2022 Annual Report

This document provides our member-owners and stakeholders with an overview of the governance and finances for the fiscal year ended October 29, 2022.

Scan here to view our 2022 highlights,

or visit this link
www.calgarycoop.com/about/media-centre/annual-reports

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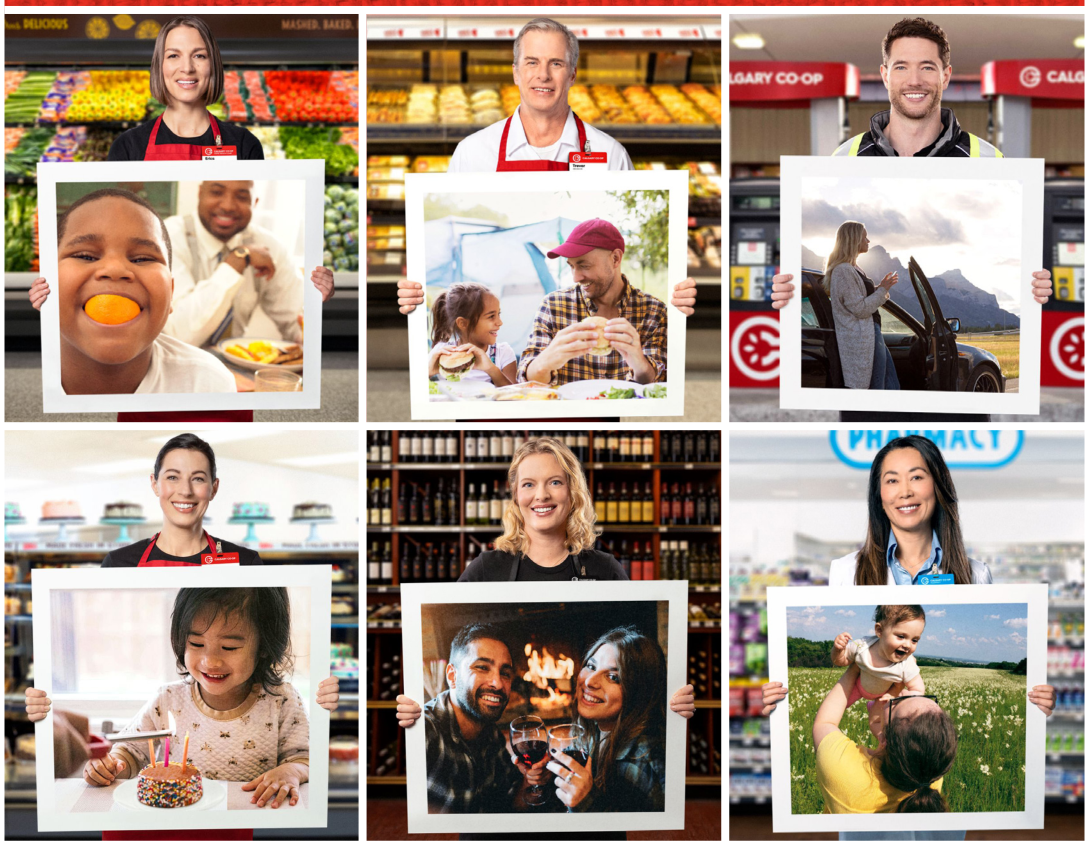
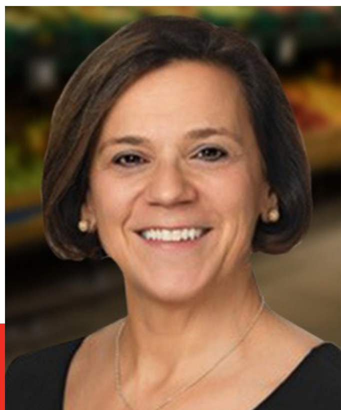
CALGARY CO·OP

Life's in store

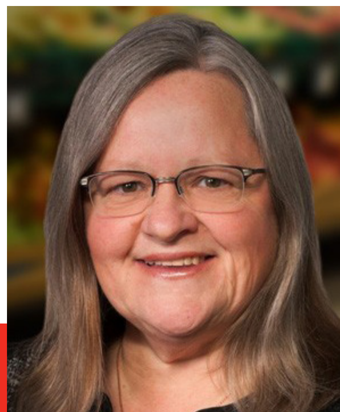


2022 Board of Directors

Brad Krizan
BA, MBA, ICD.D
Chair



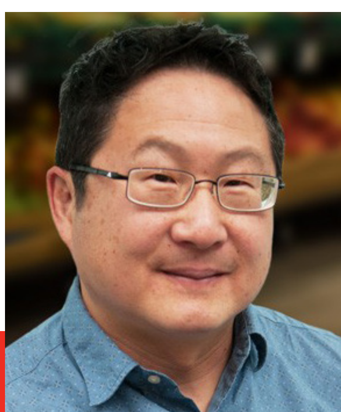
Dominique Gregoire
B.Com. (Acct), Gr. Dip (Acct), CA, CPA
Vice Chair



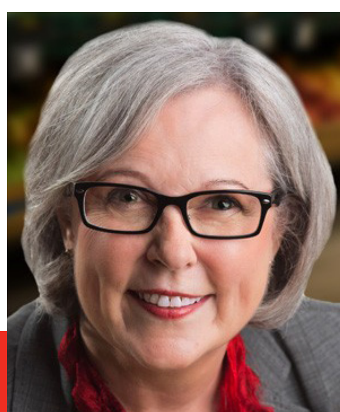
Elaine Bereziuk-Smith
ICD.D
Board Secretary

Victoria E. Bradbury
FCA, BFP, CPA/CA, CMC, B.A.

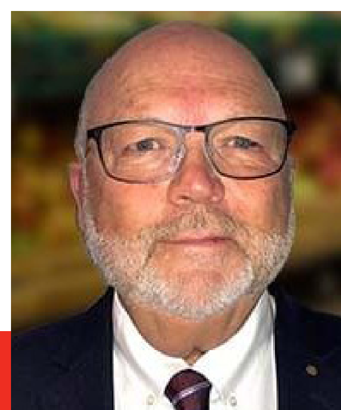
Mike Dalton
ICD.D, CPA (CA)



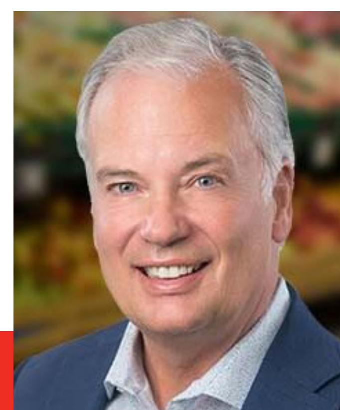
Evan Hu
BSc. ME., M.Eng, BBA (Honorary)



Gael MacLeod
ICD.D, MBA, B.Comm.



Bryan Walton
M.Sc, B.Sc.



