2020 ANNUAL REPORT

Essential Agriculture Feeds the World

Hensall
519.262.3002 | 1.800.265.5190
hensallco-op.ca

Ailsa Craig	519.232.4449
Aylmer	519.773.5169
Aylmer Crops	519.773.2125
Bloom	204.252.2444
Brussels	519.887.9933
Clinton	519.482.3438
Drayton	519.638.2707
Exeter	519.235.1150
Exeter Distribution - Seed	519.235.4761
Exeter Dist. - Shipping	519.235.4992
Exeter - Truck & Trailer Repair	519.235.3252
Forest	519.786.5424
Greenway	519.238.8701
Harrow	519.738.2271
Kurtzville	519.335.3535
	1.877.858.2220
Lakeside	519.349.2243
Londesborough	519.523.4470
Londesborough Feed	519.523.9606
	1.800.265.9000
Miami	204.435.2227
Mitchell	519.393.6010
	1.855.393.6010
Rignold	204.274.2223
Ripley	519.395.5955
	1.855.895.5955
Seaforth	519.522.1000
	1.888.522.1112
Tilbury	519.682.1484
Westfield	519.523.4221
Zurich	519.236.7155
	1.800.565.7155

Grain receiving only:

Altona	204.304.0269
Bright	519.580.0885
Carman	204.745.6747
Gads Hill	519.274.1984
Wroxeter	519.335.6813

About this photo: Hensall Co-op Photo Contest Best in Show Runner up: Tory Struyf "Going with the Grain"

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On the cover: Hensall Co-op's 2020 Photo Contest Best in Show winner photo by Jaleesa Alderdice.

Please enjoy the photo contest submissions in this Report. This photo: Lindsey Roosendaal

TERRY VANDERWAL

PRESIDENT

"We are all in this together". As COVID-19 made its way around the globe, disrupting lives and economies, we often heard this phrase as an expression of solidarity to help everyone get through the troubled times we were facing. For those of us who make our livelihood in agriculture, which is among the most essential of services, this is not something new. Farmers have been working together by forming relationships to share assets, share workload and share information throughout history and this continues through today. Co-operatives such as ours provide a method for farmers to work and invest together to acquire a better outcome rather than by going alone.

It has been a remarkably challenging year for all of us. The social and economic fallout from the combination of the pandemic and slowing economies will continue to affect most of us for some months and perhaps years. Headwinds caused by market sluggishness and volatility across most commodity groups will continue to impact the producers' bottom lines. This all came on the back of a very wet (and late) fall harvest coupled with propane shortages and rail blockades. Yet, in the midst of the challenges, we did see how our co-operative model offered the glimmer of hope we need as an industry to survive even the most significant of challenges.

Thanks to the support of our members, we look back on another record revenue year of more than $800 million. We saw record shipments of beans just as the initial lock-downs became entrenched in April and May. By doing things differently, being blessed with co-operative weather and working collaboratively, the planting season went with minimal disruption and as we closed out the fiscal year, we were looking forward to a successful harvest. As meat processing was met with challenges, our animal nutrition team adapted to meet the needs of the animals in the barns. Amid this turmoil, we found success because we have worked together. To that end, we are pleased to be declaring substantial patronage dividends again this year and our members have continued to support us with increasing levels of investments.

These successes, along with many others, demonstrate the strength of our Co-op driven by the people who form its core; our employees and our members. I can't say enough about the employee group. When faced with having to fulfill our essential services during the most uncertain of times, they delivered. Their dedication, flexibility and perseverance has been the key component in our ability to continue to provide value to our members with minimal disruption. Our members supported those employees as we waded through the uncertain times. I don't know how we can better illustrate the power of the co-operative model.

On behalf of the Board, I want to thank our employees for their unwavering commitment through these unprecedented times. We are also extremely grateful to our members for their ongoing support of your Co-operative. I would also like to acknowledge our rural communities for providing us with the resources to succeed across our geography.

We look forward to continuing to support Essential Agriculture as it feeds the world.

Terry VanderWal,
President

Photo credit: Jenn Howe

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BRAD CHANDLER

CEO

In the evolution of any business, there are moments that seem to stand out and really matter; pivotal times that affirm the business is on the right path or it has to completely reinvent itself. The COVID-19 pandemic and the impact it has had on every facet of our lives has been the force for such a moment for Hensall Co-op. This year has confirmed the importance of Hensall Co-op's place in Canadian agriculture and more importantly, it has affirmed our values.

When the landscape is ever changing, relying on our values is the most important tool we have to ensure we are making sound decisions. Our activities from March 2020 onward are a case in point to evidence how our values form the foundation of our co-operative. As I reflect on the current times, I think it is worth looking back on how each of our values and actions helped us navigate unchartered waters.

Commitment: I chose to start with **commitment** because I can't stress enough how grateful we are to all our employees for their **commitment to the business and our valued customers**. Throughout the pandemic, our employees continued to get the job done. We successfully provided our services with minimal disruption and we even broke some of our historical bean processing records.

Innovation: We were surrounded by creativity as we addressed COVID challenges in every area of our business. We converted to paperless platforms, launched an app-based dispatch tool and changed shift schedules to reduce employee and customer face-to-face interactions. Many of our members and customers also faced different COVID challenges but always found ways to overcome them. Truly innovation at work.

