CO-OP

2021 ANNUAL REPORT

This document provides our member-owners and stakeholders with an overview of the governance and finances for the fiscal year ended October 30, 2021.

Operational and community highlights from Calgary Co-op's various lines of business can be found in our 2021 in Review video located on www.calgarycoop.com/annual

TABLE OF CONTENTS

CO-OP

65 YEARS PROUDLY LOCAL

2021 BOARD OF DIRECTORS

Patricia McLeod
Q.C., ICD.D, MBA
Chair

Mike Dalton
ICD.D, CA, CIA, MBA
Vice Chair

Elaine Bereziuk-Smith
ICD.D
Board Secretary

Cindy Andrew
ICD.D

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

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

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

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

Brad Krizan
BA, MBA, ICD.D

2021 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,
Facilities, Development
and Real Estate

Bart Willmore
Vice President,
Human Resources

BOARD GOVERNANCE

2021 EXECUTIVE OFFICERS

Patricia McLeod, Q.C.
Chair

Mike Dalton
Vice Chair

Elaine Bereziuk-Smith
Board Secretary

Cindy Andrew

Victoria E. Bradbury

Gael MacLeod

Dominique Gregoire

Evan Hu

Brad Krizan

Ken Keelor, CEO
Officer

Paul Harrison, CFO
Officer

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

65 YEARS AND STILL GOING STRONG

Last fall, we celebrated 65 years in business. We believe our original founders would be pleased to see how far we have come, with our continued focus on delivering exceptional customer experiences, products and services that sustain and grow our business and communities.

COVID-19

Throughout 2021, we continued to navigate the pandemic with health and safety as a top priority. In-store measures, support for team members, and providing COVID-19 testing and vaccinations through our pharmacies are just a few of the ways we continue to do our part.

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 30, 2021, 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 30, 2021, the committee has completed the following:

- Reviewed the Bylaws and drafted changes which were approved by the Board and are being presented for consideration by the membership.
- Provided direction for an effective and safe Annual Meeting of the Members.
- Continued with early integration of ESG (Environmental, Social, Governance) considerations as part of our overall governance.
- Reviewed, updated, circulated, and provided feedback on the Board Skills Matrix, the Board performance review and the Committee performance reviews.
- Provided strategic guidance with respect to board role optimization including: new director orientation, board committee composition and board succession planning. The committee's Terms of Reference and various other policy documents were reviewed as required; no changes were recommended.

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 and safety and its compensation and benefits plans. For the financial year ended October 30, 2021, 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.
- The terms of Calgary Co-op's awards proposed under incentive plans, as well as retirement plans. (including SERP), deferred compensation plans and benefit plans for executive management, management, and non-union, non-management employees related to Calgary Co-op's strategic goals.
- Reviewed and monitored:
- Human resource policies and practices.
- Labour relations and collective bargaining strategies to gain reasonable assurance of effective and fair labour relations.
- Approach to Succession planning.
- Calgary Co-op's health & safety program.
- 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 30, 2021, the committee has completed the following:

- Engaged MNP Calgary as professional, independent third-party Election Consultants to manage the election process.
- Engaged the Calgary office of AltoPartners 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 2022 Director Election.

Board and Committee Meeting Attendance
November 1, 2020 to October 30, 2021

Director	Board Meetings	Audit Committee Meetings	Governance Committee Meetings	Human Resources Committee Meetings	Nominations Committee Meetings
Patricia McLeod, Chair	9	5	5	6	3
Mike Dalton, Vice Chair	9	5	3	–	3
Elaine Bereziuk-Smith, Secretary	9	–	2	3	5
Cindy Andrew	9	–	5	5	–
Gael MacLeod [1]	9	2	3	3	–
Victoria Bradbury [1]	8	5	–	–	5
Evan Hu [2]	5	–	3	3	–
Brad Krizan [2]	5	3	–	–	2
Dominique Gregoire [2]	5	3	–	3	–
Roy Goodall	5	2	–	3	–
Lori Ell	4	–	2	3	–
Lisa Wise	4	–	2	–	3

Note meetings after 2020 year-end
[1] Appointed to the board on May 22, 2020
[2] Appointed to the board on April 8th, 2021
Note: New directors appointed May 22, 2020
Note: New directors appointed April 8, 2021

Board Remuneration, Annual Purchases and, Development & Dues*
November 1, 2020 to October 30, 2021

