CO·OP

2018 ANNUAL REPORT

Thank you for your interest in Calgary Co-op. This document provides our member-owners and stakeholders with an overview of the governance and finances for the fiscal year ended November 3, 2018.

Operational highlights from Calgary Co-op's various lines of business can be found in our 2018 in Review video located on www.calgarycoop.com/annual

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WE WERE HERE BEFORE 'Local'

$31 MILLION+ SHARED WITH MEMBERS

2018 BOARD OF DIRECTORS

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

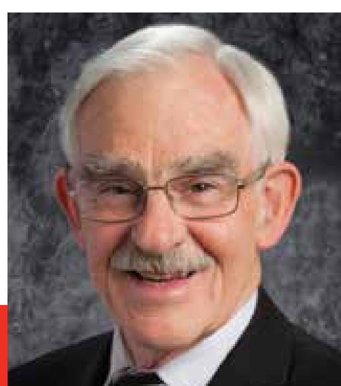
Lori Ell
ICD.D, CPA, CMA
Vice Chair

Lisa Wise
MBA
Board Secretary

Cindy Andrew
ICD.D

Elaine Bereziuk-Smith
ICD.D

Mike Dalton
ICD.D, MBA, CA, CIA



Roy Goodall
CD2, ICD.D

Mike Lambert
ICD.D, CPA, CA

Peggy LeSueur
ICD.D, P.Ag.

2018 EXECUTIVE LEADERSHIP TEAM

Ken Keelor
Chief Executive Officer

Paul Harrison
Chief Financial Officer

Jeff Ambrose
Vice President,
Petroleum, Wine Spirits Beer
and Home Health Care

Penney McTaggart Cowan
Vice President,
Marketing and Member Experiences

Doug Newstead
Vice President,
Food Centre Operations
and Merchandising

Damon Tanzola
Vice President,
Facilities Development
and Real Estate

Bart Willmore
Vice President,
Human Resources

BOARD GOVERNANCE

2018 BOARD AND OFFICERS

Patricia McLeod, Q.C.
Chair

Lori Ell
Vice Chair

Lisa Wise
Board Secretary

Cindy Andrew

Elaine Bereziuk-Smith

Mike Dalton

Roy Goodall

Mike Lambert

Peggy LeSueur

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 10-year 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
- provide oversight on issues relating to team engagement
- ensure clarity in the link between Calgary Co-op and its members
- provide oversight to the CEO

COMMITTEES

Calgary Co-op's model of governance uses a small number of 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 November 3, 2018, 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.
- Engaged PWC to act as Calgary Co-op's internal auditor. The internal auditor has completed a number of audits and identified opportunities for improvement. A number of improvements have been actioned with others being in various stages of implementation.
- Requested the internal auditor to create a three year risk based audit plan for the committee to consider and implement.
- Reviewed the Audit Committee's Terms of Reference.
- Reviewed the Delegation of Financial Authority Policy.
- Reviewed the Internal Audit Charter.

GOVERNANCE COMMITTEE

The Governance Committee ensures the Board adheres to best practices and high standards in its processes and decision making as appropriate for a co-operative of its size. The committee develops structures and processes to ensure effective Board governance and oversight of our Co-op. For the financial year ended November 3, 2018, the committee has completed the following:

- Facilitated Board succession planning.
- Reviewed the effectiveness of the annual Director Election and Annual Meeting of members.
- Measured the skills present on the existing board and developed the skills matrix definition.
- Implemented a methodical process for Board and Committee succession planning.

HUMAN RESOURCES COMMITTEE

The Human Resources Committee's mandate is to provide effective oversight on behalf of the Board on Calgary Co-op's relationship with the CEO, human resources policies and plans, including health and safety and its compensation and benefits plans. For the financial year ended November 3, 2018, 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.
- Succession plans for the executive team.
- Calgary Co-op's health & safety program including this year's required program changes.
- Employee survey results and provided additional recommendations to management action plans.
- Confidence line 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 November 3, 2018, the committee has completed the following:

- Engaged Calgary office of AltoPartners to assist in the recommendation process.
- Managed and oversaw the recommendation process on behalf of the Board.
- Led the development of the Directors' Election Handbook.
- Engaged Canadian company Simply Voting to provide the online voting platform for the 2019 Director Election.
- Held an Orientation and Candidate Briefing Session for prospective candidates.