Ken White
ICD.D

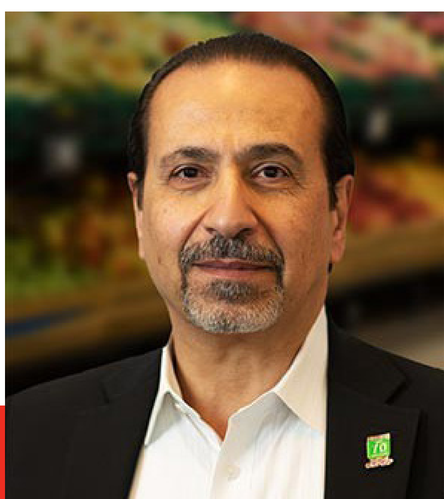
2022 Executive Leadership Team

Ken Keelor
Chief Executive Officer

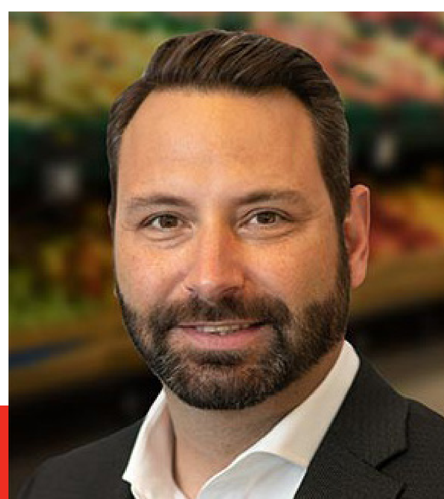
Paul Harrison
Chief Financial Officer

Jeff Ambrose
Senior Vice-President,
Operations and Merchandising

Penney McTaggart Cowan
Vice-President,
Marketing and Member Experiences



Fadi J. Nasr
Vice-President,
Information Technology



Damon Tanzola
Vice-President,
Real Estate and Development

Bart Willmore
Vice-President,
Human Resources

Board Governance

Calgary Co-op's Board of Directors is comprised of nine member-owners elected by Calgary Co-op members. The Board operates independently from Management while ensuring the two leadership groups function in alignment with Calgary Co-op's long-term strategy. The Board's focus areas are to:

- approve and oversee Calgary Co-op strategy
- monitor and review financial performance
- provide oversight on risk identification and mitigation
- ensure clarity in the link between Calgary Co-op and its members
- provide oversight to the CEO

A New Look for Calgary Co-op

In Fall 2022, we announced a new name and logo for all of our stores, transforming us from Co-op to Calgary Co-op. The new visual identity is meaningful and modern, allowing Calgary Co-op to continue to build a strong presence in our communities.

Evolving to Meet the Needs of our Members

Calgary Co-op continues to evolve and grow, modernizing and refreshing our stores to provide our members the best shopping experiences. Along with renovations and redevelopments and the planned opening of two new food stores in Marda Loop and Cochrane, we continue to invest in our communities. We are also committed to growing our technology, including ongoing enhancements to online shopping, as well as the launch of a new loyalty program, which will feature a new member-only app and a simplified patronage and equity program, offering instant rewards and benefits.

Committees

Calgary Co-op's model of governance uses four committees to undertake specifically delegated diligence work related to the Board's most complex areas of oversight.

Audit Committee

The Audit Committee maintains oversight over the financial reporting, internal controls, risk, and internal and external audit. For the financial year ended October 29, 2022, the committee has completed the following:

- Reviewed the financial integrity of Calgary Co-op's financial statements and financial reporting.
- Ensured all financial reporting complied with applicable accounting principles and regulatory requirements.
- The internal auditor completed several audits and identified opportunities for improvement. A number of improvements have been actioned with others being in various stages of implementation. Reviewed the internal auditor's proposed three-year, risk-based audit plan and approved year one of the plan.

Governance Committee

The Governance Committee ensures the Board adheres to best practices and high standards. This is accomplished by developing structures and processes to provide effective and efficient oversight of our Co-op. For the financial year end October 29, 2022, the committee has completed the following:

- Reviewed the Bylaws and drafted changes which will be presented for consideration by the membership.
- Provided direction for an effective and safe Annual Meeting of the Members.
- Facilitated a third party Director compensation review from requesting proposals through to Board recommendations to be presented for consideration by the membership.
- Updated the committee's Terms of Reference to more accurately reflect the work being done.
- Initiated the creation of an Investment Committee which will provide oversight on proposed acquisitions and performance oversight of our wholly owned subsidiaries.
- Reviewed, updated, circulated, and provided feedback on the Board Skills Matrix, the Board performance review and the Committee performance reviews.
- Provided input and guidance to the Board with respect to the new director orientation, board committee composition and board succession planning.

Human Resources Committee

The Human Resources Committee's mandate is to provide effective oversight on behalf of the Board on Calgary Co-op's relationship with the CEO, human resources policies and plans, including health safety and environment as well as its compensation and benefits plans. For the financial year ended October 29, 2022, the committee has completed the following:

Reviewed and recommended to the Board:

- Goals and objectives relevant to the performance and compensation of the CEO.
- Performance evaluation, remuneration and benefits of the CEO.
- Engaged an external third party consultant to review the terms of Calgary Co-op's compensation philosophy, awards proposed under incentive plans, as well as retirement plans. (including SERP), deferred compensation plans and benefit plans for executive management related to Calgary Co-op's strategic goals.

Reviewed and monitored:

- Human resource policies and practices.
- Labour relations and collective bargaining negotiation updates.
- Approach to Succession planning.
- Calgary Co-op's health, safety & environmental programs.
- Oversight of Employee survey results and management's action plan.
- Integrity Hotline report on issues pertaining to human resources.
- Calgary Co-op's involvement in human resource litigation, enforcement actions and contingencies facing the Association.

Nominations Committee

The Nominations Committee oversees the nominations and election process on behalf of the Board. It is the goal of the Nominations Committee to attract qualified members to run for election to the Board and to identify for members those applicants who can best fill the gaps on the Board in terms of hard and soft skills, experience and leadership. Calgary Co-op seeks to maintain a Board comprised of talented and dedicated directors with a diverse mix of expertise, experience, skills and backgrounds. For the financial year ended October 29, 2022, the committee has completed the following:

- Engaged MNP Calgary as professional, independent third-party Election Consultants to manage the election process.
- Engaged Leaders International to assist in the recommendation process.
- Managed and oversaw the recommendation process on behalf of the Board.
- Led the continuous development of the Directors' Election Handbook.
- Engaged Canadian company Simply Voting to provide the online voting platform for the 2023 Director Election.

Board and Committee Meeting Attendance
October 31, 2021 to October 29, 2022

Director	Board Meetings	Audit Committee Meetings	Governance Committee Meetings	Human Resources Committee Meetings	Nominations Committee Meetings
Patricia McLeod	4	2	3	2	3
Cindy Andrew	3	—	3	2	—
Evan Hu	8	—	5	2	1
Brad Krizan	8	5	2	3	4
Dominique Gregoire	8	2	—	5	—
Mike Dalton	8	5	3	—	—
Elaine Bereziuk-Smith	8	—	—	2	4
Gael MacLeod	8	—	5	3	—
Victoria Bradbury	8	5	2	—	3
Bryan Walton	4	3	—	—	1
Ken White	4	3	—	3	—

NOTES:
Patricia McLeod: term ended April 7, 2022
Cindy Andrew: term ended April 7, 2022
Mike Dalton: re-elected April 7, 2022
Bryan Walton: term started April 7, 2022
Ken White: term started April 7, 2022

Board Remuneration, Annual Purchases and, Development & Dues*
October 31, 2021 to October 29, 2022

Director	Remuneration	Annual Purchases	Development/Dues
Patricia McLeod	$34,888	$13,016	—
Cindy Andrew	$15,045	$6,667	$2,044.84
Evan Hu	$33,000	$5,160	$14,285
Brad Krizan	$60,485	$7,323	$415
Dominique Gregoire	$36,255	$22,643	$395
Mike Dalton	$39,227	$11,985	$732
Elaine Bereziuk-Smith	$36,392	$16,372	$1,045
Gael MacLeod	$34,392	$13,871	$5,167
Victoria Bradbury	$35,201	$6,077	$9,686
Bryan Walton	$19,172	$5,281	—
Ken White	$19,172	$4,664	—

* This includes costs for director training and development as well as professional dues.

