020	726 metric tonnes	296.16
Future contracts – buy CAD	Sep 2020 – Dec 2020	$123,200,000 USD	1.3003 – 1.4501 CAD
Forward currency contracts- buy USD	Nov 2020 – Aug 2021	$15,000,000 USD	1.3841 – 1.4111 CAD
Future contracts – sell wheat	Sep 2020 – Jul 2022	4,080,000 bushels	5.1692 – 5.8283
Future contracts – sell corn	Sep 2020 – May 2022	3,575,000 bushels	3.2950 – 3.9376
Future contracts – sell soybeans	Sep 2020 – Nov 2021	1,210,000 bushels	8.3918 – 9.000
Future contracts – sell soybean meal	Sep 2020	1,270 metric tonnes	289.61
Future contracts – sell canola	Nov 2020	40 metric tonnes	481.05
Future contracts – sell CAD	Sep 2020 – Dec 2020	$2,200,000 USD	1.3427 – 1.3603 CAD
Forward currency contracts – sell USD	Aug 2020 – Jan 2024	$172,820,000 USD	1.2946 – 1.4442 CAD

Derivatives - open purchase and sale contracts

The Co-operative has entered into purchase contracts with multiple producers for the receipt of various field crops with terms ending between August 2021 and October 2024 (2020 – August 2020 and October 2022). The total amount of the contractual obligation under these purchase contracts is to purchase approximately 518,926 metric tonnes (2020 – 412,675 metric tonnes) of agricultural commodities, with an estimated current market value of approximately $258,371,693 (2020 – $211,118,524). Of this amount, the Canadian dollar equivalent of $23,377,757 (2020 – $33,653,515) is denominated in US dollars.

Furthermore, the Co-operative has entered into sales contracts with multiple customers for the delivery of various processed crops with terms ending between August 2021 and November 2024 (2020 – August 2020 and December 2023). The total amount of the contractual obligation under these sales contracts is to sell approximately 626,502 metric tonnes (2020 – 507,258 metric tonnes) of agricultural commodities with an estimated current market value of approximately $410,277,314 (2020 – $342,293,422). Of this amount, the Canadian dollar equivalent of $328,978,047 (2020 – $311,903,410) is denominated in US dollars.

For certain of the above-noted purchase and sale contracts, the commodity price and/or the basis is fixed at the time the contract is entered into. The value of these contracts is measured by the Co-operative as the difference between the contract price and the market price, with this difference being extended over the number of metric tonnes under each respective contract. The contract price and market value measurement varies depending on the type of purchase or sale contract entered into:

"Priced" contracts lock-in the future price at the date of the contract's inception based on the quoted market price for the respective commodity for the contract's expected settlement date, plus or minus a locked-in local basis. The difference between the futures price and local basis locked-in at the contract date and the futures price and local basis on the date of measurement represents the value determined by the Co-operative at any given point in time.

"Futures" contracts lock-in the futures price at the date of the contract's inception based on the quoted market price for the respective commodity for the contract's expected settlement date. The difference between the futures price at the contract date and futures price on the date of measurement represents the value determined by the Co-operative at any given point in time.

"Basis only" contracts lock-in the local basis at the date of the contract's inception based on the quoted market price for the respective commodity established for the contract's expected settlement date. The difference between the local basis at the contract date and the local basis on the date of measurement represents the value determined by the Co-operative at any given point in time.

At year-end, the Co-operative had open contracts for grain, corn and soybeans traded in an active market with a fair value determined by the Co-operative of $8,709,691 gain loss (2020 - $4,868,915 loss). These values have been recorded on the balance sheet and the changes in values have been recorded in the statements of earnings.

At year-end, the Co-operative had open contracts for other grain or feed whose fair value cannot be readily determined as no active market is available. As such, the fair value of these open contracts has not been recorded on the balance sheet and any gains or losses are only recorded in the statement of earnings when realized on settlement.

Derivatives – currency contracts qualifying for hedge accounting

As at July 31, 2021, the fair value of currency contracts qualifying for hedge accounting was an unrealized loss of $6,864,542 (2020 – $2,286,809 unrealized loss) which is not included on the balance sheet. As at July 31, 2021, derivatives qualifying for hedge accounting included certain outstanding forward currency contracts to sell $128,000,000 USD (2020 – $148,820,000 USD) at prices ranging from $1.2035 to $1.4445

(2020 – $1.2946 to $1.4442), with settlement periods ranging from August 2021 to Jan 2024 (2020 – August 2020 to Jan 2024) and to buy $6,500,000 USD (2020 - $15,000,000) at prices ranging from $1.2512 to $1.4114 (2020 - $1.3841 to $1.4111), with settlement periods ranging from August 2021 to August 2022 (2020 - November 2020 to August 2021).

