CO·OP

2020 ANNUAL REPORT

This document provides our member-owners and stakeholders with an overview of the governance and finances for the fiscal year ended October 31, 2020.

Operational and community highlights from Calgary Co-op's various lines of business can be found in our 2020 in Review video located on www.calgarycoop.com/annual

ENRICHING OUR MEMBER COMMUNITIES

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2020 BOARD OF DIRECTORS

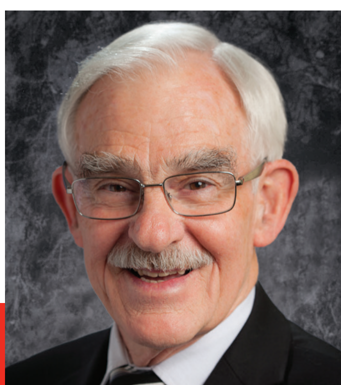
Patricia McLeod
Q.C., ICD.D, MBA
Chair

Lori Ell
ICD.D, CPA, CMA
Vice Chair

Elaine Bereziuk-Smith
ICD.D
Board Secretary

Cindy Andrew
ICD.D

Mike Dalton
ICD.D, MBA, CA, CIA



Roy Goodall
CD2, ICD.D

Lisa Wise
MBA

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

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

2020 EXECUTIVE LEADERSHIP TEAM

Ken Keelor
Chief Executive Officer

Paul Harrison
Chief Financial Officer

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

Penney McTaggart Cowan
Vice President,
Marketing and Member Experiences

Fadi J. Nasr
Vice President,
Information Technology

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

2020 EXECUTIVE OFFICERS

Patricia McLeod, Q.C.
Chair

Lori Ell
Vice Chair

Elaine Bereziuk-Smith
Board Secretary

Cindy Andrew

Mike Dalton

Roy Goodall

Lisa Wise

Victoria E. Bradbury

Gael MacLeod

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

FOOD POSITIONING

In 2020, Calgary Co-op transitioned to a new food supplier, launched a new flyer, and launched two new private brands: Cal & Gary's and Founders & Farmers. The Board has fully supported this transition, which brings a better business model with greater benefits to our local members in the long-term.

COVID-19

As an essential service, and in response to the global pandemic, we quickly implemented a number of health and safety measures in store and created programs to support our frontline team members. We also worked to ensure our team members, members and community had the support they needed by implementing our Champions Pay program with a $2.50 per hour pay booster for all of our frontline team members, special shopping hours for seniors and those who are immunocompromised, delivered more than 2,800 care packages to those in need, and created our Calgary Co-op Cares program to give back to our community partners.

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 31, 2020, 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.
- Reviewed the Audit Committee's Terms of Reference.

GOVERNANCE COMMITTEE

The Governance Committee ensures the Board adheres to best practices and high standards in its governing 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 October 31, 2020, the committee has completed the following:

- Provided direction for an effective and safe Annual Meeting of members.
- Provided strategic guidance for optimum board operations including oversight of the director election, board role optimization, new director orientation, board and committee performance assessments, revised our skills matrix based upon our co-operative's strategy, multiple updates to our governing guidelines documentation and board succession planning.
- Reviewed our bylaws to ensure they are current and align with our co-operative.
- Integrated the topic of ESG (Environmental and Social Governance) into our governance.
- Created appropriate oversight and governance pertaining to the pandemic.
- Revised the Code of Conduct, an ethical standard, for the organization.

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 31, 2020, 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 31, 2020, 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 2020 Director Election.

Board and Committee Meeting Attendance
November 3, 2019 to October 31, 2020

Director	Board Meetings	Audit Committee Meetings	Governance Committee Meetings	Human Resources Committee Meetings	Nominations Committee Meetings
Patricia McLeod, Chair	13	5	7	5	1
Lori Ell, Vice Chair	11	2	3	2	-
Elaine Bereziuk-Smith, Secretary	13	-	7	3	2
Cindy Andrew	12	2	3	5	-
Mike Dalton	13	4	-	-	4
Roy Goodall	13	3	4	2	-
Peggy LeSueur	7	2*	-	3*	-
Mike Lambert	6	-	4*	3*	-
Lisa Wise	13	-	7	-	2
Gael MacLeod	6	3**	-	2**	-
Victoria Bradbury	6	3**	-	-	3**

* Committee member November 2, 2019 – May 22, 2019
** Committee member May 22, 2019 – October 31, 2020

Board Remuneration, Annual Purchases and, Development & Dues*
November 3, 2019 to October 31, 2020