Calgary Co-operative Association Limited

Consolidated financial statements
October 29, 2022

Independent auditor's report

To the Members of
Calgary Co-operative Association Limited

Opinion

We have audited the accompanying consolidated financial statements of **Calgary Co-operative Association Limited** [the "Association"], which comprise the consolidated balance sheet as at October 29, 2022, and the consolidated statement of earnings and retained earnings and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Association as at October 29, 2022, and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in *Auditor's responsibilities for the audit of the consolidated financial statements* section of our auditors' report. We are independent of the Association in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Canadian accounting standards for private enterprises, and for such internal control as management determines is necessary to enable the preparation of 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 Association'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 Association or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Association's financial reporting process.

Auditor's responsibilities for the audit of the consolidated 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 consolidated 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 for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Association'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 consolidated 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 Association to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated 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.

Ernst & Young LLP

Chartered Professional Accountants

Calgary, Canada
January 27, 2023

EY

Calgary Co-operative Association Limited

Consolidated balance sheet

[in thousands of dollars]

As at

	October 29, 2022 $	October 30, 2021 $
Assets		
Current		
Cash and cash equivalents	**5,235**	1,795
Accounts receivable *[note 18[b]]*	**26,261**	22,336
Income tax recoverable	**1,241**	289
Inventories *[note 2]*	**93,465**	90,895
Prepaid expenses and deposits	**7,069**	7,793
Total current assets	**133,271**	123,108
Investments *[notes 3 and 18[b]]*	**167,722**	165,513
Property and equipment *[note 5]*	**341,479**	341,318
Assets held for sale *[note 5]*	**6,527**	12,195
Goodwill *[note 6]*	**22,140**	14,050
Intangible assets *[note 7]*	**7,119**	4,151
Future income taxes *[note 12]*	**8,911**	10,228
	687,169	670,563
Liabilities and member's equity		
Current		
Accounts payable and accrued liabilities *[notes 11, 14, 18[a] and 21]*	**105,087**	110,647
Government payables *[note 17]*	**4,659**	4,387
Future income taxes *[note 12]*	**3,282**	3,051
Demand non-revolving credit facility due within one year *[note 8[b]]*	**3,584**	3,584
	116,612	121,669
Demand non-revolving credit facility *[note 8[b]]*	**41,208**	44,791
Total current liabilities	**157,820**	166,460
Asset retirement obligation *[note 19]*	**10,745**	—
Other liabilities *[note 21]*	**11,392**	13,302
Total liabilities	**179,957**	179,762
Member's equity		
Member's shares *[note 9]*	**190,488**	190,285
Retained earnings	**316,724**	300,516
Total member's equity	**507,212**	490,801
	687,169	670,563

Commitments and guarantees *[notes 5, 15 and 21]*
Contingencies *[notes 8[a] and 20]*
Subsequent events *[notes 11, 18[b] and 22]*

See accompanying notes

On behalf of the Board:

Brad Krizan
BA, MBA, ICD.D.
Director

Mike Dalton
ICD.D, CAP (CA)

Calgary Co-operative Association Limited

Consolidated statement of earnings and retained earnings

[in thousands of dollars]

Year ended

	October 29, 2022	October 30, 2021
	$	$
Sales *[note 10]*	**1,321,338**	1,229,695
Expenses		
Cost of sales, selling and administrative *[notes 2 and 14]*	**1,272,338**	1,180,785
Amortization *[notes 5 and 7]*	**28,089**	32,441
	20,911	16,469
Other expenses (income)		
Rental income	**(15,203)**	(15,329)
Rental expense	**5,999**	5,497
Transaction costs *[note 4]*	**498**	—
Loss on fair value of assets held for sale *[note 5]*	**—**	5,605
Loss on disposal and write off of property and equipment *[note 5]*	**327**	281
Interest income	**(363)**	(232)
Interest expense	**1,282**	1,341
Loss (income) from jointly controlled enterprise	**—**	5
Earnings before patronage refund	**28,371**	19,301
Patronage refund *[note 18[b]]*	**14,268**	13,265
Earnings before income taxes	**42,639**	32,566
Income tax expense (recovery) *[note 12]*		
Current	**3,283**	3,962
Future	**685**	(1,411)
	3,968	2,551
Net earnings	**38,671**	30,015
Retained earnings, beginning of year	**300,516**	287,744
Patronage returns *[note 11]*	**(26,000)**	(21,800)
Inactive member's shares transferred to retained earnings *[note 9]*	**3,537**	4,557
Retained earnings, end of year	**316,724**	300,516

See accompanying notes

Calgary Co-operative Association Limited

Consolidated statement of cash flows

[in thousands of dollars]

Year ended

	October 29, 2022 $	October 30, 2021 $
Operating activities		
Net earnings	**38,671**	30,015
Add (deduct) items not involving cash		
Amortization	**28,089**	32,441
Patronage refunds to be received in FCL shares *[note 18[b]]*	**(2,854)**	(2,653)
Loss from jointly controlled enterprise	**—**	5
Future income tax expense (recovery)	**685**	(1,411)
Loss on fair value of assets held for sale *[note 5]*	**—**	5,605
Loss on disposal and write off of property and equipment *[note 5]*	**327**	281
Lease inducement amortization	**(182)**	(183)
Accrued future rents	**240**	620
	64,976	64,720
Net change in non-cash operating working capital *[note 13]*	**(12,600)**	(15,871)
Cash provided by operating activities	**52,376**	48,849
Investing activities		
Expenditures on property and equipment	**(23,758)**	(31,674)
Acquisition of business assets *[note 4]*	**(11,206)**	—
Proceeds on disposal of property and equipment	**12,508**	811
Dividends from jointly controlled enterprise *[note 3]*	**645**	—
Change in non-cash working capital *[note 13]*	**(2,514)**	6,955
Decrease in other receivables	**—**	3,450
Cash used in investing activities	**(24,325)**	(20,458)
Financing activities		
Repayment of demand non-revolving credit facility	**(3,583)**	(3,583)
Shares redeemed for cash	**(2,585)**	(2,975)
Shares issued for cash	**25**	13
Decrease in other liabilities	**(959)**	(69)
Change in contract commitments *[note 21]*	**(1,009)**	(1,024)
Patronage return to be paid in cash *[note 11]*	**(19,700)**	(16,500)
Change in non-cash working capital *[note 13]*	**3,200**	(1,700)
Cash used in financing activities	**(24,611)**	(25,838)
Net change in cash during the year	**3,440**	2,553
Cash and cash equivalents, beginning of year	**1,795**	(758)
Cash and cash equivalents, end of year	**5,235**	1,795
Cash and cash equivalents	**5,235**	1,795
Demand revolving facility	**—**	—
	5,235	1,795

See accompanying notes

Notes to consolidated financial statements

[in thousands of dollars]

October 29, 2022

The primary business of the Calgary Co-operative Association Limited [the "Association"] is operating retail food, pharmaceutical, petroleum, home health care, liquor and cannabis outlets in Calgary and area for the benefit of its members. As a percentage, 79% [2021 – 79%] of sales are to members. The Association is incorporated under the *Cooperatives Act* of Alberta.