Board and Committee Meeting Attendance
October 29, 2017 – November 3, 2018

Director	Board Meetings	Audit Committee Meetings	Governance Committee Meetings	Human Resources Committee Meetings	Nominations Committee Meetings
Patricia McLeod, Chair	13	5	6	5	-
Lori Ell, Vice Chair	13	5	-	5	-
Lisa Wise, Board Secretary	13	-	7	-	6
Cindy Andrew	13	6	-	5	-
Elaine Bereziuk-Smith	13	-	7	4	-
Mike Dalton	13	6	-	-	1
Roy Goodall [1]	8	3	4	-	-
Mike Lambert	13	-	7	-	8
Peggy LeSueur	13	-	-	5	8
Bettina Pierre-Gilles [2]	2	1	1	-	-

1. Attendance for period April 5, 2018 (upon which date Director's term commenced) through November 3, 2018. Total Board Meetings for this term was 8.
2. Attendance for period October 29, 2017 through December 21, 2017 (upon which date Director's term ended). Total Board Meetings for this term was 2.

Board Remuneration, Expenses and Annual Purchases
October 29, 2017 – November 3, 2018

Director	2018 Remuneration	2018 Annual Purchases	2018 Expenses
Patricia McLeod, Chair	$80,893.54	$14,763.42	$5,297.67
Lori Ell, Vice Chair	$37,923.63	$7,353.92	$488.95
Lisa Wise, Board Secretary	$35,375.70	$21,369.32	$0.00
Cindy Andrew	$37,652.82	$7,786.65	$4,732.98
Elaine Bereziuk-Smith	$34,021.50	$20,488.71	$3,413.07
Mike Dalton	$35,591.00	$10,835.63	$1,021.47
Roy Goodall [1]	$19,361.15	$9,926.60	$840.53
Mike Lambert	$34,500.00	$16,018.34	$1,519.00
Peggy LeSueur	$35,265.50	$10,729.87	$2,015.40
Bettina Pierre-Gilles [2]	$5,792.18	N/A	$0.00

1. For period April 5, 2018 (upon which date Director's term commenced) through November 3, 2018.
2. For period October 29, 2017 through December 21, 2017 (upon which date Director's term ended).

OFFICERS' REPORT

Preparing the accompanying financial statements and ensuring that all information in this annual report is consistent with these statements is the responsibility of Calgary Co-op management. This responsibility includes selecting appropriate accounting policies and making judgments and estimates consistent with Canadian accounting standards for private enterprises.

Management has developed and maintains an extensive system of internal controls that provide reasonable assurance that all transactions are accurately recorded, that the financial statements realistically report the Association's operating and financial results, and that the Association's assets are safeguarded against unauthorized use or disposition. The Audit Committee reviews and evaluates the adequacy of, and compliance with, the Association's internal controls. It is the policy of the Association to maintain the highest ethical standard in all activities, and the Chief Executive Officer and the Chief Financial Officer have signed a Management Compliance Letter stipulating the Association's compliance with all regulatory requirements. Management of Calgary Co-op have also signed a Letter of Representation to KPMG acknowledging that it is responsible for the fair presentation in the financial statements of the Association's financial position and that all accounting, financial records and related data have been made available.

The Association's Board of Directors has approved the information contained in the financial statements based on the recommendation of the Audit Committee following its detailed review with the external auditor and management.

At each Annual Meeting, the Association's members appoint an independent auditor to provide a professional opinion on the fairness with which the financial statements are presented. The members' auditor has full access to the Board of Directors and all of the Association's records.

Patricia McLeod, Q.C.
Board Chair
March 22, 2019

Ken Keelor
Chief Executive Officer
March 22, 2019

Financial Statements of

CALGARY CO-OPERATIVE ASSOCIATION LIMITED

Year ended November 3, 2018

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Telephone (403) 691-8000
Fax (403) 691-8008
www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Members of Calgary Co-operative Association Limited

We have audited the accompanying financial statements of Calgary Co-operative Association Limited, which comprise the balance sheet as at November 3, 2018, the statements of operations and retained earnings and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Calgary Co-operative Association Limited as at November 3, 2018, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises.