Director	Remuneration	Annual Purchase	Development/Dues
Patricia McLeod, Chair	$80,000.04	$18,391.13	$3,106.14
Lori Ell, Vice Chair	$37,721.79	$4,117.47	$3,486.68
Elaine Bereziuk-Smith, Secretary	$35,665.36	$18,461.65	$395.00
Cindy Andrew	$35,056.49	$6,959.50	$546.10
Mike Dalton	$36,500.04	$9,942.48	$995.00
Roy Goodall	$34,278.26	$8,002.62	$86.10
Peggy LeSueur	$18,919.39	$9,203.31	$0.00
Mike Lambert	$18,993.51	$9,771.83	$794.74
Lisa Wise	$33,923.39	$25,341.70	$0.00
Gael MacLeod	$15, 080.68	$10,367.50	$642.52
Victoria Bradbury	$15,080.68	$5,598.17	$0.00

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

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 19, 2021

Ken Keelor
Chief Executive Officer
March 19, 2021

Consolidated Financial Statements of

CALGARY CO-OPERATIVE ASSOCIATION LIMITED

And Independent Auditors' Report thereon

Year ended October 31, 2020

KPMG

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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

Opinion

We have audited the consolidated financial statements of Calgary Co-operative Association Limited (the Entity), which comprise:

- the consolidated balance sheet as at October 31, 2020;
- the consolidated statement of operations and retained earnings for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at October 31, 2020, 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 the "Auditors' Responsibilities for the Audit of the Financial Statements" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 the 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 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 Entity'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 Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the 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 auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- 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.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants

Calgary, Canada

January 21, 2021

CALGARY CO-OPERATIVE ASSOCIATION LIMITED

Consolidated Balance Sheet

October 31, 2020, with comparative information for November 2, 2019
(in thousands of dollars)

		2020		2019
Assets				
Current assets:				
Cash and cash equivalents	$	2,764	$	8,916
Accounts receivable		26,468		44,031
Income tax recoverable		–		1,996
Inventories (note 2)		85,868		80,098
Prepaid expenses and deposits		6,150		7,074
Other receivables (note 3)		1,450		–
Total current assets		122,700		142,115
Investments (note 4)		162,865		162,744
Property and equipment (note 6)		360,490		314,882
Goodwill (note 7)		14,050		8,918
Intangible assets (note 8)		4,638		264
Other receivables (note 3)		2,000		3,427
Future income taxes (note 13)		7,168		7,543
Cash held in trust (note 5)		–		31,300
	$	673,911	$	671,193
Liabilities and Members' Equity				
Current liabilities:				
Demand revolving facility (note 9 (a))	$	3,522	$	–
Accounts payable and accrued liabilities (notes 12 and 19(a))		114,226		124,398
Income tax payable		4,423		–
Government payables (note 18)		4,174		1,165
Current portion of long-term debt (note 9(h))		–		19,033
Future income taxes (note 13)		1,402		12,012
Committed revolving credit facility		–		31,300
Demand non-revolving credit facility due within one year (note 9(b))		3,584		–
		131,331		187,908
Demand non-revolving credit facility (note 9(b))		48,374		–
Total current liabilities		179,705		187,908
Other liabilities (notes 5 and 22)		13,958		4,933
Members' equity:				
Members' shares (note 10)		192,504		193,170
Retained earnings		287,744		285,182
		480,248		478,352
Commitments and guarantees (notes 6, 16 and 22)				
Contingencies (notes 5, 9(a) and 21)				
Subsequent events (notes 12 and 19(b))				
	$	673,911	$	671,193

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

Patricia McLeod, Q.C.
Director

Mike Dalton
Director

CALGARY CO-OPERATIVE ASSOCIATION LIMITED

Consolidated Statement of Operations and Retained Earnings

Year ended October 31, 2020, with comparative information for November 2, 2019
(in thousands of dollars)

	2020	2019
Sales (note 11)	$ 1,263,933	$ 1,237,089
Expenses:		
Cost of sales, selling and administrative (note 2)	1,225,361	1,222,531
Amortization	32,364	30,057
	6,208	(15,499)
Other expenses (income):		
Rental income	(15,784)	(15,440)
Rental expense	5,228	5,153
Gain on disposal of buildings and real estate (note 6)	–	(12,138)
Loss on disposal of property and equipment	190	555
Interest income	(472)	(881)
Interest expense	1,802	785
Income from jointly controlled enterprise (note 4)	(335)	(2,004)
Earnings before patronage refund	15,579	8,471
Patronage refund (note 19(b))	6,095	47,737
Earnings before income taxes	21,674	56,208
Income tax expense (recovery) (note 13):		
Current	8,838	6,365
Future	(10,235)	(2,898)
	(1,397)	3,467
Net earnings	23,071	52,741
Retained earnings, beginning of year	285,182	265,552
Patronage returns (note 12)	(24,500)	(37,120)
Inactive members' shares transferred to retained earnings (note 10)	3,991	4,009
Retained earnings, end of year	$ 287,744	$ 285,182

See accompanying notes to consolidated financial statements.