1. Summary of significant accounting policies

[a] Basis of presentation and measurement uncertainty

The consolidated financial statements of the Association have been prepared in accordance with Canadian accounting standards for private enterprises. A precise determination of many assets and liabilities is dependent upon future events and consequently, the preparation of periodic financial statements involves the use of estimates and approximations. Areas subject to estimation include valuation of accounts receivable and inventories, useful life of property and equipment and intangible assets, impairment of long-lived assets, future income taxes, business combinations, asset retirement obligation and potential contingencies. These estimates also affect the disclosure of contingencies at the date of the consolidated financial statements and the reported amounts of assets, liabilities, revenues and expenses. Actual results could differ from those estimates.

[b] Consolidation

The consolidated financial statements include the accounts of the Association and its wholly-owned subsidiaries, Community Natural Foods and Beacon Pharmacy. All intercompany transactions and balances were eliminated on consolidation.

[c] Definition of financial year

The Association's financial year ends on the Saturday closest to October 31. Accordingly, the years ended October 29, 2022 and October 30, 2021 consist of 52 weeks of operations each.

[d] Financial instruments

The Association initially records a financial instrument that was originated, issued or assumed in an arm's length transaction at fair value. Related party debt or equity instruments that are quoted in an active market, debt instruments with observable inputs that are significant to the determination of their fair value, and derivative instruments are also initially recorded at fair value.

Related party financial instruments that have repayment terms are initially recorded at cost, representing the undiscounted cash flows of that instrument, excluding interest and dividend payments. Related party financial instruments that do not have repayment terms are recorded at cost, determined using the consideration transferred or received by the Association. If the consideration transferred or received has repayment terms, then the cost is determined using the undiscounted cash flows, excluding interest and dividend payments, of the financial instrument transferred as consideration. If, however, the consideration transferred is an asset or liability that does not have repayment terms, the cost is initially recognized at the carrying or exchange amount of the consideration transferred or received, depending on the circumstances. The exchange amount is used when the transaction is in the normal course of operations or the transaction is not in the normal course of operations but has commercial substance, the change in ownership interest in the related financial item transferred is substantive and the amount of consideration transferred or received is established and agreed to by the related parties and is supported by independent evidence. Otherwise, the carrying amount of the consideration transferred or received is used as the cost of the related party financial instrument.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other arm's length financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

Subsequently, the Association measures its other financial assets and other financial liabilities at amortized cost.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the Association determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the Association could realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

[e] Cash and cash equivalents

Cash and cash equivalents are defined as cash and short-term investments with an initial maturity of less than three months.

[f] Inventories

Inventories are recorded at the lower of cost (net of vendor rebates) and net realizable value. Cost is determined using the weighted average cost method or the retail method by discounting the retail value by normal profit margins.

The Association recognizes amounts received under agreements with suppliers as a reduction in the price of the suppliers' products and presents them as a reduction of cost of sales in the consolidated statement of earnings and of related inventories in the consolidated balance sheet when it is probable that such discounts will be received.

[g] Property and equipment

Property and equipment are stated at cost. Amortization is provided over the estimated useful lives of the assets using the following methods and rates:

Buildings and parking lots	Declining balance 4%–8%
Fixtures and equipment	Declining balance 20–100%
Computer equipment	Straight line 1–5 years

Leasehold improvements are amortized on a straight-line basis over the shorter of the lease term and their estimated useful lives.

Renovations to existing buildings and carwash equipment are amortized on a straight-line basis over ten years.

Notes to consolidated financial statements

[in thousands of dollars]

October 29, 2022

[h] Asset retirement obligation

The Association recognizes a liability for an asset retirement obligation ("ARO") in the period in which a legal liability is incurred and records a corresponding increase in the carrying value of the related long-lived asset and is then amortized over its useful life. The liability is subsequently adjusted for the passage of time, which is recognized as an accretion expense in the statement of earnings and retained earnings. The liability is also adjusted due to revisions in either the timing or the amount of the original estimated cash flows associated with the liability and revisions to the discount rate. Actual costs incurred upon settlement of the asset retirement obligations are charged against the asset retirement obligation to the extent of the liability recorded.

ARO and provisions for remediation of environmental impacts represent the present value estimates of the Association's cost to remediate gas bar and food centre sites and perform other environmental activities relating to its land and buildings. The Association applies judgment in assessing the existence, extent and expected method of remediation, decommissioning and other environmental activities required at the end of each reporting period. The Association also uses judgment to determine whether the nature of the activities performed relate to decommissioning and remediation activities or normal operating activities. In addition, the provisions are based on estimated costs, which consider the anticipated method and extent of remediation and regulatory, environmental and safety considerations. Actual costs are uncertain and estimates can vary as a result of changes to relevant laws and regulations, the emergence of new technologies, operating experience, prices and closure plans. The estimated timing of future decommissioning and remediation may change due to factors such as closure plans and regulatory considerations. Changes to estimates relating to future expected costs, discount rates and timing may have a material impact on the amounts presented.

[i] Goodwill

Goodwill resulting from business combinations represents the portion of the purchase price that was in excess of the fair value of the net identifiable assets and liabilities acquired. Goodwill is not amortized and is tested for impairment whenever changes in circumstances indicate that the carrying amount of the reporting unit to which goodwill is assigned exceeds the fair value of the reporting unit. If the carrying value of the reporting unit to which goodwill has been assigned exceeds its fair value, then, with respect to the reporting unit's goodwill, any excess of its carrying value over its fair value is expensed. Goodwill impairment losses are not reversed.

[j] Intangible assets

Intangible assets are stated at cost less accumulated amortization. Amortization is provided over the estimated useful life using the straight-line method.

Liquor license	10–13 years
Trade name	7–20 years
Customer relationships	5–10 years
Non-compete agreement	3 years

[k] Other liabilities

Deferred lease inducements

Deferred lease inducements, representing the benefit of cash inducements, are amortized over the remaining term of the related lease.

Notes to consolidated financial statements
[in thousands of dollars]

October 29, 2022

Accrued future rents

The Association uses the straight-line method of recognizing its lease expense, whereby the total of cash rents due over the term of a lease is recognized evenly over the life of the lease. The difference between the amount recognized as lease expense and cash paid is included in other liabilities.

[l] Revenue recognition

Sales include revenue from member owners and other customers through stores operated by the Association. These sales are recognized at the point-of-sale.

The Association receives rental income on properties from third party tenants. Rental income is recognized when services are provided.

Periodically, the Association will receive payments for entering into a long-term commitment to do business with specific vendors. These amounts are deferred in current and other long-term liabilities and are recognized over the term of the commitment when performance is achieved.

[m] Store opening expenses

Store opening costs of new stores are expensed as incurred.

[n] Income taxes

The Association follows the asset and liability method whereby income taxes reflect the expected future consequences of temporary differences between the carrying amounts of assets and liabilities and their tax bases. Future income tax assets and liabilities are determined for each temporary difference based on the tax rates which are expected to be in effect when the underlying items of income and expense are expected to be realized.

[o] Investments

Reported at cost – Investments in arm's length equity instruments that are not quoted in an active market are initially recorded at fair value, net of any related transaction costs, and subsequently measured at cost less any reduction for impairment.