Director	Remuneration	Annual Purchase	Development/Dues
Patricia McLeod, Chair	$80,538.04	$18,632.31	$270.00
Mike Dalton, Vice Chair	$39,843.61	$10,989.37	$1,904.43
Elaine Bereziuk-Smith, Secretary	$36,196.37	$16,204.18	$2,322.62
Cindy Andrew	$34,500.00	$10,151.35	$661.25
Gael MacLeod	$33,438.92	$12,099.82	$1,417.38
Victoria Bradbury	$34,841.74	$8,096.26	–
Evan Hu	$18,516.67	$4,340.26	$415.00
Brad Krizan	$19,077.82	$4,613.61	$395.00
Dominique Gregoire	$19,077.82	$22,946.45	$415.00
Roy Goodall	$15,460.26	$4,305.78	–
Lori Ell	$16,677.79	$1,586.76	–
Lisa Wise	$15,679.67	$27,084.21	–

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

Calgary Co-operative Association Limited

Consolidated financial statements
October 30, 2021

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 30, 2021, 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 30, 2021, 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.

Other matter

The consolidated financial statements of the Association for the year ended October 31, 2020 were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on January 21, 2021.

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 20, 2022

EY

Calgary Co-operative Association Limited

Consolidated balance sheet

[in thousands of dollars]

As at

	October 30, 2021 $	October 31, 2020 $
Assets		
Current		
Cash and cash equivalents	**1,795**	2,764
Accounts receivable *[note 19[b]]*	**22,336**	26,468
Income tax recoverable	**289**	—
Inventories *[note 2]*	**90,895**	85,868
Prepaid expenses and deposits	**7,793**	6,150
Other receivables *[note 3]*	**—**	1,450
Total current assets	**123,108**	122,700
Investments *[note 4]*	**165,513**	162,865
Property and equipment *[note 6]*	**341,318**	360,490
Assets held for sale *[note 6]*	**12,195**	—
Goodwill *[note 7]*	**14,050**	14,050
Intangible assets *[note 8]*	**4,151**	4,638
Other receivables *[note 3]*	**—**	2,000
Future income taxes *[note 13]*	**10,228**	7,168
	670,563	673,911
Liabilities and member's equity		
Current		
Demand revolving facility *[note 9[a]]*	**—**	3,522
Accounts payable and accrued liabilities *[notes 12, 15, 19[a] and 22]*	**110,647**	114,226
Income tax payable	**—**	4,423
Government payables *[note 18]*	**4,387**	4,174
Future income taxes *[note 13]*	**3,051**	1,402
Demand non-revolving credit facility due within one year *[note 9[b]]*	**3,584**	3,584
	121,669	131,331
Demand non-revolving credit facility *[note 9[b]]*	**44,791**	48,374
Total current liabilities	**166,460**	179,705
Other liabilities *[notes 5 and 22]*	**13,302**	13,958
Total liabilities	**179,762**	193,663
Member's equity		
Member's shares *[note 10]*	**190,285**	192,504
Retained earnings	**300,516**	287,744
Total member's equity	**490,801**	480,248
	670,563	673,911

Commitments and guarantees *[notes 6, 16 and 22]*
Contingencies *[notes 5, 9[a] and 21]*
Subsequent events *[notes 4,12 19[b] and 23]*

See accompanying notes

On behalf of the Board:

P. [signature] — Mike Dalton

Patricia McLeod, Q.C.
Director

Mike Dalton
Director

Calgary Co-operative Association Limited

Consolidated statement of earnings and retained earnings

[in thousands of dollars]

Year ended

	October 30, 2021 $	October 31, 2020 $
Sales *[note 11]*	**1,229,695**	1,263,933
Expenses		
Cost of sales, selling and administrative *[notes 2 and 15]*	**1,180,785**	1,225,361
Amortization *[note 6]*	**32,441**	32,364
	16,469	6,208
Other expenses (income)		
Rental income	**(15,329)**	(15,784)
Rental expense	**5,497**	5,228
Loss on fair value of assets held for sale *[note 6]*	**5,605**	—
Loss on disposal and write off of property and equipment *[note 6]*	**281**	190
Interest income	**(232)**	(472)
Interest expense	**1,341**	1,802
Loss (Income) from jointly controlled enterprise *[note 4]*	**5**	(335)
Earnings before patronage refund	**19,301**	15,579
Patronage refund *[note 19[b]]*	**13,265**	6,095
Earnings before income taxes	**32,566**	21,674
Income tax expense (recovery) *[note 13]*		
Current	**3,962**	8,838
Future	**(1,411)**	(10,235)
	2,551	(1,397)
Net earnings	**30,015**	23,071
Retained earnings, beginning of year	**287,744**	285,182
Patronage returns *[note 12]*	**(21,800)**	(24,500)
Inactive member's shares transferred to retained earnings *[note 10]*	**4,557**	3,991
Retained earnings, end of year	**300,516**	287,744