KPMG LLP

Chartered Professional Accountants

January 24, 2019
Calgary, Canada

CALGARY CO-OPERATIVE ASSOCIATION LIMITED
Balance Sheet

November 3, 2018, with comparative information for October 28, 2017
(in thousands of dollars)

	2018	2017
Assets		
Current assets:		
Cash and cash equivalents	$ 3,996	$ 5,723
Accounts receivable	50,757	32,703
Income tax recoverable	7,380	4,751
Inventories (note 2)	82,794	78,933
Prepaid expenses and deposits	4,728	6,304
Current portion of long-term receivable (note 3)	1,848	920
	151,503	129,334
Investments (note 5)	152,506	141,239
Property and equipment (note 6)	298,989	282,674
Asset held for sale (note 6)	5,391	–
Goodwill (note 7)	8,918	8,918
Intangible asset (note 8)	293	526
Long-term receivable (note 3)	976	2,824
Future income taxes (note 13)	8,056	6,458
	$ 626,632	$ 571,973
Liabilities and Members' Equity		
Current liabilities:		
Committed revolving credit facility (note 9(b))	$ 10,500	$ 10,000
Accounts payable and accrued liabilities (notes 12 and 19)	114,410	108,969
Government payables (note 18)	2,221	2,377
Current portion of long-term debt (note 9(h))	2,973	3,464
Future income taxes (note 13)	15,423	8,611
	145,527	133,421
Long-term debt (note 9(h))	19,033	6,655
Other liabilities (note 22)	4,883	3,571
Members' equity:		
Members' shares (note 10)	191,637	190,755
Retained earnings	265,552	237,571
	457,189	428,326
Commitments and guarantees (notes 6, 16 and 22)		
Contingencies (note 9(a) and 21)		
	$ 626,632	$ 571,973

See accompanying notes to financial statements.

Approved on behalf of the Board:

Patricia McLeod, Q.C.
Director

Mike Dalton
Director

CALGARY CO-OPERATIVE ASSOCIATION LIMITED
Statement of Earnings and Retained Earnings

Year ended November 3, 2018, with comparative information for October 28, 2017
(in thousands of dollars)

	2018	2017
Sales (note 11)	$ 1,302,039	$ 1,195,522
Expenses:		
Cost of sales, selling and administrative (note 2)	1,279,434	1,171,731
Amortization	28,311	27,995
Patronage refund (note 19(b))	57,122	31,892
Other expenses (income):		
Rental income	(14,688)	(12,741)
Rental expense	4,762	3,860
Loss on disposal and write off of property and equipment (note 6)	399	735
Interest income	(567)	(418)
Interest expense	933	895
Income from jointly controlled enterprise (note 5)	(2,192)	(2,148)
Earnings before income taxes	62,769	37,505
Income tax expense (reduction) (note 13):		
Current	2,288	1,633
Future	5,214	(1,038)
	7,502	595
Net earnings	55,267	36,910
Retained earnings, beginning of year	237,571	224,186
Patronage returns (note 12)	(31,520)	(30,950)
Inactive members' shares transferred to retained earnings (note 10)	4,234	7,425
Retained earnings, end of year	$ 265,552	$ 237,571

See accompanying notes to financial statements.

CALGARY CO-OPERATIVE ASSOCIATION LIMITED
Statement of Cash Flows

Year ended November 3, 2018, with comparative information for October 28, 2017
(in thousands of dollars)