Joint arrangements – the Association accounts for its investments in entities which are jointly controlled using the equity method whereby the investment is carried at cost, net of any related transaction costs, and adjusted for any contributions or withdrawals and its share of the net earnings or loss of the investment.

[p] Business combinations and contingent consideration

Business combinations are accounted for using the acquisition method. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at estimated fair value at the acquisition date. The cost of an acquisition is measured as the fair value of the consideration paid at the acquisition date. The excess of the cost of the acquisition over the fair value of the net assets acquired is recorded as goodwill. If the cost of an acquisition is less than the fair value of the net assets of the business acquired the Association reconsiders the amounts allocated to the identifiable assets and liabilities. If after careful consideration, the excess continues to be present, the Association recognizes a bargain purchase gain in net earnings. Transaction costs associated with the business combination are expensed as incurred.

The Association recognizes the fair value of any contingent consideration that is transferred to the seller in a business combination on the date at which control of the acquiree is obtained. This value is generally determined through a probability-weighted analysis of the expected cash flows.

Contingent consideration is classified as a liability or as equity on the basis of the definitions of a financial liability and an equity instrument. The contingent consideration is payable in cash and, accordingly, the Association classified its contingent consideration as a liability. The liability will be remeasured at fair value when the contingency is settled and any gain or loss on settlement at a different amount will be recognized in net earnings in the period during which it is settled.

[q] Assets held for sale

Long-lived assets are classified by the Association as an asset held for sale at the point in time when the asset is available for immediate sale, management has committed to a plan to sell the asset and is actively locating a buyer for the asset at a sales price that is reasonable in relation to the current fair value of the asset, and the sale is probable and expected to be completed within a one-year period.

Assets to be disposed of are separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell and are no longer depreciated. The asset and liabilities of a disposal group classified as held for sale are presented separately in the appropriate asset and liability sections of the balance sheet.

[r] Hedge accounting

The Association uses interest rate swaps to mitigate the effect of changes in interest rates on variable-rate debt. When both at the inception of a hedging relationship and throughout its term, the Association has reasonable assurance that the critical terms of the hedging item and the hedged item are the same, and, in the case of an anticipated transaction, it is probable that the anticipated transaction will occur at the time and in the amount designated, the Association may choose to apply hedge accounting. The Association then formally documents the hedging relationship, identifying the hedged item, the related hedging item, the nature of the specific risk exposure or exposures being hedged and the intended term of the hedging relationship.

Interest rate swaps in qualifying hedging relationships are not recognized until their maturity. When hedging interest rate risk, interest on the debt is recorded at the stated interest rate plus or minus amortization of any initial premium or discount and any financing fees and transaction costs. Net amounts receivable or payable on the interest rate swap are recognized as an adjustment to the interest expense on the hedged item in the period during which they accrue.

Hedge accounting may not be electively discontinued. If an interest rate swap is discontinued, any gain or loss is recognized as an adjustment to the debt and amortized to net earnings as interest payments are accrued. When it is no longer probable that the anticipated transaction will occur in the amount designated or within two weeks of the maturity date of the hedging item for an interest rate swap, or if the debt is derecognized, the interest rate swap is measured at fair value and any gain or loss is recognized in net earnings.

Notes to consolidated financial statements

[in thousands of dollars]

October 29, 2022

[s] Impairment

Property, plant and equipment and intangible assets subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Impairment is assessed by comparing the carrying amount of an asset to be held and used with the total of the undiscounted cash flows expected from its use and disposition. If the asset is impaired, the impairment loss to be recognized is measured as the amount by which the carrying amount of the asset exceeds its fair value, generally determined on a discounted cash flow basis. Any impairment results in a write-down of the asset and a charge to income during the year. An impairment loss is not reversed if the fair value of the related asset subsequently increases.

[t] Changes in accounting policies

Financial instruments in a related party transaction, risk disclosure and other amendments

Effective October 1, 2021, the Association adopted the amendments to Section 3856 of Part II of the *CPA Canada Handbook – Accounting*, *Financial Instruments*, ["Section 3856" or "the standard"] issued by the Canadian Accounting Standards Board.

Under the amended standard, the measurement of related party financial instruments is now incorporated into Section 3856 as opposed to Section 3840, *Related Party Transactions* ["Section 3840"]. Consequently, related party transactions are initially measured at cost, with the exception of equity or debt instruments quoted in an active market, debt instruments when the inputs significant to the determination of the fair value of the instrument are observable, or derivative contracts, which are initially measured at fair value. Cost under the amended standard is determined based on whether the financial instrument has repayment terms. The amendments also require that the subsequent measurement of related party financial instruments be based on how the entity initially measured the instrument, provides guidance on how to measure an impairment of a debt and equity instrument in a related party transaction measured at cost, and requires an entity to recognize forgiveness of a related party financial asset in either equity or net earnings depending on whether or not the original transaction giving rise to the financial asset was in the normal course of business. Additionally, the standard requires entities prepare financial instrument disclosures using entity-specific information and significant consequential amendments were made to Section 3840 to clarify that Section 3840 does not apply to related party financial instruments.

The Association adopted the amendments to Section 3856 retrospectively. There was no impact of the adoption of the amendments to Section 3856 on the consolidated financial statements of the Association for the year ended October 30, 2021.

2. Inventories

The cost of inventories recognized as an expense during the year ended October 29, 2022 was $1,003,086 [2021 – $914,646]. The Association recorded nil [2021 – nil] as an expense for the write-down of inventories where the net realizable value is less than cost as at October 29, 2022. There was no reversal of inventories that were previously written down that are no longer estimated to sell below cost.

Notes to consolidated financial statements

[in thousands of dollars]

October 29, 2022

3. Investments

	2022 $	2021 $
Federated Co-operatives Limited [“FCL”]	**167,722**	164,868
Investment in jointly controlled enterprise	—	645
	167,722	165,513

As there is no readily available market for the Association’s investment in FCL shares and the fair value cannot be determined, it has been measured at cost. The FCL shares are redeemable, at cost, at the option of FCL where FCL terminates the Association’s membership with FCL. Under this scenario, FCL is required to redeem the shares within one year. The FCL shares are also redeemable, at cost, at the option of the Association where the Association withdraws its membership with FCL. Under this scenario, FCL is required to redeem the shares over a maximum period of 20 years. The Association’s investment in FCL represents 10% of the issued and outstanding shares of FCL [2021 – 10%].

The Produce People [“TPP”] was a jointly controlled enterprise between the Association and FCL ceased operations on April 13, 2020. The Association accounted for its investment in TPP using the equity method.

For the year ended October 29, 2022, the Association received $645 in dividends [2021 – nil] from the final dissolution of TPP.

4. Business combinations

On December 31, 2021, the Association acquired 100% of the shares of a private company which provides pharmaceutical products and services. The consideration included:

	$
Cash paid at closing	10,056
Cash paid into escrow	1,150
Total purchase consideration	11,206

The acquisition was accounted for using the acquisition method whereby the assets acquired and the liabilities assumed were recorded at their estimated fair values. Operating results of these assets have been included in the Association's revenues and expenses since the date of acquisition.

Notes to consolidated financial statements
[in thousands of dollars]

October 29, 2022

The following summarizes the allocation of the consideration paid based on estimated fair value of assets acquired and liabilities assumed:

	$
Inventories	353
Property and equipment	129
Prepaid expenses and deposits	11
Accounts receivable	586
Accounts payable and accrued liabilities	(852)
Intangible assets	3,752
Goodwill	8,090
Future tax liability	(863)
	11,206

Pursuant to the purchase and sale agreement, $1,150 was paid into escrow for any working capital adjustments and indemnity for a period of 24 months from the date of closing.