See accompanying notes

Calgary Co-operative Association Limited

Consolidated statement of cash flows

[in thousands of dollars]

Year ended

	October 30, 2021	October 31, 2020
	$	$
Operating activities		
Net earnings	**30,015**	23,071
Add (deduct) items not involving cash		
Amortization	**32,441**	32,364
Patronage refunds to be received in FCL shares *[note 19[b]]*	**(2,653)**	(610)
Loss (Income) from jointly controlled enterprise *[note 4]*	**5**	(335)
Future income tax recovery	**(1,411)**	(10,235)
Loss on fair value of assets held for sale *[note 6]*	**5,605**	—
Loss on disposal and write off of property and equipment *[note 6]*	**281**	190
Lease inducement amortization	**(183)**	(179)
Imputed interest expense	**—**	78
Accrued future rents	**620**	212
	64,720	44,556
Net change in non-cash operating working capital *[note 14]*	**(15,871)**	29,661
Cash provided by operating activities	**48,849**	74,217
Investing activities		
Cash held in trust	**—**	31,300
Expenditures on property and equipment	**(31,674)**	(55,775)
Acquisition of business assets *[note 5]*	**—**	(30,541)
Proceeds on disposal of property and equipment	**811**	72
Dividends from jointly controlled enterprise *[note 4]*	**—**	750
Change in other investments *[note 4]*	**—**	74
Change in non-cash working capital *[note 14]*	**6,955**	(7,737)
Decrease in other receivables	**3,450**	—
Cash used in investing activities	**(20,458)**	(61,857)
Financing activities		
Decrease in committed revolving credit facility	**—**	(31,300)
Decrease in long-term debt	**—**	(19,134)
Increase in demand non-revolving credit facility	**—**	53,750
Repayment of demand non-revolving credit facility	**(3,583)**	(1,792)
Shares redeemed for cash	**(2,975)**	(2,988)
Shares issued for cash	**13**	13
Decrease in other liabilities	**(69)**	(27)
Change in contract commitments *[note 22]*	**(1,024)**	7,254
Patronage return to be paid in cash *[note 12]*	**(16,500)**	(18,200)
Change in non-cash working capital *[note 14]*	**(1,700)**	(9,610)
Cash used in financing activities	**(25,838)**	(22,034)
Net change in cash during the year	**2,553**	(9,674)
Cash and cash equivalents, beginning of year	**(758)**	8,916
Cash and cash equivalents, end of year	**1,795**	(758)
Cash balance consists of:		
Cash and cash equivalents	**1,795**	2,764
Demand revolving facility	**—**	(3,522)
	1,795	(758)

See accompanying notes

Notes to consolidated financial statements

[in thousands of dollars]

October 30, 2021

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% [2020 – 81%] 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 inventory, useful life of property and equipment, impairment of long-lived assets, future income taxes, business combinations 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.

The COVID-19 outbreak continues to present uncertainty over future cash flows, may cause significant changes to the Association's assets or liabilities and may have a significant impact on its future operations. While the Association has experienced some impact to certain operations, the net impact to the Association's consolidated financial statements specific to COVID-19 has not been significant. The Association has not had to participate in any of the emergency support programs that various levels of government have put in place since the start of the pandemic. The ultimate duration and magnitude of the impact on the economy and the related financial effect on the Association's future revenues, operating results and overall financial performance is not known at this time.

[b] Consolidation

The consolidated financial statements include the accounts of the Association and its wholly-owned subsidiary, Community Natural Foods. 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 30, 2021 and October 31, 2020 consist of 52 weeks of operations each.

[d] Financial instruments

Financial instruments are recorded at fair value on initial recognition. Freestanding derivative instruments that are not in a qualifying hedging relationship and equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently recorded at amortized cost, unless management has elected to carry the instruments at fair value. The Association has not elected to carry any such financial instruments at fair value.