Trust: Being open and transparent, and admitting that sometimes we didn't have the answers was an important way to earn the **trust** of our employees and members. This led to some innovation regarding communication including publishing a weekly video that was sent to our employees to keep them up-to-date on our procedures; supported with updates from our regional health units.

Together: Working **together** started with daily Zoom meetings of the "business continuity team"; a cross divisional team who focused on the key decisions needed to be made to keep our employees and families safe and our operations running. Members and customers worked together with our organization to help us find success amid the challenges.

Photo credit: *Jenn Howe*

Empowered: The one area that has been most satisfying to me as the CEO was observing the leaders at all levels within our organization exercise their leadership successfully for the protection and betterment of our team. Everyone knew keeping our employees, their families and communities safe was a top priority and they did what needed to be done to do that.

This annual report is a clear endorsement of our Hensall Co-op values. We broke the $800 million threshold for revenues with revenues closing at $805 million. Earnings before patronage, taxes, interest and asset disposals increased by $2.6 million to $28.2 million. All this has led to an increase in interest and patronage accrued to our members to $15.9 million from $13.1 million in 2019. That is a $2.8 million increase in value which is returned to our members and our farming communities.

As we move forward with our Strategic Plan, we will leverage our values to drive growth in Canadian agriculture and pass on a thriving and successful independent co-operative to the next generation of farmers.

I want to thank our employees and their families for their unwavering resolve and commitment in a very challenging year. I would also like to thank the Board of Directors for their invaluable guidance throughout COVID-19 and our members for their continued support.

This 2020 year has driven home to each of us that we are fortunate to be a part of essential agriculture because the community is strong.

Brad Chandler,
Chief Executive Officer

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BOARD OF DIRECTORS

2019 photo from the archives

Paul Gowing
Bluevale

Robert Cornelis
Ailsa Craig

Terry VanderWal
President, Denfield

Bill Wallace
Secretary, Egmondville

Keith Strang
Hensall

Henry Vanderburgt
Vice-President, Dashwood

Sebastian Kraft
Dungannon

Aise Van Beets
Bayfield

Peter Dinsmore
Past President, Gorrie

Steve Jansen
Seaforth

Ed Mosterd
Shakespeare

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Joey Groot
Corporate Operations Manager

Pablo Malacara
CFO

Jerry Groot
Grain Marketing & Energy Manager

Derwyn Hodgins
Commercial Business Manager

Brad Borland
General Manager, Hensall Global

Brad Chandler
CEO

Jim Barclay
Crop Services Manager

Reta Byvelds
General Manager, Animal Nutrition

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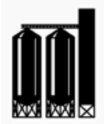
EXECUTIVE

YEAR END HIGHLIGHTS

Record revenues at $805M

Up to 80 containers of food-grade products are shipped daily from our processing facilities to over 40 countries globally

Over $18M of investments in assets located in our rural communities



Set production records in May and April at the height of the first wave of COVID-19

SQF accreditations in Hensall, Bloom and Mitchell

All Feed Mills FeedAssure certified

Administered more than 24 million vaccinations in broiler flocks

Photo credit: Alex Regier

- Bulk fertilizer shipped to farm customers tonnage grew by 37%
- Recorded our highest number of units treated at our seed plant with a year over year revenue increase of 28%
- Crop Protection revenue increase led by growth in our newest locations 25%
- Increase in interest and patronage to our members from $13.1million to $15.9 million 21%
- Increase in cash from operations 16%
- Increase over 2019 in USA bulk trucking volumes 14%
- Increase in activity in our truck & trailer maintenance facility 13%
- Earnings before taxes, interest and asset disposals increased by over 10%
- Increase in ruminant feed tonnage 10%
- Dry beans up from prior year with our highest production year ever 8.96%
- Bean processing up from prior year, setting another record 5.84%
- Record volumes in ocean container freight increase over 2019 4%

FINANCE
HUMAN RESOURCES

During 2020, a most challenging year, our finance, administration and human resource teams continued to focus on supporting our businesses, employees and members by implementing data-based solutions across a wide spectrum of the business.

The human resources team remained focused and driven to support our employees through this unprecedented time. Under the shadow of the pandemic, we saw an all time low in our short-term and long-term disability cases. We also successfully implemented ADP Workforce Now®. This application includes five new modules to support employee service and employee management while providing the data and analytics to help managers to make sound business decisions. Talent management remains a focus moving into 2021 where training and development for front-line supervisors will be a priority.

Real time data, better data and faster information flow across the company was our primary goal for the 2020 fiscal year. We completed several projects to improve our internal control environment and remediate three weaknesses:

1) We strengthened information technology processes by bringing real time data to managers and enhancing our cyber security across all systems
2) We streamlined data management by initiating a project to install a new accounting software package to go live shortly after year end that will increase speed, provide more reliable data to users and provide more robust expense control processes
3) We have made significant headway in our paperless initiative to drive efficiency into our back-office processes

We will continue to support our members and expand our services to attract new members across all generations. By providing the tools to help our members plan better, sell better, buy better, move products better and finance better our strong management systems will support business growth and attract talented employees to our co-operative.

Pablo Malacara, *Chief Financial Officer*

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Photo credit: Jill Sebben

In a year like no other, the animal nutrition team has continued to focus on our essential work of keeping our livestock healthy and playing our part in maintaining a safe food supply for Canadians. We are immensely grateful to our employees at all levels who have continued to manufacture and deliver feed, monitor barns, ensure we have ingredients on hand and administer the back-office while keeping themselves and others safe.

