

General Manager's Report

05 May 2021

Welcome to the 99th AGM of the Armstrong Regional Cooperative (ARC) and thank you to those who attended the socially distanced AGM in September 2020 and the virtual AGM this year. 2020 has easily been the most challenging year in my time at the co-op. Our communities have seen pandemic driven fluctuations in fuel prices coupled with significant, and possibly permanent, impacts on how our society interacts with each other, eats, shops, travels and recreates.

The ARC has been fortunate to have survived this turmoil without major financial impact or changes to our core values and it has primarily been our staff who have made this happen. They have adapted to new workplace rules, new social behaviour patterns and the stress related to these and many other issues. As always, I am truly grateful for their efforts over the last year.

What follows is the report of the ARC's 99th year in business, our fiscal year 2020, and how we have managed to have a successful year despite the pandemic impacts on our business as well as on the communities we serve.

Last year was a rollercoaster ride of a year in many respects and especially with crude and pump pricing drastically affected by the pandemic with crude pricing selling in negative numbers at one point. All of these factors sent our gas bar litre sales down dramatically in March and April last year during a time when the ARC closed our doors to the public to assist with curbing the pandemic spread of COVID-19. During this same period, delivered litres spiked and we sold out of storage tanks to those customers stocking up on inexpensive diesel.

During the year we made significant changes to our sites to protect our staff and customers with the addition of tempered glass protective screening and security doors at all of our manned sites and the planning for and now installation of secure pass-through windows at our gas bars. To say the government's pandemic driven mandates had a significant impact on our business would be an understatement, however, government programs were also available to, and utilized by, the ARC to assist with our wage costs during the pandemic.

Despite all of the turmoil, or maybe because of it, our membership numbers grew again, although at a lesser number than in 2019 bring us to over 23,000 members in total. I believe that many of the 1,781 new members were convinced to join at least partially by the fact we are local, we are Canadian and we are their neighbours. Couple that with the stability that the ARC represents in our 99-year history in the community and people may well feel at home here. Of course, the desire to receive a patronage cheque each year is ever present in the growth of our membership base. Thanks again to our staff who make the ARC a place our community admires, respects and gives them a feeling of belonging to something of value.

On to the financials where I can report that the overall sales of the ARC have dropped about 18.7% to \$62.37M from last years \$76.76M almost all of which is a result of the major drop in fuel pricing for the first 3 or 4 months of our year. For the same time frame the litres sold by the ARC dropped a

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mere 2.0% to 58.6M vs 59.8M in 2019. These numbers contributed to a Local Profit of \$1.5M before the new loyalty program payments from FCL, down from \$1.7M last year. The new FCL Loyalty Program is new and is in addition to the Patronage Equity Rebate that remains in place. The Loyalty Program sets a cents per litre amount at the beginning of the year which FCL pays each retail on every litre purchased and it is received quarterly. Then at year end they determine if there is additional patronage that can be returned to the retails such as the ARC, however in 2020 there were no additional fuel patronage rebates. All of that gave us a Net Income of \$3.9M for 2020 vs \$7.9M last year or a 50.6% drop. Despite the impacts of the pandemic on the economy and in fact the ARC's business, we are announcing a rebate of 4% this year which allows us to return equity of almost \$2.2M to our member-owners.

At this point I need to address the cost of our audit services utilized to bring you our members the audited financial reports, to complete our CRA income tax forms and to assist the board in fulfilling their fiduciary responsibility for the financial matters of the ARC. For the 2020 fiscal year the ARC paid BDO almost \$30,000 for those services and we are now faced with quotes of \$35,000 and \$37,100 to provide those same services for FY2021 and FY2022.

The ARC faces continual upgrading to our technology systems throughout the business from the truck delivery computers to the tills and back-office information systems at our retail outlets and even to the alarm systems and surveillance cameras. The costs of technology upgrades are not insignificant however without them or the power to operate them we cannot operate our facilities. To allay that situation the ARC is now investigating power back up systems for all of our sites in order to ensure we are up and running regardless of BC Hydro's status.

AS you have probably heard by now, the ARC's pursuit of diversification paths has taken a turn and turned into concrete results with the opening of ARC Liquor in Vernon, BC. We will continue to pursue diversification and expansion opportunities to ensure the long-term relevance and viability of the ARC.

Thanks for attending this Virtual AGM and participating in the ongoing governance of your CO-OP and also for your continuing support of the ARC.

Regards,

Jeff Payne