CALGARY CO·OP

Calgary Co-operative Association Limited

Consolidated financial statements
October 28, 2023

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 28, 2023, 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 28, 2023, 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

Calgary, Canada

Chartered Professional Accountants

CALGARY CO-OP

Calgary Co-operative Association Limited

Consolidated balance sheet

[in thousands of dollars]

As at

	October 28, 2023 $	October 29, 2022 $
Assets		
Current		
Cash and cash equivalents	**5,580**	5,235
Accounts receivable *[note 18[b]]*	**21,891**	26,261
Income tax recoverable	**—**	1,241
Inventories *[note 2]*	**104,295**	93,465
Prepaid expenses and deposits	**8,177**	7,069
Total current assets	**139,943**	133,271
Investment *[notes 3 and 18[b]]*	**167,834**	167,722
Property and equipment *[note 5]*	**355,511**	341,479
Assets held for sale *[note 5]*	**16,396**	6,527
Goodwill *[note 6]*	**43,425**	22,140
Intangible assets *[note 7]*	**29,137**	7,119
Future income taxes *[note 12]*	**5,192**	8,911
	757,438	687,169
Liabilities and member's equity		
Current		
Demand revolving facility *[note 8[a]]*	**49,459**	—
Accounts payable and accrued liabilities *[notes 11, 14, 18[a] and 21]*	**109,119**	105,087
Income tax payable	**178**	—
Government payables *[note 17]*	**8,174**	4,659
Future income taxes *[note 12]*	**130**	3,282
Current portion of long term debt *[note 8[g]]*	**513**	—
Demand non-revolving credit facility due within one year *[note 8[b]]*	**3,583**	3,584
	171,156	116,612
Demand non-revolving credit facility *[note 8[b]]*	**37,625**	41,208
Total current liabilities	**208,781**	157,820
Long term debt *[note 8[g]]*	**12,111**	—
Asset retirement obligation *[note 19]*	**21,443**	10,745
Other liabilities *[notes 4 and 21]*	**13,192**	11,392
Total liabilities	**255,527**	179,957
Member's equity		
Member's shares *[note 9]*	**185,302**	190,488
Retained earnings	**316,609**	316,724
Total member's equity	**501,911**	507,212
	757,438	687,169

Commitments and guarantees *[notes 5, 15 and 21]*
Contingencies *[notes 8[a] and 20]*
Subsequent events *[notes 11, 18[b] and 23]*

See accompanying notes

On behalf of the Board:

Director

Director

CALGARY CO·OP

Calgary Co-operative Association Limited

Consolidated statement of earnings and retained earnings

[in thousands of dollars]

Year ended

	October 28, 2023	October 29, 2022
	$	$
Sales *[note 10]*	**1,303,270**	1,284,432
Expenses		
Cost of sales, selling and administrative *[notes 2 and 14]*	**1,259,849**	1,235,432
Amortization [*notes 5 and 7*]	**30,139**	28,089
Accretion expense *[note 19]*	**407**	—
	12,875	20,911
Other expenses (income)		
Rental property income	**(14,952)**	(15,203)
Rental property expense	**6,003**	5,999
Transaction costs *[note 4]*	**2,311**	498
Loss on disposal and write off of property and equipment *[note 5]*	**938**	327
Interest income	**(536)**	(363)
Interest expense	**3,501**	1,282
Earnings before patronage refund	**15,610**	28,371
Patronage refund *[note 18[b]]*	**563**	14,268
Earnings before income taxes	**16,173**	42,639
Income tax expense (recovery) *[note 12]*		
Current	**4,026**	3,283
Future	**(4,557)**	685
	(531)	3,968
Net earnings	**16,704**	38,671
Retained earnings, beginning of year	**316,724**	300,516
Patronage returns *[note 11]*	**(21,200)**	(26,000)
Inactive member's shares transferred to retained earnings *[note 9]*	**4,381**	3,537
Retained earnings, end of year	**316,609**	316,724

See accompanying notes

CALGARY CO·OP

Calgary Co-operative Association Limited

Consolidated statement of cash flows

[in thousands of dollars]