From the outset of the pandemic, shortages became headline news. Notably absent from the list of shortages was food. Canadian agriculture and food production had to do some pivoting and change the way some things were done but the pipeline of foodstuffs remained full. This is a credit to everyone in the industry across all commodities.

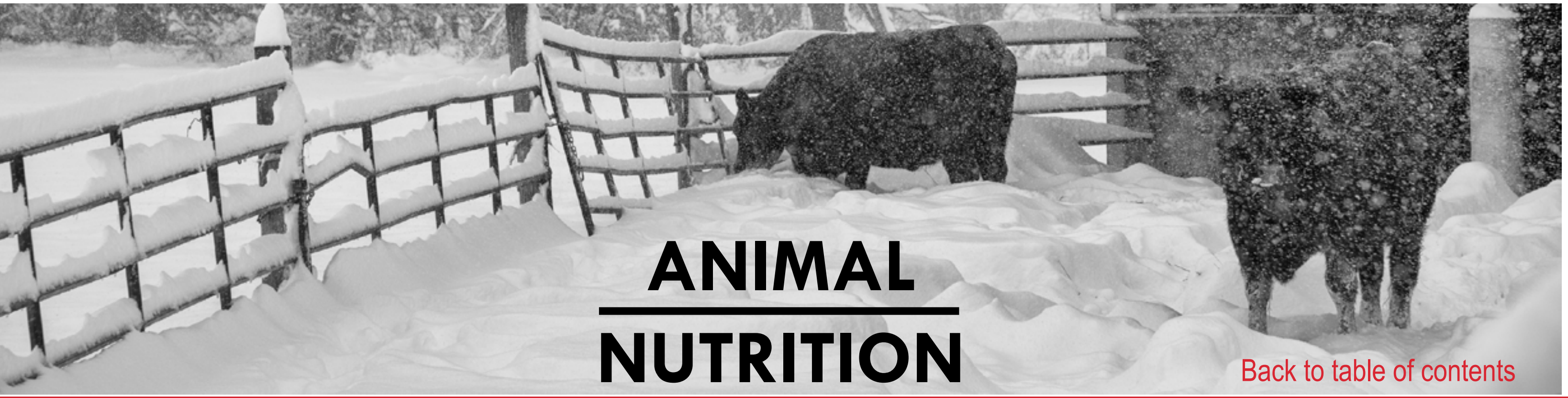
There were quota reductions in dairy and broiler that had a negative impact on our business. In reaction to the reductions, we made the difficult decision to pause production at our Mitchell Mill. This allowed us to consolidate our volume across the other three facilities, providing an opportunity to improve our efficiencies by sharing resources. In the face of a volume decline, our manufacturing cost per metric tonne fell by more than 5%.

The one thing that has remained consistent, notwithstanding the ever-changing environment, is our dedication to maintaining a unique portfolio of services to the livestock producer. Vaccinating broiler flocks has continued without pause and has provided critical early flock information allowing us to make nutrition adjustments as necessary to maximize performance. Our grainbank program continues to provide flexibility not available elsewhere in the industry. We have continued to provide in-house nutrition resources combined with relationships with global nutrition players to give us a nutrition solution that is both flexible and innovative.

We look forward to continuing to provide the livestock industry in Ontario the animal nutrition resources they need to continue to support a robust food industry: manufacturing, delivery and so much more.

Reta Byvelds, *General Manager, Animal Nutrition*

About this photo: Winner of the Hensall Co-op Photo Contest Feeding Ontario category: Betty Ann Kerrigan



ANIMAL NUTRITION

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CROP SERVICES

About this photo: Winner of the Hensall Co-op Photo Contest Field Fun category: Jaleesa Alderdice

With the COVID-19 pandemic at the forefront, 2020 most definitely demonstrated that agriculture is essential to our economy and highlighted the importance of farmers role in the overall food supply chain.

We were fortunate that in the midst of the pandemic, an early spring provided the industry with the footprint for all stakeholders to realign, focus and seize the opportunity to plant much earlier than the previous couple of years. This was helped further by the fact planting conditions were good. A good planting season is the springboard to success for the industry.

To provide our producers with the environment to succeed by improving the efficiency of their farm assets, we have made investments to improve the efficiency of our services. We have more overhead load out bins, faster fertilizer blending, improved dispatching with our FieldTrace® application and more tender trailers. These investments have allowed our team to deliver more product than ever before.

We have also made investments that improved our impact on the field:

- SoilOptix continues to bring leading insights into soil fertility and provide opportunities for variable rate fertilizer applications
- We took delivery of the first in Canada 90 ft boom John Deere Airflow
- We added a 70 ft Rogator with pneumatic air boom for high clearance in-crop applications of dry fertilizer

We see substantive growth opportunities as we look forward. We will continue to learn from the challenges of COVID-19 by implementing more technology to improve the efficiency of the supply chain. Our growth in our new territories will continue to bring new opportunities and provide market access to value added contracts. First and foremost, we will always bring solutions that are innovative, proactive, and provide a sustainable return on investment for the producer.