Transaction costs of $498 related to the acquisition have been recorded in other expenses in the consolidated statement of earnings and retained earnings.

5. Property and equipment

	2022			2021		
	Cost	**Accumulated amortization**	**Net book value**	**Cost**	**Accumulated amortization**	**Net book value**
	$	$	$	$	$	$
Land	**131,483**	**—**	**131,483**	127,238	—	127,238
Buildings and parking lots	**321,214**	**172,050**	**149,164**	295,131	166,344	128,787
Fixtures and equipment	**154,824**	**112,228**	**42,596**	148,568	110,224	38,344
Leasehold improvements	**24,623**	**12,113**	**12,510**	24,104	10,667	13,437
Computer equipment	**31,201**	**25,475**	**5,726**	27,828	22,725	5,103
Assets under construction	**—**	**—**	**—**	28,409	—	28,409
	663,345	**321,866**	**341,479**	651,278	309,960	341,318

As at October 29, 2022, the Association had contractual commitments to spend approximately $16,620 [2021 – $12,310] on capital expansion projects.

The Association recorded $27,305 of amortization expense for property and equipment for the year ended October 29, 2022 [2021 – $31,954].

Notes to consolidated financial statements

[in thousands of dollars]

October 29, 2022

The Association had a loss on disposal and write off of property and equipment of $106 for the year ended October 29, 2022 [2021 – $281] comprised of the disposal of equipment and the write down of obsolete assets in renovated food centres, liquor stores and gas bars.

During the year, the Association adopted a formal plan to dispose of certain real estate, equipment and site improvements with a carrying value of $6,527. These assets have been reclassified as assets held for sale and recorded at their carrying value. During 2021, assets with a carrying value of $17,800 were planned to be disposed of. The assets were written down to the fair value of $12,195 which resulted in a fair value loss of $5,605 being recorded. During the year, the real estate assets were sold for $11,974 resulting in a loss on disposal of $221.

6. Goodwill

	2022	2021
	$	$
Balance, beginning of year	**14,050**	14,050
Goodwill acquired	**8,090**	—
Balance, end of year	**22,140**	14,050

7. Intangible assets

	2022			2021		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
	$	$	$	$	$	$
Liquor license	**337**	**161**	**176**	337	132	205
Trade name	**4,015**	**556**	**3,459**	3,427	342	3,085
Customer relationships	**3,971**	**1,010**	**2,961**	1,435	574	861
Non-compete agreement	**628**	**105**	**523**	—	—	—
	8,951	**1,832**	**7,119**	5,199	1,048	4,151

8. Credit facilities

[a] Demand revolving facility

The Association has available a $120,000 demand revolving facility to finance working capital and operating requirements. As at October 29, 2022, the Association has drawn nil [2021 – nil] on this facility. The facility is due on demand and bears interest at the bankers' prime rate with a premium or discount based on the Association's senior funded debt to EBITDA ratio. As at October 29, 2022, the rate was prime less 0.25%. The prime rate at October 29, 2022 was 5.95% [2021 – 2.45%]. The Association has provided letters of credit in the amount of $3,266 [2021 – $2,819] to support the purchase of certain capital items. These letters of credit have been charged against this facility.

Notes to consolidated financial statements

[in thousands of dollars]

October 29, 2022

[b] Demand non-revolving facility

The Association has available a $70,000 demand non-revolving facility to finance new capital expenditures, construction and development of which $53,750 was drawn in 2020. The facility requires principal repayments of $896 per quarter, however, is due on demand and bears interest at the bankers' prime rate with a premium or discount based on the Association's senior funded debt to EBITDA ratio. As at October 29, 2022, the rate was prime less 0.25%. The prime rate at October 29, 2022 was 5.95% [2021 – 2.45%]. As at October 29, 2022, the amount owing on this facility was $44,792 [2021 – $48,375].

The Association has entered into an interest rate swap agreement for fixed interest payments, in place of the bank's prime rate, of 2.27% with a maturity date of April 11, 2025. The estimated fair market value of the interest rate swap as at October 29, 2022 was a receivable of $2,944 [2021 – $994]. The Association has elected to apply hedge accounting to this interest rate swap. The fair value was estimated at the end of the period based on published interest rate curves and using an estimated credit adjusted discount rate and approximates the amount the Association would receive if the swap was settled on October 29, 2022.

[c] Treasury management facility

The Association has available a $5,000 treasury management facility to facilitate in the hedging of currency exchange risk and interest rate risk. As at October 29, 2022, the Association has drawn nil on this facility [2021 – nil].

[d] Corporate Mastercard facility

The Association has a corporate Mastercard facility in an amount not to exceed $2,000 to be used for general corporate expenses. Outstanding amounts are repayable in accordance with the lender's standard Mastercard agreement and are included in accounts payable and accrued liabilities.

[e] Equipment line facility

The Association has available a $10,000 equipment line facility to provide for the leasing of equipment. As of October 29, 2022, the Association has drawn nil on the facility [2021 – nil].

[f] Security

The above facilities are secured by a $300,000 debenture providing the lender with a floating charge over all of the assets of the Association.

The Association is required to make principal repayments on the demand non-revolving facility as follows:

	$
2023	3,584
2024	3,584
2025	3,584
2026	3,584
2027	3,584
Thereafter	26,872
	44,792

Notes to consolidated financial statements
[in thousands of dollars]

October 29, 2022

9. Members' shares

The Association is authorized to issue an unlimited number of shares with a par value of $1. Upon application to the Board of Directors, the par value of the member's shares becomes payable when a member no longer resides in the trading area, is deceased, has reached the age of 65 or makes an application in any other circumstances and such application is approved by the Association's Board of Directors.

Changes in share capital are as follows:

	2022 $	2021 $
Balance, beginning of year	**190,285**	192,504
Shares redeemed for cash	**(2,585)**	(2,975)
Inactive members' shares transferred to retained earnings	**(3,537)**	(4,557)
Shares issued for cash	**25**	13
	184,188	184,985
Current year's patronage returns to be paid in shares *[note 11]*	**6,300**	5,300
Balance, end of year	**190,488**	190,285

Inactive members are defined as members who have not transacted with the Association within two years.

10. Sales categories

The Association's business operations are grouped into three business categories, the principal activities of which are as follows:

[a] Food, which consists of the sale and distribution of food and pharmaceutical products;

[b] Petroleum, which consists of the sale of petroleum products and convenience store items; and

[c] Other, which consists of the provision of liquor products, home health care products and cannabis products.

	2022 $	2021 $
Food	**670,485**	674,279
Petroleum	**501,778**	387,828
Other	**149,075**	167,588
	1,321,338	1,229,695

Notes to consolidated financial statements

[in thousands of dollars]

October 29, 2022

11. Patronage returns

The Board of Directors approved the payment of patronage returns in the amount of $26,000 [2021 – $21,800]. The portion of the patronage returns to be paid in cash in the amount of $19,700 [2021 – $16,500] is included in accounts payable and accrued liabilities and the portion to be paid in shares in the amount of $6,300 [2021 – $5,300] is included in members' shares.