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

Notes to consolidated financial statements

[in thousands of dollars]

October 30, 2021

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 net of grant funds received from Federated Co-operatives Limited ["FCL"]. 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 and buildings on leased land 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.

Management assesses the carrying value of property and equipment on a periodic basis for indications of impairment. When an indication of impairment is present, a test for impairment is carried out by comparing the carrying value of the asset to its fair value.

Notes to consolidated financial statements

[in thousands of dollars]

October 30, 2021

[h] Asset retirement obligation

The Association recognizes a liability for an asset retirement obligation 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 based on management's best estimate. 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. Actual costs incurred upon settlement of the asset retirement obligations are charged against the asset retirement obligation to the extent of the liability recorded.

[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	20 years
Customer relationships	5 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.

Notes to consolidated financial statements

[in thousands of dollars]

October 30, 2021

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 earning 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.

Notes to consolidated financial statements

[in thousands of dollars]

October 30, 2021

[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.

2. Inventories

The cost of inventories recognized as an expense during the year ended October 30, 2021 was $914,646 [2020 – $955,237]. The Association recorded nil [2020 – nil] as an expense for the write-down of inventories where the net realizable value is less than cost as at October 30, 2021. 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 30, 2021

3. Other receivables

	2021 $	2020 $
In fiscal 2016, the Association sold a parcel of land whereby a portion of proceeds consisted of a four-year receivable. The principal and imputed interest amount of $4,000 was due in four equal annual payments of $1,000 starting September 1, 2017. This receivable was originally recorded at estimated fair value using an imputed interest rate of 3%.	—	2,000
In fiscal 2019, the Association sold a parcel of land whereby a portion of proceeds consisted of a two-year receivable. The receivable bore interest at 3.0% per annum and was secured by the related property.	—	1,450
	—	3,450
Current portion of other receivables	—	1,450
	—	2,000

In April 2021, the Association regained possession of the land sold to a developer in fiscal 2016, by returning the $2,000 initial deposit and forgiving the $2,000 outstanding receivable.

4. Investments

	2021 $	2020 $
Federated Co-operatives Limited ["FCL"]	**164,868**	162,215
Investment in jointly controlled enterprise	**645**	650
	165,513	162,865

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 [2020 – 10%].

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

For the year ended October 30, 2021, the Association recognized a loss of $5 in the statement of operations and retained earnings from its equity investment [2020 – $335 income]. The Association received nil in dividends during the year [2020 – $750]. Payment of the Association's remaining investment in TPP was received subsequent to yearend upon final dissolution of TPP.

Notes to consolidated financial statements

[in thousands of dollars]

October 30, 2021

5. Business combination

On November 4, 2019, the Association acquired the business assets and real estate of a private company involved in the provision of organic grocery products and health food products. The consideration given included the following:

	$
Cash	30,541
Contingent consideration	1,765
Total purchase consideration	32,306

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:

	$
Inventory	2,473
Prepaid taxes	30
Accounts receivable	67
Accounts payable	(2,229)
Intangible assets	4,862
Goodwill	5,132
Property and equipment	21,971
	32,306

The contingent consideration is included in other liabilities on the balance sheet and is due 36 months from the date of closing. The maximum amount payable under the earn-out terms of the purchase and sale agreement is $4,000 and has been recorded at its estimated fair value as of the closing date. The amount ultimately payable is based on revenue generated over the 36-month period following the acquisition date.

Notes to consolidated financial statements

[in thousands of dollars]

October 30, 2021

6. Property and equipment

	2021			2020
	Cost	Accumulated amortization	Net book value	Net book value
	$	$	$	$
Land	**127,238**	**—**	**127,238**	136,439
Buildings and parking lots	**295,131**	**166,344**	**128,787**	143,170
Fixtures and equipment	**148,568**	**110,224**	**38,344**	43,782
Leasehold improvements	**24,104**	**10,667**	**13,437**	15,066
Computer equipment	**27,828**	**22,725**	**5,103**	7,570
Assets under construction	**28,409**	**—**	**28,409**	14,463
	651,278	**309,960**	**341,318**	360,490

As at October 30, 2021, the Association had contractual commitments to spend approximately $12,310 [2020 – $301] on capital expansion projects.

The Association recorded $31,954 of amortization expense for property and equipment for the year ended October 30, 2021 [2020 – $31,877].