Jim Barclay, *Crop Retail Manager*

Photo credit: Betty Ann Kerrigan

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About this photo: Winner of the Hensall Co-op Photo Contest Full of Energy category: Leigh Winston

ENERGY

This has been a memorable year for the Energy Division as weather, external labour disruptions and the COVID pandemic had significant impacts on markets and our operations.

The late wet fall drove substantial demand for propane with the bean and corn harvest overlapping with barn heat. As demand was increasing, the CN Rail strike shook the industry by limiting available supply at the peak of the drying season. Understanding that providing a supply was essential, we worked extremely hard to keep adequate propane in our customers' tanks. We are extremely proud that not one of our customers ran out of propane through this difficult time. We were successful during the supply shortage because of the strong partnerships we enjoy with our suppliers, the co-operation of our customer base and the tenacity of our employees.

Photo credit: Karen Dumais

We saw an unprecedented decline in fuel prices when COVID-19 struck. In April of 2020 crude oil futures were negative for the first time in history. This gave us the opportunity to offer a diesel booking program to our Members allowing them to take advantage of the lower prices for refined product.

We made some footprint changes with the sale of the Exeter Gas Bar and the cessation of the franchise agreement in New Hamburg. While we saw some decline in Petroleum sales because of these changes, we saw double digit growth in lube sales as well as an increase in propane from the previous year. We have had a successful year because we continue to offer solid service and competitive pricing across a wide range of products.

This was also the year we saw Bob Rowe retire after 23 years with Hensall Co-op. His contribution will live on within the division as we continue to serve our customers with their energy products and service needs regardless of the challenges.

Jerry Groot, *Grain Marketing & Energy Manager*

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Photo credit: Bronwen Heinrich

The way we do business may have changed; however, the opportunity to grow our food grade business has never been stronger. Globally, consumers are demanding more plant-based proteins in their diets. Hensall Co-op's dry beans and food grade soybeans are considered healthy choices and demand for these products is expected to continue to grow.

Hensall Co-op provides an essential service as being part of the world's food supply chain and as the pandemic hit, we had to find different ways to do things. In February we suspended international travel for our Marketing Team. We also chose to close our processing facilities to outside visitors for meetings and facility tours. Our staff has become proficient with Zoom, Microsoft Teams and WhatsApp; whatever was needed to get the job done.

While we were making these adaptations markets were changing rapidly with consumer retail sales for dry beans increasing by approximately 7% in many markets. At the same time food service was down significantly because of COVID-19 shut-downs of restaurants and catering events. Soymilk sales also continued to grow. It hasn't been all growth as we saw tofu and natto sales steady to lower as younger people who are gravitating to western foods started to become a larger portion of the population. Confectionery products made from Azuki and Otebo beans have seen reduced demand since March as people have stopped visiting Japan and the Japanese people have reduced travel internally.

Overall, the areas of growth are out-pacing the weakness and food trends continue to support the ongoing growth. The way we communicate, and conduct business may have changed but the demand for consistent high-quality food has not changed. Hensall Co-op's member growers will continue to be an integral part of the world's food supply chain.

Derwyn Hodgins, *Commercial Business Manager, Food Products*

About this photo: Hensall Co-op Photo submission by: Bronwen Heinrich

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FOOD PRODUCTS

GRAIN & INGREDIENT MARKETING

About this photo: Hensall Co-op Photo Contest Going with the Grain submission: Jill Sebben

The harvest of 2019 will long be remembered for its challenges. With planting delays driven by a very wet and cold Spring of 2019, in June we were still questioning whether we would see substantial enough acres planted to give us a respectable fall harvest. With a good growing summer and a warm September to early October, we had hoped the weather would be more co-operative for a fall harvest but this was not to be. Wet cool weather took over in the latter part of October making the bean and corn harvest very challenging, the bean harvest started in October and ran well into December. With the short growing season the corn was harvested at high moisture levels and low test weights. Yields on both corn and beans came in surprisingly strong considering everyone was challenged to get it planted with both coming in just below the 5 year average.

Photo credit: Annmarie Kraft

Just as the planting season of 2020 got underway the pandemic hit, throwing markets into chaos. The commodity markets dropped at the outset of the pandemic. Weak fuel prices saw ethanol plants reduce their grinds by as much as half. There were silver linings though. The weather gave us a great spring planting season with crops planted on time and in some cases early. Exports increased as basis weakened. Markets rebounded much more quickly than anyone had anticipated. We ended the year cautiously optimistic that we would see a 2020 harvest with good yields and quality.

We have continued to focus on providing our members with options for marketing their crops giving them the opportunity to tailor their marketing program for their farm and circumstances. We know the essential business of farming continues regardless of the challenges that are faced and believe our services can be a steadying force to assist producers in achieving their goals, even in the toughest of years.

Jerry Groot, *Grain Marketing & Energy Manager,*

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HENSALL GLOBAL

Essential agriculture supported by indispensable logistics!

Fiscal 2020 was an eventful and challenging year in transportation and logistics. Civil protests and Canada's largest rail strike in more than a decade stalled Canadian domestic traffic for extended periods. COVID-19 resulted in cargo backlogs at major global container ports and international trade flows were severely impacted. Lockdowns and border closures further restricted the movement of goods.

Throughout this challenging period, Hensall Global worked diligently to support our customers and essential agriculture in its entirety. All major facets of our business remained operational during this time. Our trucks continued to carry essential commodities, our maintenance shop continued to repair trucks and trailers, our international freight forwarding team continued to execute ocean shipments worldwide and our domestic brokerage team continued to arrange domestic rail and truck shipments. Our team members persevered during this difficult time and are to be commended for their professionalism and dedication to our customers.