CALGARY CO-OPERATIVE ASSOCIATION LIMITED

Consolidated Statement of Cash Flows

Year ended October 31, 2020, with comparative information for November 2, 2019
(in thousands of dollars)

	2020	2019
Cash provided by (used in):		
Operating activities:		
Net earnings	$ 23,071	$ 52,741
Items not involving cash:		
Amortization	32,364	30,057
Patronage refunds to be received in FCL shares (note 19(b))	(610)	(12,589)
Income from jointly controlled enterprise (note 4)	(335)	(2,004)
Future income tax recovery	(10,235)	(2,898)
Gain on disposal of buildings and real estate (note 6)	–	(12,138)
Loss on disposal and write off of property and equipment	190	555
Lease inducement amortization	(179)	(330)
Imputed interest expense	78	127
Accrued future rents	212	114
	44,556	53,635
Change in non-cash operating working capital (note 14)	13,991	18,570
	58,547	72,205
Financing activities:		
Increase (decrease) in committed revolving credit facility	(31,300)	20,800
Decrease in long-term debt	(19,134)	(3,152)
Increase in demand non-revolving credit facility	53,750	–
Repayment of demand non-revolving credit facility	(1,792)	–
(Increase) decrease in other receivables	–	(551)
Shares redeemed for cash	(2,988)	(3,790)
Shares issued for cash	13	22
Increase (decrease) in other liabilities	(27)	133
Change in contract commitments (note 22)	7,254	(400)
Patronage return to be paid in cash	(18,200)	(27,810)
	(12,424)	(14,748)
Investing activities:		
Cash held in trust	31,300	(31,300)
Expenditures on property and equipment	(55,775)	(49,146)
Acquisition of business assets (note 5)	(30,541)	–
Proceeds on disposal of building and real estate	–	20,199
Proceeds on disposal of property and equipment	72	–
FCL shares redeemed for cash	–	3,042
Dividends from jointly controlled enterprise (note 4)	750	1,313
Change in other investments (note 4)	74	–
Change in non-cash working capital (note 14)	(1,677)	3,355
	(55,797)	(52,537)
Change in cash and cash equivalents	(9,674)	4,920
Cash balance, beginning of year		
Cash and cash equivalents	8,916	3,996
Demand revolving facility	–	–
	$ 8,916	$ 3,996
Cash balance, end of year		
Cash and cash equivalents	$ 2,764	$ 3,996
Demand revolving facility	(3,522)	–
	$ (758)	$ 8,916

See accompanying notes to consolidated 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, 81% (2019 - 81%) of sales are to members. The Association is incorporated under the Cooperatives Act of Alberta.

1. Summary of accounting policies:

(a) Basis of presentation and measurement uncertainty:

The consolidated financial statements of the Association have been prepared by management in accordance with Canadian accounting standards for private enterprises and include the accounts of the Association and its wholly-owned subsidiary, Community Natural Foods (note 5). 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, business combinations 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.

On March 11, 2020, the World Health Organization declared the Coronavirus COVID-19 ("COVID-19") outbreak a pandemic. This has resulted in governments worldwide, including the Canadian and Alberta governments, enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods, closures of non-essential businesses, and physical distancing, have caused material disruption to businesses in Calgary and area, resulting in an economic slowdown. Accordingly, economic uncertainties have arisen which could have a negative impact on the Association's revenue streams and results of operations

The COVID-19 outbreak presents 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 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.

1. Summary of accounting policies (continued):

(b) Definition of financial year:

The Association's financial year ends on the Saturday closest to October 31. Accordingly, the years ended October 31, 2020 and November 2, 2019 consist of 52 weeks of operations each.

(c) 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.

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.

(d) 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.

(e) Inventories:

Inventories are recorded at the lower of cost (net of 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.

1. Summary of accounting policies (continued):

(f) 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	33 – 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.

(g) 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.

(h) 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.

1. Summary of accounting policies (continued):

(i) Intangible assets:

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

(j) 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.

(k) Revenue recognition:

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

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

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

(l) Store opening expenses:

Store opening costs of new stores are expensed as incurred.

(m) 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.

1. Summary of accounting policies (continued):

(n) 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 loss of the investment.

(o) 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 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 income. Transaction costs associated with the business combination are expensed as incurred.

(p) 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 October 31, 2020 was $955,237 (2019 – $977,447). The Association recorded $nil (2019 – $55) as an expense for the write-down of inventories where the net realizable value is less than cost as at October 31, 2020. There was no reversal of inventories that were previously written down that are no longer estimated to sell below cost.