	2018	2017
Cash provided by (used in):		
Operating activities:		
Net earnings	$ 55,267	$ 36,910
Items not involving cash:		
Amortization	28,311	27,995
Patronage refunds to be received in FCL shares (note 19(b))	(14,238)	(5,938)
Income from jointly controlled enterprise (note 5)	(2,192)	(2,148)
Future income tax (reduction)	5,214	(1,038)
Loss on disposal and write off of property and equipment	399	735
Lease inducement amortization	(193)	(192)
Imputed interest expense	171	215
Accrued future rents	159	181
	72,898	56,720
Change in non-cash operating working capital (note 14)	(15,505)	(4,687)
	57,393	52,033
Financing activities:		
Change in construction facility	–	(10,000)
Increase in committed revolving credit facility	500	10,000
Decrease in long-term receivable	1,000	1,000
Repayment of long-term debt	(4,051)	(6,108)
Shares redeemed for cash	(2,756)	(2,723)
Shares issued for cash	22	22
Increase in lease inducements	116	1,596
Change in contract commitments (note 22)	1,230	–
Patronage return paid in cash	(23,670)	(23,100)
	(27,609)	(29,313)
Investing activities:		
Expenditures on property and equipment	(34,688)	(25,909)
Acquisition of business assets (note 4)	–	(1,633)
Proceeds on disposal of property and equipment	192	68
FCL shares redeemed for cash	2,813	2,749
Dividends from jointly controlled enterprise (note 5)	2,350	2,071
Change in other investments	–	4
Change in non-cash working capital (note 14)	(2,178)	1,696
	(31,511)	(20,954)
Change in cash and cash equivalents	(1,727)	1,766
Cash and cash equivalents, beginning of year	5,723	3,957
Cash and cash equivalents, end of year	$ 3,996	$ 5,723

See accompanying notes to financial statements.

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, 82% (2017– 82%) of sales are to members. The Association is incorporated under the Cooperatives Act of Alberta.

1. Summary of accounting policies:

The financial statements of the Association have been prepared by management 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, inventory, useful life of property and equipment, impairment of long-lived assets, future income taxes, and potential contingencies. These estimates also affect the disclosure of contingencies at the date of the financial statements and the reported amounts of assets, liabilities, revenues and expenses. Actual results could differ from those estimates.

(a) Definition of financial year:

The Association's financial year ends on the Saturday closest to October 31. Accordingly, the year ended November 3, 2018 consists of 53 weeks of operations, while the year ended October 28, 2017 consisted of 52 weeks of operations.

(b) 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.

1. Summary of accounting policies (continued):

(b) Financial instruments (continued):

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.

(c) 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.

(d) Inventories:

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

(e) 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	33%
Computer software	Straight Line	100%

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.

1. Summary of accounting policies (continued):

(f) 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. 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 operations 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.

(g) 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 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.

(h) Intangible assets:

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

(i) 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.

(j) 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.

1. Summary of accounting policies (continued):

(j) Revenue recognition (continued):

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.

(k) Store opening expenses:

Store opening costs of new stores are expensed as incurred.

(l) Income taxes:

The Association follows the 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.

(m) Investments in 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 losses of the investment.

(n) Business combinations:

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 their fair values at the acquisition date. The cost of an acquisition is measured as the fair value of the assets acquired, equity instruments issued and liabilities incurred or assumed 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 income. Transaction costs associated with the business combination are expensed as incurred.

(in thousands of dollars)

1. Summary of accounting policies (continued):

(o) 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.

2. Inventories:

The cost of inventories recognized as an expense during the year ended November 3, 2018 was $1,043,493 (2017 - $940,068). The Association recorded $nil (2017 - $nil) as an expense for the write-down of inventories where the net realizable value is less than cost as at November 3, 2018. There was no reversal of inventories that were previously written down that are no longer estimated to sell below cost.

3. Long-term receivable:

	2018	2017
In fiscal 2016, the Association sold a food centre whereby a portion of proceeds consisted of a three year receivable. The principal amount of $900 is due in 2019 with interest payments receivable monthly. The receivable bears interest at 3.2% per annum.	$ 900	$ 900
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 is due in four equal annual payments of $1,000 starting September 1, 2017. The next scheduled repayment is due on September 1, 2019. This long-term receivable was originally recorded at estimated fair value using an imputed interest rate of 3%.	1,924	2,844
	2,824	3,744
Less principal payments due within one year	1,848	920
	$ 976	$ 2,824

(in thousands of dollars)

3. Long-term receivable (continued):

Aggregate principal payments of long-term receivable for each of the next two years are as follows:

2019	$	1,848
2020		976

4. Asset acquisition:

On September 30, 2017, the Association acquired the business assets of a private company involved in the provision of liquor products and services. The consideration given included the following:

Cash	$	1,633

The acquisition has been accounted for using the acquisition method whereby the assets acquired and the liabilities assumed are 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 for the assets acquired:

Inventory	$	464
Property and equipment		812
Prepaid expenses		20
Intangible asset (liquor license)		337
	$	1,633

(in thousands of dollars)

5. Investments:

	2018	2017
Federated Co-operatives Limited (FCL)	$ 152,058	$ 140,633
Investment in jointly controlled enterprise	374	532
Other	74	74
	$ 152,506	$ 141,239

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 or over a maximum period of five years upon the Association terminating its membership with FCL. The Association's investment in FCL represents 10% of the issued and outstanding shares of FCL (2017 – 10%).