We expect 2021 to bring similar as well as new and diverse challenges. To prepare for this we have added capacity and resources in key areas of service delivery. We continue to invest in our data systems to provide information in a more timely and efficient manner. Our efforts are focused on delivering improved, integrated, and cost-effective solutions to our customers in a challenging environment.

Brad Borland, *General Manager, Hensall Global*

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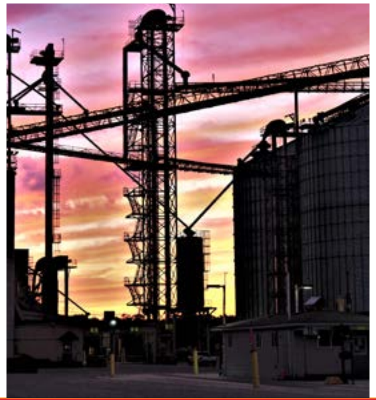
OPERATIONS

About this photo: Hensall Co-op Photo Contest Going with the Grain category submission by Karen Dumais

This has been a remarkable year with the challenges of a late, wet harvest followed closely by a global pandemic. Our employees have been incredible amid the challenges of long harvest hours and the uncertainty in the face of COVID-19. We celebrate many successes because of them.

We broke records for edible product in the year. In fact, we recorded two of our largest months ever at the height of the first wave of COVID-19. While other businesses were struggling to get their employees to come into work, we were breaking records. Our Health and Safety team was instrumental in keeping us on track, informed and ensuring our employees were working in the safest environment possible.

Photo credit: Karen Dumais



During the year, we have continued to improve our Quality Assurance programs to distinguish our products on the international stage. We continue to ensure our protocols meet all customer quality expectations with strict adherence to food safety and quality programs.

We made changes to improve traffic flow through our sites by diversifying our sites to meet the needs of our producers. We continue to develop new strategies in this area to save time for our producers.

With the success of our energy saving strategies, we have maintained our focus on implementing new initiatives to ensure our sustainability and success into the future.

As we continue to grow, our focus will always be on our producers. We will always be looking for ways to improve traffic flow through our facilities and diversify our sites to meet the needs of our members. This coupled with our energy saving strategies will position our business to be both sustainable and successful into the future giving the next generations a viable and strong co-operative model.

Joey Groot, *Corporate Operations Manager*

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Keep on Trucking category winner Maggie Thompson

Keep on Trucking category 2nd Place: Max Kraft

Keep on Trucking: Olivia Convay

Field Fun: Olivia McCowan

Field Fun: Walt Johnston "Long Season"

Going with the Grain: Caitlin Kroetsch

Plant Protein: Wendy Lawson

Feeding Ontario: Jill Sebben

Independent auditor's report

To the Members of Hensall District Co-operative, Incorporated

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Hensall District Co-operative, Incorporated (the Co-operative) as at July 31, 2020 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 balance sheet as at July 31, 2020;
- the statement of earnings and retained earnings for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

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 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 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 financial statements in accordance with ASPE, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than 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.

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 14, 2020

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BALANCE SHEET

As at July 31, 2020

	2020 $	2019 $
Assets (notes 13 and 16)		
Current assets		
Cash	62,675,947	26,291,264
Accounts receivable (note 6)	90,506,230	77,012,351
Fair value of open commodity and foreign exchange contracts (note 16)	3,439,773	5,597,028
Advances paid:		
Open commodity and foreign exchange contracts	3,212,017	1,139,499
Other	71,756	75,000
Inventories (note 7)	94,559,493	97,974,575
Prepaid expenses	2,249,900	1,954,187
Marketable securities	–	1,095,567
Income taxes receivable	1,293,103	
Future income taxes	161,000	–
	258,169,219	211,139,471
Investments (note 8)	990,117	933,067
Property, plant and equipment (note 9)	148,309,407	147,891,294
Intangible assets (note 10)	380,355	522,880
Goodwill	11,687,345	11,687,345
Deferred charges	159,188	291,028
Mortgage receivable	2,065,000	2,149,213
Total assets	**421,760,631**	**374,614,298**

Approved by the Board of Directors

President

Vice President

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

BALANCE SHEET *continued*

As at July 31, 2020

	2020 $	2019 $
Liabilities and member equity		
Current liabilities		
Accounts payable and accrued expenses (note 11)	47,846,029	42,349,982
Fair value of open commodity and foreign exchange amounts (note 16)	4,868,915	1,416,968
Advances received	1,578,251	2,471,528
Income taxes payable	–	614,387
Short-term demand member loans (note 12)	27,812,647	25,075,811
Current portion of:		
Long-term debt (note 13)	5,546,222	5,546,222
Capital lease obligation	54,754	2,034
Special member loans (note 15)	26,329,202	22,572,677
Future income taxes	–	765,000
	114,036,020	100,814,609
Long-term debt (note 13)	52,054,871	62,274,537
Future income taxes	13,886,000	12,340,000
	179,976,891	175,429,146
Member entitlements		
Mandatory member and patronage loans (note 14)	24,688,169	22,117,881
Special member loans (note 15)	168,491,844	134,579,873
Total liabilities	373,156,904	332,126,900
Member equity		
Retained earnings	48,603,727	42,487,398
Total liabilities and member equity	**421,760,631**	**374,614,298**
Commitments and contingencies (note 18)		