12. Income taxes

Income tax expense differs from the expected expense at the statutory tax rate as follows:

	2022 $	2021 $
Statutory rate	**23%**	23%
Earnings before income tax, excluding jointly controlled enterprise income/loss (net of tax), less the patronage return to members	**16,639**	10,771
Expected expense at statutory rate	**3,827**	2,477
Permanent difference	**156**	74
Other	**(15)**	—
Income tax expense	**3,968**	2,551

The tax effects of temporary differences that give rise to future tax assets and future tax liabilities are presented below:

	2022 $	2021 $
Future tax assets		
Supplemental defined contribution employee retirement plan	**217**	207
Deferred lease inducements	**322**	364
Accrued future rents	**684**	629
Contract commitments	**1,643**	1,859
Property and equipment	**6,045**	7,169
	8,911	10,228
Future tax liabilities		
Patronage refund receivable	**3,282**	3,051

Notes to consolidated financial statements

[in thousands of dollars]

October 29, 2022

13. Change in non-cash working capital

	2022 $	2021 $
Operating activities		
Accounts receivable	**(3,339)**	4,132
Inventories	**(2,217)**	(5,027)
Prepaid expenses and deposits	**735**	(1,643)
Accounts payable and accrued liabilities	**(7,099)**	(8,834)
Income tax recoverable	**(952)**	(4,712)
Government payables	**272**	213
	(12,600)	(15,871)
Investing activities		
Accounts payable for capital expenditures	**(2,514)**	6,955
Financing activities		
Accounts payable for patronage return	**3,200**	(1,700)

14. Pension plans

The Association participates in a multi-employer defined contribution pension plan whereby the Association and participating employees contribute equal amounts to the maximum allowed under the *Income Tax Act*. The Association has no unfunded liability under this plan. During the year, the Association recorded $4,399 [2021 – $4,485] of expense relating to this plan, and there were no significant changes to the rates of employer contributions.

The Association has established a supplemental defined contribution employee retirement plan. For the year ended October 29, 2022, an expense of $92 [2021 – $245] has been recorded relating to this plan. The total liability at October 29, 2022 is $943 [2021 – $900].

[in thousands of dollars]

15. Commitments and guarantees

[a] Lease commitments

The Association is committed to minimum lease payments under operating lease agreements for buildings and equipment over the next five years and thereafter, as follows:

	$
2023	19,191
2024	18,896
2025	16,527
2026	15,018
2027	12,388
Thereafter	64,207
	146,227

[b] Utility service commitment

The Association has a commitment of $19,820 to purchase electricity at fixed rates per KWH to June 30, 2027. The total commitment is $4,260 per year for financial years 2023 to 2026 and $2,780 for financial year 2027.

The Association has a commitment of $1,555 to purchase natural gas at fixed rates per GJ to May 31, 2024. The total commitment is $894 for financial year 2023 and $661 for financial year 2024.

[c] Product purchase commitment

Under the terms of an agreement with FCL, the Association has committed to purchase petroleum products, at market price, from FCL for gas bar operations over a ten-year period commencing from the date of gas bar completion. Failure to meet this commitment would require the Association to repay any gas bar grants received, plus interest on the grants, compounded annually at 10% from the grant date. Total grants received over the prior ten-year period amount to $9,100 [2021 – $11,500].

Effective November 1, 2014, FCL implemented an updated program related to providing grants for the construction and upgrading of retail facilities by its members. Any new projects initiated after November 1, 2014 are subject to the conditions of the new program. Under the terms of this agreement, the Association has committed to purchase petroleum products from FCL for gas bar operations for periods ranging from 10 to 20 years, depending on the nature of the project. Failure to meet this commitment would require the Association to repay a prorated amount of any grants received over the remaining purchase term plus interest, compounded annually at 10% on the prorated grant amount from the date of default. Total grants received on facility projects covered under this program amount to $10,700 [2021 – $10,700].

Effective November 1, 2022, the Association discontinued procurement of petroleum products from FCL. Capital grants *[note 18[c]]* may be repayable at an amount up to $31,600, however the outcome of any repayment is uncertain at the time of filing these consolidated financial statements. See note 20 contingencies for a description of unresolved claims and litigations.

Notes to consolidated financial statements

[in thousands of dollars]

October 29, 2022

16. Financial Instruments

The Association's financial instruments consist of cash and cash equivalents, investments, accounts receivable, income tax recoverable, demand non revolving credit facility, demand revolving credit facility, accounts payable and accrued liabilities, government payables, and other liabilities.

[a] Credit risk

The Association is exposed to credit risk resulting from the possibility that parties may default on their financial obligations.

Management believes that the credit risk relating to the financial assets is normal for the business and is limited as there is a broad base of customers, and therefore no significant concentration of credit risk exists.

The Association's credit risk exposure on cash is minimized substantially by ensuring that cash is held with credible financial institutions.

[b] Liquidity risk

Liquidity risk is the risk that the Association will not be able to meet a demand for cash or fund its obligations as they come due. The Association meets its liquidity requirements by anticipating operating, investing and financing activities and ensuring there are enough funds to cover these activities.

In order to reduce liquidity risk, the Association has kept its financial leverage at low levels and maintained financial ratios that are conservative compared to the financial covenants within its credit facilities.

[c] 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 interest rates. The Association's sensitivity to fluctuations in interest rates is limited to certain of its cash and cash equivalents, demand revolving facility and demand non revolving facility. The Association has entered into an interest rate swap contract to mitigate this risk *[note 8[b]]*.

[d] Currency risk

The Association is exposed to financial risks as a result of exchange rate fluctuations and the volatility of these rates. In the normal course of business, the Association purchases fixtures and equipment denominated in U.S. dollars. The Association does not currently enter into forward contracts to mitigate this risk.

There has been no change to the risk exposures from 2021.

Notes to consolidated financial statements

[in thousands of dollars]

October 29, 2022

17. Government payables

	2022	2021
	$	$
Payroll deductions	**1,193**	2,382
Federal fuel charge [carbon tax]	**2,553**	1,996
Goods and services tax	**487**	—
Transit passes	**426**	9
	4,659	4,387

18. Related party transactions

FCL is owned by retail co-operatives across Western Canada including the Association. FCL provides central wholesaling, manufacturing and administrative services to its owners. During the year ended October 29, 2022, FCL was the major petroleum supplier to the Association, in addition to other commodities. The Association owns approximately 10% [2021 – 10%] of the shares in FCL.

[a] Purchases

For the year ended October 29, 2022, the Association made purchases from FCL in the amount of $351,126 [2021 – $249,547]. These purchases represented 37% [2021 – 29%] of the Association's total purchases and were transacted in the normal course of operations and were recorded at the exchange amount. Included in accounts payable and accrued liabilities are amounts owed to FCL of $26,651 [2021 – $28,972].

For the year ended October 29, 2022, the Association earned interest income at prime less 1.10% [2021 – prime less 1.10%] of $64 [2021 – $21] as a result of early payments on normal trade payable balances to FCL. The average early payment balance with FCL amounted to $2,635 [2021 – $1,567].

[b] Patronage refund

FCL approved the payment of a patronage refund to the Association in the amount of $14,268 [2021 – $13,265]. The portion of the patronage refund to be received in cash in the amount of $11,414 [2021 – $10,612] is included in accounts receivable of $9,274 [2021 – $8,622] and income tax recoverable of $2,140 [2021 – $1,990]. The portion to be received in FCL shares in the amount of $2,854 [2021 – $2,653] is included in investments.