The Produce People ("TPP") is a jointly controlled enterprise between the Association and Federated Co-operatives Ltd. The Association accounts for its investment in TPP using the equity method.

For the year ended November 3, 2018, the Association recognized $2,192 in earnings in the statement of operations and retained earnings from its equity investment (2017 - $2,148). The Association received $2,350 in dividends during the year (2017 - $2,071)

6. Property and equipment:

			2018	2017
	Cost	Accumulated amortization	Net book value	Net book value
Land	$ 92,322	$ –	$ 92,322	$ 75,804
Buildings and parking lots	249,631	128,503	121,128	129,856
Fixtures and equipment	188,660	134,627	54,033	51,742
Leasehold improvements	29,597	11,096	18,501	19,931
Assets under construction	13,005	–	13,005	5,341
	$ 573,215	$ 274,226	$ 298,989	$ 282,674

(in thousands of dollars)

6. Property and equipment (continued):

As at November 3, 2018, the Association had contractual commitments to spend approximately $4,480 (2017 - $8,312) on capital expansion projects.

The loss on disposal and write-off of property and equipment of $399 for the year ended November 3, 2018 (2017 - $735) comprises the disposal of equipment and the write-down of obsolete assets in renovated shopping centres, liquor stores and gas bars.

Included in amortization expense related to the impairment of assets is $nil (2017 - $1,470).

During the year, the Association adopted a formal plan to dispose of certain grocery store assets. These assets, totaling $5,391, have been classified as held for sale at November 3, 2018.

7. Goodwill:

	2018	2017
Balance, beginning of year	$ 8,918	$ 8,918
Balance, end of year	$ 8,918	$ 8,918

8. Intangible asset:

			2018	2017
	Cost	Accumulated depreciation	Net book value	Net book value
Liquor license (note 4)	$ 337	$ 44	$ 293	$ 526

9. Credit facilities:

(a) Demand revolving facility:

The Association has available a $20,000 demand revolving facility to finance working capital and operating requirements. As at November 3, 2018, the Association has drawn $nil (2017 - $nil) on this facility. The facility is due on demand and bears interest at the bankers' prime rate less 0.25%. The Association has provided letters of credit in the amount of $12 (2017 - $3,454) to support the purchase of certain inventory and capital items. These letters of credit have been charged against this facility.

9. Credit facilities (continued):

(b) Committed revolving credit facility:

The Association has available a $40,000 committed revolving facility with interest charged at the bankers' prime rate and is payable in full on February 28, 2022, unless otherwise extended by the lender. A standby fee of 0.25% is charged on the unutilized balance. As at November 3, 2018, the Association has drawn $10,500 (2017 - $10,000) on the facility.

(c) Demand term facility:

The Association has available a $30,000 demand term facility to finance new capital expenditures, construction and development. The facility is due on demand and bears interest at the bankers' prime rate less 0.25%. As at November 3, 2018, the Association has drawn $nil (2017 - $nil) on this facility.

(d) Risk management facility:

The Association has available a $2,000 risk management facility to facilitate in the hedging of currency exchange risk and interest rate risk. As at November 3, 2018, the Association has drawn $nil on this facility (2017 - $nil).

(e) Corporate Mastercard facility:

The Association has a corporate Mastercard facility in an amount not to exceed $1,000 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.

(f) Security:

The above facilities are secured by a $200,000 debenture providing the lender with a floating charge over all of the assets of the Association.

(g) Financial covenants:

The Association is required to maintain the following financial covenants:

- minimum debt service coverage ratio of 1:25 to 1; and
- senior funded debt/EBITDA not to exceed 2.50:1, where EBITDA equals earnings before interest, income tax, depreciation and amortization less the non-cash portion of the FCL patronage refund.

The Association was in compliance with these covenants at November 3, 2018.