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

STATEMENT OF EARNINGS AND RETAINED EARNINGS

For the year ended July 31, 2020

	2020 $	2019 $
Sales (note 5)	805,368,268	794,760,369
Cost of sales		
Materials	671,456,690	661,171,665
Direct department costs	75,395,894	74,350,087
Amortization	14,783,733	13,725,010
Foreign exchange loss - other	539,243	2,702,564
Realized loss on foreign exchange contracts	4,682,772	6,853,972
	766,858,332	758,803,298
Departmental margin	38,509,936	35,957,071
Administration expenses (income)		
General expenses	11,698,773	10,726,810
Amortization	218,185	194,158
Other Income	(1,718,889)	(1,397,631)
	10,198,069	9,523,337
	28,311,867	26,433,734
Interest expense		
Operating loan (note 13)	1,046,846	1,911,020
Long-term debt and capital leases (note 13)	2,568,317	2,813,771
Member loans (notes 14 and 15)	11,672,986	10,110,160
Other	304,711	410,544
	15,592,860	15,245,495
Earnings from operations before the following	12,719,007	11,188,239
Other gains and losses		
(Loss) gain on disposal and impairment of property, plant and equipment	(1,146,822)	2,101,703
Net derivative losses and other items (note 16)	(79,859)	(790,258)
	(1,226,681)	1,311,445
Earnings before distributions to members and income taxes	11,492,326	12,499,684
Distributions to members (note 14)		
Patronage dividend	3,945,655	2,719,463
Interest bonus on mandatory member loans	245,586	228,455
	4,191,241	2,947,918
Earnings before income taxes	7,301,085	9,551,766
Income taxes		
Current	564,756	172,000
Future	620,000	3,131,000
	1,184,756	3,303,000
Net earnings for the year	6,116,329	6,248,766
Retained earnings - Beginning of year	42,487,398	36,238,632
Retained earnings - End of year	**48,603,727**	**42,487,398**

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

STATEMENT OF CASH FLOWS

For the year ended July 31, 2020

	2020 $	2019 $
Cash provided by (used in)		
Operating activities		
Net earnings for the year	6,116,329	6,248,766
Payment of patronage dividend	(699,029)	(602,020)
Items not affecting cash		
Amortization of property, plant and equipment	14,859,393	13,791,459
Amortization of intangible assets	142,525	127,710
Amortization of deferred financing charges	231,748	236,195
Change in unrealized gain/loss on open commodity and foreign exchange contracts	5,609,202	(8,661,395)
Change in unrealized gain on marketable securities	–	383,540
Gain on disposal of marketable securities	(4,562)	
Loss (gain) on disposal of property, plant and equipment	340,496	(2,101,703)
Impairment of property, plant and equipment	806,326	
Net change in accrued interest on demand and special member loans	2,542,840	2,944,404
Patronage dividend included in net earnings for the year	3,945,655	2,719,463
Future income tax expense	620,000	3,131,000
Unrealized foreign currency exchange gain on cash and cash equivalents	(319,541)	(33,503)
Non-cash patronage dividend earned on investments	(57,050)	(17,141)
	34,134,332	18,166,775
Net change in non-cash working capital balances	(9,049,470)	3,389,984
	25,084,862	21,556,759
Financing activities		
Repayment of long-term debt	(10,269,666)	(7,088,017)
Proceeds on issuance of long-term debt	–	10,000,000
Payment of financing charges	(49,913)	(41,031)
Proceeds from capital lease obligation	52,720	(7,556)
Repayment of mandatory member and patronage loans	(1,375,367)	(191,423)
Proceeds on issuance of special member and demand loans	72,552,860	58,020,196
Repayment of special member and demand loans	(34,690,368)	(35,818,872)
	26,220,266	24,873,297
Investing activities		
Acquisition of businesses, net of cash received (note 4)	–	(4,491,324)
Collection of mortgage receivable	84,213	2,231
Proceeds on disposal of marketable securities	1,100,129	155,535
Purchase of intangible assets	–	(242,000)
Purchase of property, plant and equipment	(18,471,578)	(32,346,185)
Proceeds on disposal of property, plant and equipment	2,047,250	1,782,814
	(15,239,986)	(35,138,929)
Effect of exchange rate changes on cash	319,541	33,503
Net increase in cash	36,384,683	11,324,630
Cash - Beginning of year	26,291,264	14,966,634
Cash - End of year	62,675,947	26,291,264

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

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.

2. Basis of presentation

These financial statements are prepared in accordance with Canadian accounting standards for private enterprises (ASPE) as issued by the Canadian Accounting Standards Board.

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.

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%
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.

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 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.

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.

4. Acquisitions
During the year, the Co-operative made no acquisitions.

In 2019, the Co-operative acquired two crop input retail stores for total cash consideration of $4,491,324 net of closing costs of $106,178. These transactions have been accounted for as a business combination and the results of these business' operations have been included in the financial statements since the date of acquisition. The purchase price of these transactions has been allocated to property, plant and equipment in the amount of $958,500 with the remaining consideration allocated to working capital.