The Association had a loss on disposal and write off of property and equipment of $281 for the year ended October 30, 2021 [2020 – $190] comprised of the disposal of land and 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 assets with a carrying value of $17,800. These assets have been reclassified as assets held for sale and recorded at their fair value less costs to sell of $12,195, resulting in a fair value loss of $5,605.

7. Goodwill

	2021	2020
	$	$
Balance, beginning of year	**14,050**	8,918
Goodwill acquired	**—**	5,132
Balance, end of year	**14,050**	14,050

Notes to consolidated financial statements

[in thousands of dollars]

October 30, 2021

8. Intangible assets

	2021			2020
	Cost $	Accumulated amortization $	Net book value $	Net book value $
Liquor license	**337**	**132**	**205**	235
Trade name	**3,427**	**342**	**3,085**	3,255
Customer relationships	**1,435**	**574**	**861**	1,148
	5,199	**1,048**	**4,151**	4,638

9. 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 30, 2021, the Association has drawn nil [2020 – $3,522] 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 30, 2021 the rate was prime less 0.25%. The prime rate at October 30, 2021 was 2.45% [2020 – 2.45%]. The Association has provided letters of credit in the amount of $2,819 [2020 – $1,674] 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 30, 2021, the rate was prime less 0.25%. The prime rate at October 30, 2021 was 2.45% [2020 – 2.45%]. As at October 30, 2021, the amount owing on this facility was $48,375 [2020 – $51,958].

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 30, 2021 was a receivable of $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 30, 2021.

[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 30, 2021, the Association has drawn nil on this facility [2020 – nil].

Notes to consolidated financial statements

[in thousands of dollars]

October 30, 2021

[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.

[e] Equipment line facility

The Association has available a $10,000 equipment line facility to provide for the leasing of equipment. As of October 30, 2021, the Association has drawn nil on the facility [2020 – 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:

	$
2022	3,584
2023	3,584
2024	3,584
2025	3,584
2026	3,584
Thereafter	30,455
	48,375

10. 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:

	2021 $	**2020** $
Balance, beginning of year	**192,504**	193,170
Shares redeemed for cash	**(2,975)**	(2,988)
Inactive members' shares transferred to retained earnings	**(4,557)**	(3,991)
Shares issued for cash	**13**	13
	184,985	186,204
Current year's patronage returns to be paid in shares *[note 12]*	**5,300**	6,300
Balance, end of year	**190,285**	192,504

Notes to consolidated financial statements

[in thousands of dollars]

October 30, 2021

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

11. 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.

	2021 $	2020 $
Food	**674,279**	737,389
Petroleum	**387,828**	354,749
Other	**167,588**	171,795
	1,229,695	1,263,933

12. Patronage returns

The Board of Directors approved the payment of patronage returns in the amount of $21,800 [2020 – $24,500]. The portion of the patronage returns to be paid in cash in the amount of $16,500 [2020 – $18,200] is included in accounts payable and accrued liabilities and the portion to be paid in shares in the amount of $5,300 [2020 – $6,300] is included in members' shares.

13. Income taxes

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

	2021 $	2020 $
Statutory rate	**23.00%**	24.49%
Earnings before income tax, excluding jointly controlled enterprise income/loss (net of tax), less the patronage return to members	**10,771**	(3,161)
Expected expense (recovery) at statutory rate	**2,477**	(774)
Permanent difference	**74**	25
Enacted tax rate decrease	**—**	(514)
Other	**—**	(134)
Income tax expense (recovery)	**2,551**	(1,397)

Notes to consolidated financial statements

[in thousands of dollars]

October 30, 2021

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

	2021 $	2020 $
Future tax assets		
Supplemental defined contribution employee retirement plan	**207**	153
Deferred lease inducements	**364**	406
Accrued future rents	**629**	487
Contract commitments	**1,859**	1,734
Property and equipment	**7,169**	4,388
	10,228	7,168
Future tax liabilities		
Patronage refund receivable	**3,051**	1,402

14. Change in non-cash working capital

	2021 $	2020 $
Operating activities:		
Accounts receivable	**4,132**	15,130
Inventories	**(5,027)**	(3,297)
Prepaid expenses and deposits	**(1,643)**	954
Accounts payable and accrued liabilities	**(8,834)**	7,446
Income taxes	**(4,712)**	6,419
Government payables	**213**	3,009
	(15,871)	29,661
Investing activities:		
Accounts payable for capital expenditures	**6,955**	(7,737)
Financing activities:		
Accounts payable for patronage return	**(1,700)**	(9,610)

15. 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 $4,485 [2020 – $4,514] of expense relating to this plan, and there were no significant changes to the rates of employer contributions.