Year ended

	October 28, 2023	October 29, 2022
	$	$
Operating activities		
Net earnings	**16,704**	38,671
Add (deduct) items not involving cash		
Amortization	**30,139**	28,089
Accretion of asset retirement obligation	**407**	—
Patronage refunds to be received in FCL shares *[note 18[b]]*	**-112**	(2,854)
Future income tax expense (recovery)	**-4,557**	685
Loss on disposal and write off of property and equipment *[note 5]*	**938**	327
Lease inducement amortization	**(182)**	(182)
Accrued future rents	**178**	240
	43,515	64,976
Net change in non-cash operating working capital *[note 13]*	**10,398**	(12,600)
Cash provided by operating activities	**53,913**	52,376
Investing activities		
Expenditures on property and equipment	**-35,529**	(23,758)
Cash consideration paid on acquisition, net of cash acquired *[note 4]*	**-54,985**	(11,206)
Proceeds on disposal of property and equipment	**13,483**	12,508
Dividends from jointly controlled enterprise	**—**	645
Change in non-cash working capital *[note 13]*	**2,814**	(2,514)
Cash used in investing activities	**(74,217)**	(24,325)
Financing activities		
Repayment of long term debt	**-343**	—
Repayment of demand non-revolving credit facility	**(3,584)**	(3,583)
Shares redeemed for cash	**(4,332)**	(2,585)
Shares issued for cash	**27**	25
Change in other liabilities	**128**	(959)
Change in contract commitments *[note 21]*	**(1,006)**	(1,009)
Patronage return to be paid in cash *[note 11]*	**(17,700)**	(19,700)
Change in non-cash working capital *[note 13]*	**(2,000)**	3,200
Cash used in financing activities	**(28,810)**	(24,611)
Net change in cash during the year	**(49,114)**	3,440
Cash and cash equivalents, beginning of year	**5,235**	1,795
Cash and cash equivalents, end of year	**(43,879)**	5,235
Cash balance consists of:		
Cash and cash equivalents	**5,580**	5,235
Demand revolving facility	**(49,459)**	—
	(43,879)	5,235

See accompanying notes

Calgary Co-operative Association Limited

Notes to consolidated financial statements

[in thousands of dollars]

October 28, 2023

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 Alberta and Saskatchewan for the benefit of its members. As a percentage, 72% [2022 – 77%] 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 and goodwill, 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, Beacon Pharmacy, The Organic Box and Willow Park Wines & Spirits. 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 28, 2023 and October 29, 2022 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 28, 2023

[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 as follows:

Liquor licenses	10-13 years
Trade name	7-20 years
Customer relationships	5-10 years
Non-compete agreements	3-5 years
Developed technology	10 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.

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.

[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 classifies its contingent consideration as a liability. The liability will be re-measured 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.

[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

2021 annual improvements to ASPE

Effective October 30, 2022, the Association adopted the 2021 annual improvements to ASPE published by the Accounting Standards Board in April 2021. These improvements resulted in amendments to the following standards:
• Section 1510, Current Assets and Current Liabilities, has been amended to provide an option to present amounts owing on loans from directors, officers and shareholders, and amounts owing to parent and other affiliated companies, whether on account of a loan or otherwise, in aggregate with the amounts disclosed separately in the notes to the consolidated financial statements or supporting schedules;
• Section 1540, Cash Flow Statement, has been amended to remove the requirement to disclose in aggregate, in respect to both business combinations and disposals of business units during the period, the total assets, other than cash or cash equivalents, and total liabilities acquired or disposed of; and
• Section 3856, Financial Instruments, has been amended to modify an assigned value in an illustrative example that deals with the initial measurement of common shares and a note receivable issued between related parties in exchange for land and a trade receivable. This amendment was made to clarify how a value can be assigned to common shares in a related party transaction.

The Association has adopted the amendments retrospectively. The adoption of these amendments had no significant impact on the Association’s consolidated financial statements.

Revenue

Effective October 30, 2022, the Association adopted the amendments to Section 3400 of Part II of the *CPA Handbook – Accounting, Revenue*.