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

	2020 $	2019 $
Edible beans and feed	304,805,803	292,365,964
Grain, corn and soybeans	312,682,048	320,832,464
Retail, wholesale and services	187,880,417	181,561,941
	805,368,268	794,760,369

6. Accounts receivable
Accounts receivable is presented net of allowance for doubtful accounts of $2,750,000 (2019 – $2,034,028). Bad debt expense of $1,061,511 (2019 – $225,000) was recognized during the year within general expenses.

7. Inventories

	2020 $	2019 $
Edible beans and feed	28,431,065	38,503,938
Grain, corn and soybeans	49,153,526	36,438,622
Retail, wholesale and services	16,974,902	23,032,015
	94,559,493	97,974,575

8. Investments
Included in investments is 69,500 (2019 – 12,500) common shares of CanAgri Insurance Alliance SCC representing 46.33% (2019 – 8.33%) 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.

9. Property, plant and equipment

	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

			2019
	Cost $	Accumulated amortization $	Net $
Land	9,831,754	-	9,831,754
Roadways and services	9,064,805	2,470,785	6,594,020
Buildings	43,666,107	17,059,212	26,606,895
Concrete silos	27,709,143	8,088,415	19,620,728
Steel storage bins	39,905,807	15,072,375	24,833,432
Equipment	134,232,896	82,026,678	52,206,218
Mobile machinery and trucks	17,688,267	10,668,053	7,020,214
Computer equipment	2,057,771	1,879,319	178,452
Construction in progress	999,581	-	999,581
	285,156,131	137,264,837	147,891,294

The Co-operative recognized amortization expense of $14,859,393 (2019 – $13,791,459) related to property, plant and equipment during the year.

The Co-operative has assets under capital lease arrangements with a cost of $109,502 (2019 – $36,616) and accumulated amortization of $15,969 (2019 – $35,962).

10. Intangible assets

Intangible assets include producer and customer relationships as follows:

	2020 $	2019 $
Cost	1,925,259	1,925,259
Accumulated amortization	(1,544,904)	(1,402,379)
	380,355	522,880

The Co-operative recognized amortization expense of $142,525 (2019 – $127,710) related to intangible assets during the year.

11. Government remittances

Included in accounts payable and accrued expenses are $118,909 of government remittances payable (2019 - $50,289), 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 2%. The accrued interest is included in the balance of the outstanding demand member loans.

13. Long-term debt and operating loan facilities

	2020 $	2019 $
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	1,037,037	1,259,259
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, 2025	24,444,445	30,444,445
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, 2024	14,887,222	18,052,222
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	7,689,333	8,127,333
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	9,555,556	10,000,000
	57,613,593	67,883,259
Less: Deferred financing charges	12,500	62,500
	57,601,093	67,820,759
Less: Current portion	5,546,222	5,546,222
	52,054,871	62,274,537

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, 2021	5,546,222
2022	5,546,222
2023	5,546,222
2024	5,546,222
2025	5,546,222
2026 and thereafter	29,882,483
	57,613,593

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 June 2018, was extended out until September 30, 2021. 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 3.53% (2019 – 3.87%) 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, 2020, no amounts have been drawn on this facility (2019 – $nil).

The Co-operative has $19,000,000 (2019 - $26,000,000) of availability through an FCC advance which extends out until November 1, 2020. 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, 2020, no amounts have been drawn on this facility (2019 – $nil).

14. Mandatory member and patronage loans and member distributions

	2020 $	2019 $
Mandatory member loans - interest at 5%	8,186,200	7,615,150
Patronage loans - non-interest bearing	16,501,969	14,502,731
	24,688,169	22,117,881

On October 1, 2020 (2019 – October 7, 2019), the Board of Directors declared that a patronage dividend of $3,945,655 (2019 – $2,719,463) would be paid for the year to members of record as at the year-end date and mandatory member loan bonus interest of $245,586 (2019 – $228,455) 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 $699,029 (2019 – $602,020) 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:

	2020 $	2019 $
2.50% due 2022	20,667	–
3.00% due 2023	35,750	–
4.00% due 2022 (2019 – due 2020)	14,125,893	75,000
4.25% due 2023 to 2024	6,161,592	–
4.50% due 2021 to 2025 (2019 – due 2020 to 2022)	15,147,357	15,144,698
4.75% due 2023 to 2024	1,670,648	–
5.00% due 2021 to 2025 (2019 – due 2020 to 2024)	25,998,357	22,513,981
5.25% due 2021 to 2025 (2019 – due 2020 to 2025)	4,676,941	2,320,696
5.50% due 2021 to 2030 (2019 – due 2020 to 2023)	16,448,269	12,756,961
5.75% due 2021 to 2030 (2019 – due 2020 to 2025)	18,158,811	20,862,275
6.00% due 2021 to 2030 (2019 – due 2020 to 2026)	5,527,732	4,432,534
6.25% due 2023 to 2030 (2019 – due 2023)	2,993,282	15,000
6.50% due 2021 to 2026 (2019 – due 2020 to 2026)	13,283,694	11,380,991
6.75% due 2022 to 2030 (2019 – due 2020 to 2029)	10,420,912	8,671,289
7.00% due 2021 (2019 – due 2020 to 2021)	440,000	690,000
7.25% due 2022 to 2029 (2019 – due 2022 to 2029)	57,701,597	55,418,597
7.50% due 2021 (2019 – due 2020 to 2021)	2,009,544	2,869,905
8.00% (2019 – due 2020)	–	623
	194,821,046	157,152,550
Less: Current portion		
	26,329,202	22,572,677
	168,491,844	134,579,873