Year ended November 3, 2018, with comparative information for October 28, 2017
(in thousands of dollars)

9. Credit facilities (continued):

(h) Long-term debt:

	2018	2017
On September 1, 2016, the Association acquired land that was financed by the vendor. The long-term debt has been recorded at fair value using an imputed interest rate of 3%. Repayable with principal and imputed interest payments of $2,500 on September 1, 2019 and $4,300 on September 1, 2020.	$ 6,519	$ 8,768
Mortgage facility bearing interest of 2.854% per annum is secured by land and a general assignment of rents against the property, repayable in monthly installments of $77 on the first of each month with a maturity date of September 1, 2020	14,997	–
Mortgage facility bearing interest of 4.06% per annum is secured by land and a general assignment of rents against the property, repayable in monthly installments of $2 on the first of each month with a maturity date of September 1, 2020	354	–
FCL unsecured loans are non-interest bearing. Each loan is payable in three equal annual payments with due dates to November 30, 2018.	136	1,351
	22,006	10,119
Current portion of long-term debt	2,973	3,464
	$ 19,033	$ 6,655

Aggregate principal repayments of other long-term debt, net of imputed interest, for the next five financial years and beyond are as follows:

2019	$ 2,973
2020	19,033

(in thousands of dollars)

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 the member reaches age 65 or moves out of the trading area, or, at the request of the member's estate, upon the member's death.

Changes in share capital are as follows:

	2018	2017
Balance, beginning of year	$ 190,755	$ 193,031
Shares redeemed for cash	(2,756)	(2,723)
Inactive members' shares transferred to retained earnings	(4,234)	(7,425)
Shares issued for cash	22	22
	183,787	182,905
Current year's patronage returns to be paid in shares (note 12)	7,850	7,850
Balance, end of year	$ 191,637	$ 190,755

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.

	2018	2017
Food	$ 671,554	$ 658,365
Petroleum	483,811	398,592
Other	146,674	138,565
	$ 1,302,039	$ 1,195,522

(in thousands of dollars)

12. Patronage returns:

The Board of Directors approved the payment of patronage returns in the amount of $31,520 (2017 - $30,950). The portion of the patronage returns to be paid in cash in the amount of $23,670 (2017 - $23,100) is included in accounts payable and accrued liabilities and the portion to be paid in shares in the amount of $7,850 (2017 - $7,850) is included in members' shares.

13. Income taxes:

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

	2018	2017
Statutory rate	27%	27%
Earnings before tax, excluding jointly controlled enterprise income (net of tax), less the patronage return to members	$ 29,057	$ 4,407
Expected expense at statutory rate	7,845	1,190
Permanent difference	47	28
Other	(390)	(623)
Income tax expense	$ 7,502	$ 595

The Association has capital losses of approximately $788 (2017 - $788). These losses can be carried forward indefinitely for future use against taxable capital gains. The potential tax effect of these losses has not been reflected in these financial statements.

Year ended November 3, 2018, with comparative information for October 28, 2017
(in thousands of dollars)

13. Income taxes (continued):

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

	2018	2017
Future tax assets:		
Supplemental defined contribution employee retirement plan – difference between accounting and tax base	$ 116	$ 91
Deferred lease inducements - difference between accounting and tax base	555	574
Accrued future rents- difference between accounting and tax base	483	440
Contract commitments - difference between accounting and tax base	440	–
Property and equipment - difference in accounting book value and undepreciated capital cost	6,568	5,459
Unrecognized capital losses	(106)	(106)
	$ 8,056	$ 6,458
Future tax liabilities:		
Patronage refund receivable	$ 15,423	$ 8,611

14. Change in non-cash working capital:

	2018	2017
Operating activities:		
Accounts receivable	$ (18,054)	$ (1,669)
Inventories	(3,861)	(2,154)
Prepaid expenses and deposits	1,576	(244)
Accounts payable and accrued liabilities	7,619	3,290
Income taxes recoverable	(2,629)	(3,667)
Government payable	(156)	(243)
	$ (15,505)	$ (4,687)
Investing activities:		
Accounts payable for capital expenditures	$ (2,178)	$ 1,696

(in thousands of dollars)

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 $4,292 (2017 - $4,394) 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 November 3, 2018, an expense of $90 (2017 - $86) has been recorded relating to this plan. The total liability at November 3, 2018 is $430 (2017 - $340).