Guarantee and security on forward currency and option contracts

The outstanding forward currency and option contracts are secured by a guarantee provided by Export Development Canada (EDC) for an amount up to $15,000,000, subject to availability, which extends until December 31, 2021. In exchange for this guarantee, EDC has a third charge over working capital assets of the Co-operative.

17 Financial instruments

Credit risk

Credit risk is the risk of an unexpected loss if a third party fails to meet its contractual obligations. Financial instruments that subject the Co-operative to credit risk consist of cash, accounts receivable, open commodity and foreign exchange contracts, advances paid on open commodity contracts, investments and mortgage receivable. The Co-operative manages its risk by actively managing the collection process of accounts receivable. The advances paid on open commodity and foreign exchange contracts are held with a publicly traded derivative provider.

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Certain operations of the Co-operative are denominated in U.S. dollars. Accordingly, certain items recorded in the balance sheet are exposed to currency rate fluctuations. As at July 31, 2021, the Co-operative's balance sheet includes the following financial assets (liabilities) denominated in USD:

	2021 $USD	2020 $USD
Cash and cash equivalents	4,434,992	6,512,406
Accounts receivable	40,050,317	33,127,733
Fair value of open commodity and foreign exchange contracts	–	2,566,229
Advances paid	18,712,136	2,396,312
Accounts payable and accrued expenses	(3,274,879)	(1,078,813)
Fair value of open commodity and foreign exchange contracts	(5,704,626)	–
	54,217,940	43,523,867

The Co-operative manages its currency risk through the use of derivative instruments (see note 16).

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 rate risk. The Co-operative is exposed to fluctuations in future cash flow interest rate risk on its floating rate long-term debt and is exposed to fair value interest rate risk on its fixed rate long-term debt and special member loans.

Liquidity risk

The Co-operative is exposed to liquidity risk, which is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Co-operative manages liquidity risk by reviewing its cash requirements and borrowing base limit on the operating loan for settlement of its obligations. Liquidity requirements are managed based on expected cash flow to ensure there is sufficient capital in order to meet short-term obligations.

The Co-operative is required to advance funds to its commodity and currency derivative provider for any loss in value of the underlying value of the derivatives, dollar for dollar. Conversely, any increase in value of the derivatives held by the Co-operative is advanced by the commodity and currency derivative provider. As a consequence, the Co-operative's cash flow requirements may change significantly on a day-to-day basis.

Commodity price risk

Commodity price risk is the risk of loss arising from adverse changes in commodity prices √set by the market. The Co-operative manages commodity price risk through the use of derivative instruments (see note 16).

18 Commitments and contingencies

Operating leases

The Co-operative leases various equipment, property, and vehicles under operating leases. Payments due under the operating leases over the next five years and thereafter are as follows:

	$
Year ending July 31, 2022	3,236,952
2023	2,473,881
2024	1,546,384
2025	797,105
2026 and thereafter	2,015,302
	10,069,624

Capital commitments

As at July 31, 2021, the Co-operative has commitments to commence or continue construction projects at an approximate aggregate cost of $2,241,878 (2020 – $3,783,966) which are expected to be paid out within the upcoming fiscal year.

Insurance

The Co-operative has property insurance through the CanAgri Insurance Alliance SCC captive.

The Co-operative has additional policies with external third party insurers for other types of risks as well as excess property coverage.

19 Pension plan

The Co-operative sponsors a defined contribution pension plan and pension expense for the year is $1,096,794 (2020 – $1,127,907).

20 Statutory information

During the year, the Co-operative transacted approximately 36% (2020 – 41%) of its total business with non-members.

The remuneration of directors, as defined by the Co-operative Corporation Act R.S.O. 1990, Chapter C. 35 is $145,315 (2020 – $207,227).

21 Comparative financial information

Certain prior period financial information has been amended to conform to the current period presentation.

22 COVID-19

In March 2020, the World Health Organization declared a global pandemic known as COVID-19. The impact of COVID-19 on the general economy has been significant and far-reaching. Economic conditions remain challenged and uncertain. To date, there has not been significant impact for the demand of the Co-operative's products and services, collection of receivables and liquidity. However, management continues to assess the impact of COVID-19 and the governments' responses to it and on the Company, including but not limited to: impairment for property, plant, and equipment, goodwill, intangible assets and the collectability of accounts receivable. At the balance sheet date, management estimates no such adjustments are required.

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