The amended standard provides additional guidance on determining whether an arrangement consists of a group of contracts or a single contract, identifying the units of account in an arrangement, allocating consideration in multiple-element arrangements to separate units of account on a relative stand-alone selling price basis and methods for estimating the stand-alone selling price when it is not directly observable, and accounting for revenue under the percentage of completion method. The amended standard also provides indicators to consider in determining whether revenue should be reported gross or net, criteria to use in determining when to recognize

Notes to consolidated financial statements

[in thousands of dollars]

October 28, 2023

revenue for a bill and hold arrangement and disclosure requirements for contracts in progress at the end of the reporting period accounted for using the percentage of completion method.

The Association adopted the amendments to Section 3400 retrospectively. The adoption of these amendments resulted in certain sales now being reported net versus gross. The prior year sales and cost of sales were reduced by $36,906 in the Association's consolidated statement of earnings and retained earnings.

2. Inventories

	2023	**2022**
	$	$
Food	**30,143**	30,771
Pharmacy	**4,148**	4,329
Petroleum	**9,505**	12,204
Liquor	**54,568**	40,791
Other	**5,931**	5,370
	104,295	93,465

The cost of inventories recognized as an expense during the year ended October 28, 2023 was $967,882 [2022 – $966,180]. The Association recorded nil [2022 – nil] as an expense for the write-down of inventories where the net realizable value is less than cost as at October 28, 2023. There was no reversal of inventories that were previously written down that are no longer estimated to sell below cost.

3. Investment

	2023	**2022**
	$	$
Federated Co-operatives Limited ["FCL"]	**167,834**	167,722
	167,834	167,722

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.

Notes to consolidated financial statements

[in thousands of dollars]

October 28, 2023

4. Business combinations

The Organic Box

On December 23, 2022, the Association acquired 100% of the shares of a private company which provides e-comm grocery delivery and food logistics services. The consideration included:

	$
Cash paid at closing	5,032
Earn-out payable	636
Total purchase consideration	5,668

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.

The earn-out payable has been included in other liabilities on the balance sheet and is due 24 months from the date of closing. The maximum amount payable under the earn-out terms of the share purchase agreement is $713 and has been recorded at its estimated fair value as of the closing date.

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

	$
Inventories	162
Property and equipment	1,028
Prepaid expenses and deposits	66
Accounts receivable	182
Accounts payable and accrued liabilities	(1,144)
Intangible assets	2,200
Goodwill	3,680
Future income (taxes)	(506)
	5,668

Transaction costs of $386 related to the acquisition have been recorded in other expenses in the consolidated statement of earnings and retained earnings.

Notes to consolidated financial statements

[in thousands of dollars]

October 28, 2023

Willow Park Wines & Spirits

On February 2, 2023, the Association acquired 100% of the shares of a private company including its real estate which provides wholesale and retail liquor products and services in Alberta and Saskatchewan. The consideration included:

	$
Cash paid at closing	51,874
Working capital adjustment	(1,921)
Earn-out payable	2,046
Total purchase consideration	51,999

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.

The earn-out payable has been included in other liabilities on the balance sheet and is payable annually from 2024 to 2028. The amount payable under the earn-out terms of the share purchase agreement has been recorded at its estimated fair market value as of the closing date. The amount ultimately payable is based on a percentage of sales generated at specified locations over the 60-month period following the acquisition date.

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

	$
Inventories	8,762
Property and equipment	21,352
Prepaid expenses and deposits	1,570
Accounts receivable	2,309
Accounts payable and accrued liabilities	(2,094)
Mortgage liability	(12,967)
Intangible assets	20,080
Goodwill	17,605
Future income (taxes)	(4,618)
	51,999

Transaction costs of $1,925 related to the acquisition have been recorded in other expenses in the consolidated statement of earnings and retained earnings.

Notes to consolidated financial statements

[in thousands of dollars]

October 28, 2023

Beacon Pharmacy

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.