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 beyond, as follows:

2019	$ 15,679
2020	13,833
2021	11,639
2022	10,063
2023	9,794
Subsequently	57,728
	$ 118,736

(b) Utility service commitment:

The Association has a commitment to purchase electricity at fixed rates per KWH to June 30, 2020. The total commitment is $2,150 per year for financial year 2019 and $1,430 for financial year 2020.

The Association has a commitment to purchase natural gas at fixed rates per GJ to May 31, 2020. The total commitment is $320 per year for financial year 2019 and $190 for financial year 2020.

16. Commitments and guarantees (continued):

(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 pay outstanding gas bar loan balances owed to FCL plus repay any gas bar grants received, as described in note 19(c), plus interest on the grants, compounded annually at 10% from the grant date. The total outstanding loan balances are disclosed in note 9(h). Total grants received over the prior ten year period amount to $25,100 (2017 - $25,700).

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 and food products from FCL for gas bar and food centre operations for periods ranging from 10 to 30 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 $6,400 (2017 - $5,700).

17. Financial Instruments:

(a) Credit risk:

The Association’s financial instruments consist of cash and cash equivalents, investments, accounts receivable, long-term receivable, committed revolving credit facility, accounts payable and accrued liabilities, government payables, long-term debt 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.

(in thousands of dollars)

17. Financial Instruments (continued):

(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 short-term investments, long-term receivable, short-term borrowing and long-term debt. The Association does not currently enter into hedging contracts to mitigate this risk.

(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.

18. Government payables:

	2018	2017
Payroll deductions	$ 1,120	$ 1,209
City of Calgary transit passes	1,101	1,168
	$ 2,221	$ 2,377

19. Related party transactions:

Federated Co-operatives Limited (FCL) is owned by retail co-operatives across Western Canada including the Association. FCL provides central wholesaling, manufacturing and administrative services to its owners. It is the major grocery and petroleum supplier to the Association, in addition to other commodities. The Association owns approximately 10% (2017 – 10%) of the shares in FCL.

19. Related party transactions (continued):

(a) Purchases:

For the year ended November 3, 2018, the Association made purchases from FCL in the amount of $720,512 (2017 - $673,430). These purchases represented 70% (2017 - 72%) 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 $51,765 (2017 - $45,531).

For the year ended November 3, 2018, the Association earned interest income at prime less 1.50% (2017 - prime less 1.25%) of $243 (2017 - $185) as a result of early payments on normal trade payable balances to FCL. The average early payment balance with FCL amounted to $11,831 (2017 - $11,886).

(b) Patronage refund:

FCL approved the payment of a patronage refund to the Association in the amount of $57,122 (2017 - $31,892). The portion of the patronage refund to be received in cash in the amount of $42,885 (2017 - $25,954) and included in accounts receivable is $34,317 (2017 - $21,170) and income tax recoverable of $8,568 (2017 - $4,784). The portion to be received in FCL shares in the amount of $14,238 (2017 - $5,938) is included in investments.

(c) Capital grants and interest-free loans:

The Association receives interest-free loans and capital grants from FCL to assist in the construction of gas bars and food centres. For the year ended November 3, 2018, the Association received interest-free loans of $nil (2017 - $602) and capital grants of $612 (2017 - $312) from FCL for this purpose. See also note 9(h). In addition, FCL provided a lease subsidy of $326 (2017 - $279) for facilities constructed on leased land.

(d) Leases:

The Association has a food centre operating lease agreement in place with FCL which requires payments of approximately $290 per year to October 2032. This commitment is disclosed as part of note 16(a).

20. Asset retirement obligation:

An asset retirement obligation has not been recorded in the 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 is 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 financial statements.

22. Other liabilities:

Included in other liabilities is an amount related to contract commitments. In 2018, the Association entered into a 5 year vendor commitment contract. At the time of signing the contract, the Association received payment of $2,000.

Should the Association terminate this contract prior to its expiry date, the Association is required to reimburse the vendor a pro-rated portion of the initial payment.

As at November 3, 2018, the Association has recorded deferred revenue related to this payment of $1,630 (2017 - $nil), of which $400 (2017 - $nil) is included in accounts payable and accrued liabilities and $1,230 (2017 - $nil) is included in other liabilities.