Included in the above balance of outstanding special member loans is accrued interest of $7,661,805 (2019 – $5,557,072)

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, 2020 are as follows:

	$
Year ending July 31, 2021	26,329,202
2022	51,557,148
2023	21,189,762
2024	23,607,926
2025	18,385,798
2026 and thereafter	53,751,211
	194,821,047

16. Fair value of open commodity and foreign exchange contracts

Derivatives - commodity and currency contracts

As at July 31, 2020, the balance sheet includes an asset associated with an unrealized gain on derivative contracts of $3,439,773 (2019 – $5,597,028) and a liability associated with an unrealized loss on derivative contracts of $nil (2019 – $nil). In respect of the commodity derivative contracts, net realized and unrealized gains of $9,493,852 (2019 – $12,272,846) were recognized in cost of sales. In respect of the foreign currency derivative contracts, net realized and unrealized losses of $819,914 (2019 – losses of $7,042,587) 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:

			2020
	Dates	Volume	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

			2019
	Dates	Volume	Price US $
Future contracts – buy wheat	Sep 2019 – May 2020	780,000 bushels	4.8725 – 5.1075
Futures contract – buy MPLS wheat	Sep 2019	25,000 bus	5.1950
Future contracts – buy corn	Sep 2019 – Sep 2020	2,800,000 bushels	3.9775 – 4.5825
Future contracts – buy soybeans	Sep 2019 – Nov 2020	3,170,000 bushels	8.6900 – 9.4025
Future contracts – buy soybean meal	Dec 2019	635 metric tonnes	277.05
Future contracts – buy CAD	Sep 2019 – Mar 2020	$172,500,000 USD	1.3153 – 1.3183 CAD
Future contracts – sell wheat	Sep 2019 – Mar 2021	4,060,000 bushels	4.8725 – 5.4175
Futures contracts - sell MPLS wheat	Dec 2019 – Sep 2020	85,000 bushels	5.3325 – 5.7325
Future contracts – sell corn	Sep 2019 – Jul 2020	9,875,000 bushels	3.9650 – 4.7500
Future contracts – sell soybeans	Sep 2019 – Nov 2020	3,105,000 bushels	8.6900 – 9.4025
Future contracts – sell soybean meal	Sep 2019	4,264 metric tonnes	272.61
Future contracts – sell canola	Sep 2019	20 metric tonnes	300.50
Future contracts – sell CAD	Sep 2019	$1,900,000 USD	1.3183 CAD
Forward currency contracts – sell USD	Aug 2019 – Jun 2021	$118,000,000 USD	1.2831 – 1.3453 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 2020 and October 2022 (2019 – August 2019 and June 2021). The total amount of the contractual obligation under these purchase contracts is to purchase approximately 412,675 metric tonnes (2019 – 516,485 metric tonnes) of agricultural commodities, with an estimated current market value of approximately $211,118,524 (2019 – $224,108,327). Of this amount, the Canadian dollar equivalent of $33,653,515 (2019 – $31,365,754) 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 2020 and December 2023 (2019 – August 2019 and November 2020). The total amount of the contractual obligation under these sales contracts is to sell approximately 507,258 metric tonnes (2019 – 538,647 metric tonnes) of agricultural commodities with an estimated current market value of approximately $342,293,422 (2019 – $331,280,940). Of this amount, the Canadian dollar equivalent of $311,903,410 (2019 – $298,815,977) 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 $4,868,915 loss (2019 - $1,416,968 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, 2020, the fair value of currency contracts qualifying for hedge accounting was an unrealized loss of $2,286,809 (2019 – $410,950 unrealized loss) which is not included on the balance sheet. As at July 31, 2020, derivatives qualifying for hedge accounting included certain outstanding forward currency contracts to sell $148,820,000 USD (2019 – $118,000,000 USD) at prices ranging from $1.2946 to $1.4442 (2019 – $1.2831 to $1.3453), with settlement periods ranging from August 2020 to Jan 2024 (2019 – August 2019 to June 2021) and to buy $15,000,000 USD (2019 - $nil) at prices ranging from $1.3841 to $1.4111, with settlement periods ranging from 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, 2020. 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.
Hensall District Co-operative, Incorporated

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, 2020, the Co-operative’s balance sheet includes the following financial assets (liabilities) denominated in USD:

	2020 $USD	2019 $USD
Cash and cash equivalents	6,512,406	12,482,086
Accounts receivable	33,127,733	23,533,883
Fair value of open commodity and foreign exchange contracts	2,566,229	4,256,943
Advances paid	2,396,312	866,667
Accounts payable and accrued expenses	(1,078,813)	(1,000,663)
	43,523,867	40,138,916

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, 2021	3,645,474
2022	2,522,090
2023	1,827,315
2024	944,485
2025 and thereafter	2,417,466
	11,356,830

Capital commitments

As at July 31, 2020, the Co-operative has commitments to commence or continue construction projects at an approximate aggregate cost of $3,783,966 (2019 – $3,360,409) 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 $1,127,907 (2019 – $959,519).

20 Statutory information

During the year, the Co-operative transacted approximately 41% (2019 – 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 $207,227 (2019 – $264,492).

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.