[in thousands of dollars]

The Association has established a supplemental defined contribution employee retirement plan. For the year ended October 30, 2021, an expense of $245 [2020 – $141] has been recorded relating to this plan. The total liability at October 30, 2021 is $900 [2020 – $664].

16. 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:

	$
2022	17,756
2023	17,519
2024	17,260
2025	15,167
2026	14,035
Thereafter	71,950
	153,687

[b] Utility service commitment

The Association has a commitment of $1,725 to purchase electricity at fixed rates per KWH to June 30, 2022.

The Association has a commitment to purchase natural gas at fixed rates per GJ to May 31, 2024. The total commitment is $667 per year for financial years 2022 and 2023 and $389 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 $11,500 [2020 – $17,100].

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 amount to $10,700 [2020 – $10,000].

Notes to consolidated financial statements

[in thousands of dollars]

October 30, 2021

17. Financial Instruments

[a] Credit risk

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

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 9[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 2020.

Notes to consolidated financial statements
[in thousands of dollars]

October 30, 2021

18. Government payables

	2021	2020
	$	$
Payroll deductions	**2,382**	2,547
Federal fuel charge [carbon tax]	**1,996**	1,624
Transit passes	**9**	3
	4,387	4,174

19. 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 30, 2021, FCL was the major petroleum supplier to the Association, in addition to other commodities. The Association owns approximately 10% [2020 – 10%] of the shares in FCL.

[a] Purchases

For the year ended October 30, 2021, the Association made purchases from FCL in the amount of $249,547 [2020 – $410,453]. These purchases represented 29% [2020 – 45%] 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 $28,972 [2020 – $26,582].

For the year ended October 30, 2021, the Association earned interest income at prime less 1.10% [2020 – prime less 1.50%] of $21 [2020 – $53] as a result of early payments on normal trade payable balances to FCL. The average early payment balance with FCL amounted to $1,567 [2020 – $3,386].

[b] Patronage refund

FCL approved the payment of a patronage refund to the Association in the amount of $13,265 [2020 – $6,095]. The portion of the patronage refund to be received in cash in the amount of $10,612 [2020 – $5,485] is included in accounts receivable of $8,622 [2020 – $4,571] and income tax payable of $1,990 [2020 – $914]. The portion to be received in FCL shares in the amount of $2,653 [2020 – $610] 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 30, 2021, the Association received capital grants of $731 [2020 – $4,452] from FCL for this purpose. In addition, FCL provided a lease subsidy of $189 [2020 – $189] for facilities constructed on leased land.

[d] Leases

The Association has a food center operating lease agreement in place with FCL which requires payments of approximately $320 per year to October 2032. This commitment is disclosed as part of note 16[a].

Notes to consolidated financial statements
[in thousands of dollars]

October 30, 2021

20. Asset retirement obligation

An asset retirement obligation has not been recorded in the consolidated financial statements since the Association participates in a contaminated site management program established by FCL. This program limits the Association's liability to $25 per site as long as the Association continues to exercise due diligence. Management believes that due diligence has been exercised and that the impact of the asset retirement is not considered significant.

21. Contingencies

The Association has filed a claim against a related party *[note 19[b]]* for oppressive conduct. In response, the related party has filed a counterclaim against the Association. Based on the current stage of this claim and counterclaim, 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.

22. 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 30, 2021, the Association has recorded deferred revenue related to these payments of $8,335 [2020 – $10,038], of which $1,275 [2020 – $1,954] is included in accounts payable and accrued liabilities and $7,060 [2020 – $8,084] is included in other liabilities.

23. Subsequent event

Effective December 31, 2021, the Association acquired Beacon Pharmacy [the "Acquisition"] for total consideration of $11,500, before working capital adjustments and closing costs. Beacon Pharmacy carries on the retail business of selling pharmaceutical products and services in Calgary, Alberta.

The Association financed the Acquisition with $11,500 drawings on its demand revolving credit facility (note 9(a)).

24. Comparative information

Certain comparative information has been reclassified to conform with the financial statement presentation adopted in the current year.


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