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 income (taxes)	(863)
	11,206

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

Notes to consolidated financial statements

[in thousands of dollars]

October 28, 2023

5. Property and equipment

	2023			2022		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
	$	$	$	$	$	$
Land	**115,393**	**—**	**115,393**	131,483	—	131,483
Buildings and parking lots	**339,994**	**177,065**	**162,929**	321,214	172,050	149,164
Fixtures and equipment	**171,558**	**119,762**	**51,796**	154,824	112,228	42,596
Leasehold improvements	**26,265**	**14,285**	**11,980**	24,623	12,113	12,510
Computer equipment	**38,611**	**28,782**	**9,829**	31,201	25,475	5,726
Assets under construction	**3,584**	**—**	**3,584**	—	—	—
	695,405	**339,894**	**355,511**	663,345	321,866	341,479

As at October 28, 2023, the Association had contractual commitments to spend approximately $41,701 [2022 – $16,620] on capital expansion projects.

The Association recorded $28,124 of amortization expense for property and equipment for the year ended October 28, 2023 [2022 – $27,305].

The Association had a loss on disposal and write off of property and equipment of $938 for the year ended October 28, 2023 [2022 – $327] comprised of the disposal of equipment and the write down of obsolete assets in renovated food centres 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 $16,396 [2022 – $6,527]. These assets have been reclassified as assets held for sale and recorded at their carrying value.

6. Goodwill

	2023	2022
	$	$
Balance, beginning of year	**22,140**	14,050
Goodwill acquired	**21,285**	8,090
Balance, end of year	**43,425**	22,140

Notes to consolidated financial statements

[in thousands of dollars]

October 28, 2023

7. Intangible assets

	2023			2022		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
	$	$	$	$	$	$
Liquor license	**4,987**	**302**	**4,685**	337	161	176
Trade name	**12,115**	**963**	**11,152**	4,015	556	3,459
Customer relationships	**12,571**	**2,057**	**10,514**	3,971	1,010	2,961
Non-compete agreement	**1,111**	**415**	**696**	628	105	523
Developed technology	**2,200**	**110**	**2,090**	—	—	—
	32,984	**3,847**	**29,137**	8,951	1,832	7,119

The Association recorded $2,015 amortization expense for intangible assets for the year ended October 28, 2023 [2022 – $784].

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 28, 2023, the Association has drawn $49,459 [2022 – $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 28, 2023, the rate was prime [2022 – prime less 0.25%]. The prime rate at October 28, 2023 was 7.20% [2022 – 5.95%]. The Association has provided letters of credit in the amount of $3,266 [2022 – $3,266] to support the purchase of certain capital items. These letters of credit have been charged against this facility.

[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 28, 2023, the rate was prime [2022 – prime less 0.25%]. The prime rate at October 28, 2023 was 7.20% [2022 – 5.95%]. As at October 28, 2023, the amount owing on this facility was $41,208 [2022 – $44,792].

The Association has entered into an interest rate swap agreement in place of the bank's prime rate. The agreement is a fixed interest rate of 1.07% plus a floating rate of 1.45% [2022 – 1.20%] with a maturity date of April 11, 2025. The estimated fair market value of the interest rate swap as at October 28, 2023 was a receivable of $2,319 [2022 - $2,944]. 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 28, 2023.

[in thousands of dollars]

[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 28, 2023, the Association has drawn $nil on this facility [2022 – $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 28, 2023, the Association has drawn $nil on the facility [2022 – $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:

	$
2024	3,583
2025	3,583
2026	3,583
2027	3,583
2028	3,583
Thereafter	23,293
	41,208

Notes to consolidated financial statements

[in thousands of dollars]

October 28, 2023

[g] Long-term debt

	2023 $	2022 $
Mortgage facility bearing interest of 3% per annum, is secured by land and a property specific general security agreement and is repayable in monthly installments of $74 with a maturity date of March 5, 2026	12,624	—
Current portion of long-term debt	513	—
	12,111	—

The Association is required to make principal repayments on the long-term debt as follows:

	$
2024	513
2025	529
2026	11,582
	12,624

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:

	2023 $	2022 $
Balance, beginning of year	**190,488**	190,285
Shares redeemed for cash	**(4,332)**	(2,585)
Inactive members' shares transferred to retained earnings	**(4,381)**	(3,537)
Shares issued for cash	**27**	25
	181,802	184,188
Current year's patronage returns to be paid in shares *[note 11]*	**3,500**	6,300
Balance, end of year	**185,302**	190,488

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

Notes to consolidated financial statements

[in thousands of dollars]

October 28, 2023

10. Sales categories

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

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

[b] Pharmacy, which consists of pharmaceutical products and services;

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

[d] Liquor, which consists of the sale and distribution of liquor products; and

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

	2023 $	**2022** $
Food	**529,025**	534,890
Pharmacy	**115,069**	111,963
Petroleum	**430,152**	487,474
Liquor	**195,132**	115,425
Other	**33,892**	34,680
	1,303,270	1,284,432

11. Patronage returns

The Board of Directors approved the payment of patronage returns in the amount of $21,200 [2022 – $26,000]. The portion of the patronage returns to be paid in cash in the amount of $17,700 [2022 – $19,700] is included in accounts payable and accrued liabilities and the portion to be paid in shares in the amount of $3,500 [2022 – $6,300] is included in members' shares.

Notes to consolidated financial statements

[in thousands of dollars]

October 28, 2023

12. Income taxes

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

	2023 $	2022 $
Statutory rate	**23%**	23%
Earnings before income tax, less the patronage return to members	**(5,027)**	16,639
Expected expense at statutory rate	**(1,156)**	3,827
Permanent difference	**994**	156
Other	**(369)**	(15)
Income tax expense (recovery)	**(531)**	3,968

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

	2023 $	2022 $
Future tax assets		
Supplemental defined contribution employee retirement plan	**252**	217
Deferred lease inducements	**281**	322
Accrued future rents	**725**	684
Contract commitments	**1,391**	1,643
Loss carryforward	**712**	—
Property and equipment	**3,287**	5,648
Goodwill and intangible assets	**(6,388)**	(2,075)
Asset retirement obligations	**4,932**	2,472
	5,192	8,911
Future tax liabilities		
Patronage refund receivable	**130**	3,282

Notes to consolidated financial statements

[in thousands of dollars]

October 28, 2023

13. Change in non-cash working capital

	2023 $	2022 $
Operating activities:		
Accounts receivable	**6,863**	(3,339)
Inventories	**(1,906)**	(2,217)
Prepaid expenses and deposits	**528**	735
Accounts payable and accrued liabilities	**(21)**	(7,099)
Income tax recoverable/payable	**1,419**	(952)
Government payables	**3,515**	272
	10,398	(12,600)
Investing activities:		
Accounts payable for capital expenditures	**2,814**	(2,514)
Financing activities:		
Accounts payable for patronage return	**(2,000)**	3,200

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 $4,469 [2022 – $4,399] 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 28, 2023, an expense of $151 [2022 – $92] has been recorded relating to this plan. The total liability at October 28, 2023 is $1,094 [2022 – $943].

Notes to consolidated financial statements

[in thousands of dollars]

October 28, 2023

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:

	$
2024	22,852
2025	20,043
2026	18,493
2027	15,404
2028	15,068
Thereafter	64,521
	156,381

[b] Utility service commitment

The Association has a commitment of $16,680 to purchase electricity at fixed rates per KWH to December 31, 2028. The total commitment is $4,503 for the financial year 2024 and $4,494 for the financial years 2025 and 2026, $3,032 for financial year 2027, $150 for financial year 2028 and $7 for financial year 2029.

The Association has a commitment of $674 to purchase natural gas at fixed rates per GJ to March 31, 2025. The total commitment is $670 for the financial year 2024 and $4 for the financial year 2025.

[c] Product purchase commitment

Under the terms of an agreement with FCL, the Association had 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 eleven year period amounted to $9,100 [2022 – $9,100].

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 amounted to $10,700 [2022 – $10,700].

Effective November 1, 2022, the Association discontinued procurement of petroleum products from FCL. Capital grants 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.