[c] Capital grants

The Association receives capital grants from FCL to assist in the construction of gas bars. For the year ended October 29, 2022, the Association received capital grants of nil [2021 – $731] from FCL for this purpose.

In addition, FCL provided a lease subsidy of $189 [2021 – $189] for facilities constructed on leased land. For the year ended October 29, 2022, $167 [2021 – nil] is included in accounts receivable.

[d] Leases

The Association has a food center operating lease agreement in place with FCL which requires payments of approximately $297 per year to October 2032. This commitment is disclosed as part of note 15[a].

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[in thousands of dollars]

October 29, 2022

19. Asset retirement obligation

	2022 $	2021 $
Asset retirement obligation, beginning of year	—	—
Provisions made	10,745	—
Asset retirement obligation, end of year	**10,745**	—

For the year ended October 29, 2022, the Association recognized an asset retirement obligation of $10,745 for long-lived assets associated with gas bar discontinuance at the end of their useful life, potential environmental remediation costs at food centres and estimated costs at lease termination. The inflation rate used to determine the value of future asset retirement costs was 1.90% and the discount rate used to determine the present value of the future asset retirement costs was 2.80%. The total undiscounted estimated future cash flows required to settle the Association's asset retirement obligation are $12,607 as at October 29, 2022. These costs are expected to be paid up to the year 2053.

20. Contingencies

The Association has filed claims against a related party *[note 18[b]]* for oppressive conduct and breach of contracts *[note 15[c]]*. In response, the related party has filed counterclaims against the Association. Based on the current stage of these claims and counterclaims, the outcome is not determinable. No provision for gains or losses arising from such claims, if any, has been included in these consolidated financial statements.

In addition to the above matters, the Association is also involved in various claims and litigations arising in the normal course of business. While the outcome of these matters are uncertain and there is no assurance that such matters will be resolved in the Association's favour, the Association does not currently believe that the outcome of adverse decisions, if any, in pending or threatened proceedings, would have a significant impact on its financial position, results of operations or liquidity. No provision for these claims and litigations have been included in these consolidated financial statements.

21. Other liabilities

Included in other liabilities are amounts received related to contractual commitments. Such amounts are recognized as revenue as these contractual commitments are satisfied.

Should the Association terminate these contracts prior to the stated expiry dates, the Association is required to reimburse the vendors a pro-rated portion of the initial payment.

As at October 29, 2022, the Association has recorded deferred revenue related to these payments of $7,082 [2021 – $8,335], of which $1,031 [2021 – $1,275] is included in accounts payable and accrued liabilities and $6,051 [2021 – $7,060] is included in other liabilities.

Notes to consolidated financial statements

[in thousands of dollars]

October 29, 2022

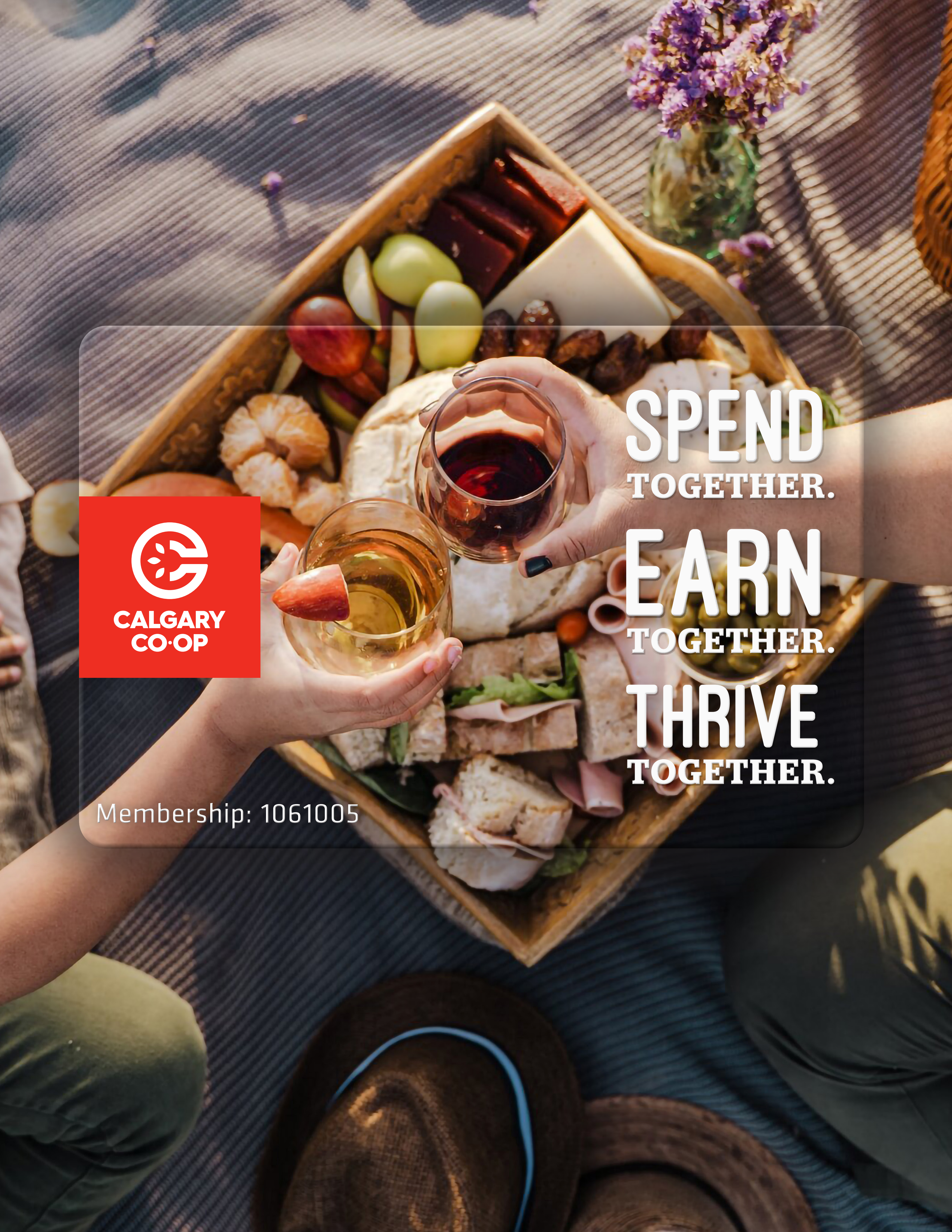
22. Subsequent events

Effective December 23, 2022, the Association acquired The Organic Box [the "Acquisition"] for total consideration of $5,175 before working capital adjustments and closing costs. The Organic Box is an Alberta based organic grocery delivery and food logistics company.

The Association financed the Acquisition of $5,175 by drawing on its demand revolving credit facility *[note 8[a]]*. In addition to the base purchase price, additional consideration to a maximum of $750 may become due to the seller contingent on the employment of "Key Employees" post-closing [the "Earn-out Period"]. The Earn-out Period extends 24 months from the closing date of December 23, 2022.

On January 3, 2023, the Association executed a sale and purchase agreement to acquire all the outstanding shares of a private company, including its related real estate for total consideration of $63,608 before working capital adjustments, closing costs and contingent consideration. The company carries on the wholesale and retail business of selling liquor products in Alberta and Saskatchewan. The closing date is expected to be January 31, 2023.

The Association will finance the Acquisition of $63,608 by assuming a mortgage in the amount of $13,043, and drawing on its demand revolving credit facility *[note 8[a]]* for the remaining $50,565.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