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 facility, accounts payable and accrued liabilities, income tax payable, government payables, other liabilities and long-term debt.

[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 market interest rates. The Association is exposed to interest rate risk on its fixed and floating interest rate financial instruments. The Association's sensitivity to cash flow risk 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]].* The long-term debt is subject to fair value risk as the interest rate is fixed.

[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 2022.

Notes to consolidated financial statements

[in thousands of dollars]

October 28, 2023

17. Government payables

	2023 $	2022 $
Payroll deductions	**1,418**	1,193
Federal fuel charge [carbon tax]	**6,374**	2,553
Goods and services tax	**341**	487
Transit passes	**41**	426
	8,174	4,659

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.

[a] Purchases

For the year ended October 28, 2023, the Association made purchases from FCL in the amount of $16,329 [2022 – $351,126]. These purchases represented 2% [2022 – 37%] 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 $nil [2022 – $26,651].

For the year ended October 28, 2023, the Association earned interest income at prime less 1.10% [2022 – prime less 1.10%] of $103 [2022 – $64] as a result of early payments on normal trade payable balances to FCL. The average early payment balance with FCL amounted to $1,825 [2022 – $2,635].

[b] Patronage refund

FCL approved the payment of a patronage refund to the Association in the amount of $563 [2022 – $14,268]. The portion of the patronage refund to be received in cash in the amount of $450 [2022 – $11,414] is included in accounts receivable of $366 [2022 – $9,274] and income tax recoverable of $84 [2022 – $2,140]. The portion to be received in FCL shares in the amount of $112 [2022 – $2,854] is included in investments.

[c] Leases

The Association has a food center operating lease agreement in place with FCL which requires payments of approximately $314 per year to October 2032. This commitment is disclosed as part of note 15[a].

[in thousands of dollars]

19. Asset retirement obligation

	2023 $	2022 $
Asset retirement obligation, beginning of year	**10,745**	—
Provisions made	**11,105**	10,745
Accretion	**(407)**	—
Asset retirement obligation, end of year	**21,443**	10,745

For the year ended October 28, 2023, the Association recognized an asset retirement obligation of $21,443 for long-lived assets associated with gas bar discontinuance at the end of their useful life, potential environmental remediation costs at gas bars and food centres and estimated costs at lease termination. The inflation rate used to determine the value of future asset retirement costs was 2.10% and the discount rate used to determine the present value of the future asset retirement costs was 3.80%. The total undiscounted estimated future cash flows required to settle the Association's asset retirement obligation are $28,302 as at October 28, 2023. These costs are expected to be paid up to the year 2052.

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.

On December 21, 2023, the Court of King's Bench granted partial summary judgment in favor of the Association for oppressive conduct by FCL in relation to its Loyalty Program. The amount awarded to the Association is equal to the amounts the Association would have received at the applicable Loyalty Program rates for all of its fuel purchases from November 1, 2019 to the date it discontinued all fuel purchases. The Association has determined this amount to be $35,351 before interest and recovery of legal costs. The final amount to paid to the Association is to be agreed upon within 90 days of the summary judgment. Other filed claims and counterclaims relating to breach of contracts remain outstanding at the time of filing 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 favor, 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 has been included in these consolidated financial statements.

Notes to consolidated financial statements

[in thousands of dollars]

October 28, 2023

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 28, 2023, the Association has recorded deferred revenue related to these payments of $6,051 [2022 – $7,082], of which $1,031 [2022 – $1,031] is included in accounts payable and accrued liabilities and $5,020 [2022 – $6,051] is included in other liabilities.

22. Comparative figures

Comparative figures have been reclassified to conform to the current year's presentation.

23. Subsequent events

On December 23, 2023 the Association entered into a definitive agreement to become the majority shareholder of Care Health Inc. (*Care Pharmacies*), with the transaction expected to close February 29, 2024 subject to the satisfaction or waiver of customary closing conditions, including the receipt of required regulatory approvals.

The Association will finance the acquisition by drawing on expanded credit facilities for an expected purchase price of $300,000 before working capital adjustments and closing costs.