Year ended October 31, 2020, with comparative information for November 2, 2019
(in thousands of dollars)

3. Other receivables:

	2020	2019
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. The payments scheduled in 2019 and 2020 were not received. This receivable was originally recorded at estimated fair value using an imputed interest rate of 3%.	$ 2,000	$ 1,977
In fiscal 2019, the Association sold a parcel of land whereby a portion of proceeds consisted of a two year receivable. The principal amount of $1,450 is due in 2021 with interest payments receivable monthly. The receivable bears interest at 3.0% per annum, paid monthly, and is secured by the related property.	1,450	1,450
	3,450	3,427
Current portion of other receivables	1,450	–
	$ 2,000	$ 3,427

At October 31, 2020, the Association has presented the remaining receivable on the sale of land in 2016 as a non-current receivable due to the missed payments in 2019 and 2020 and an ongoing dispute with the purchaser (note 21).

4. Investments:

	2020	2019
Federated Co-operatives Limited (FCL)	$ 162,215	$ 161,605
Investment in jointly controlled enterprise	650	1,065
Other	–	74
	$ 162,865	$ 162,744

(in thousands of dollars)

4. Investments (continued):

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 (2019 – 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 31, 2020, the Association recognized $335 in earnings in the statement of operations and retained earnings from its equity investment (2019 – $2,004). The Association received $750 in dividends during the year (2019 – $1,313).

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
Earn-out payable		1,765
Total purchase consideration	$	32,306

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.

(in thousands of dollars)

5. Business combination (continued):

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 earn-out payable has been 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.

6. Property and equipment:

			2020	2019
	Cost	Accumulated amortization	Net book value	Net book value
Land	$ 136,439	$ –	$ 136,439	$ 98,075
Buildings and parking lots	296,215	153,045	143,170	122,123
Fixtures and equipment	178,950	127,598	51,352	56,688
Leasehold improvements	23,676	8,610	15,066	13,716
Assets under construction	14,463	–	14,463	24,280
	$ 649,743	$ 289,253	$ 360,490	$ 314,882

As at October 31, 2020, the Association had contractual commitments to spend approximately $301 (2019 – $31,380) on capital expansion projects.

The Association had a gain on disposal of buildings and real estate of $12,138 for the year ended November 2, 2019 comprised of the disposal of certain assets for total proceeds of $20,199.

(in thousands of dollars)

7. Goodwill:

	2020	2019
Balance, beginning of year	$ 8,918	$ 8,918
Goodwill acquired (note 5)	5,132	–
Balance, end of year	$ 14,050	$ 8,918

8. Intangible assets:

	Cost	Accumulated amortization	2020 Net book value	2019 Net book value
Liquor license	$ 337	$ 102	$ 235	$ 264
Trade name (note 5)	3,427	172	3,255	–
Customer relationships (note 5)	1,435	287	1,148	–
	$ 5,199	$ 561	$ 4,638	$ 264

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 31, 2020, the Association has drawn $3,522 (2019 – $nil) on this facility. The facility is due on demand and bears interest at the bankers' prime rate with a premium or discount based on the Association's senior funded debt to EBITDA ratio. As at October 31, 2020 the rate was prime less 0.25%. The Association has provided letters of credit in the amount of $1,674 (2019 – $340) 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 31, 2020, the rate was prime less 0.25%. As at October 31, 2020, the amount owing on this facility was $51,958 (2019 - $nil).

9. Credit facilities (continued):

(b) Demand non-revolving facility (continued):

The Association has entered into a 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 31, 2020 was a payable of $721. 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 pay if the swap was settled on October 31, 2020.

(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 31, 2020, the Association has drawn $nil on this facility (2019 – $nil).

(d) Corporate Mastercard facility:

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

(e) Equipment line facility:

The Association has available a $10,000 equipment line facility to provide for the leasing of equipment. As of October 31, 2020, the Association has drawn $nil on the facility (2019 – $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.

(g) Financial covenants:

The Association is required to maintain the following financial covenants on a quarterly basis:

- minimum debt service coverage ratio of 1:25 to 1; and
- senior funded debt/EBITDA not to exceed 3.00:1, 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 October 31, 2020.

(in thousands of dollars)

9. Credit facilities (continued):

(h) Long-term debt:

	2020	2019
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%. This vendor financing was repaid on September 1, 2020.	$ –	$ 4,199
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. This mortgage was repaid on September 1, 2020.	–	14,494
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. This mortgage was repaid on September 1, 2020.	–	340
	–	19,033
Current portion of long-term debt	–	19,033
	$ –	$ –

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.

(in thousands of dollars)

10. Members' shares (continued):

Changes in share capital are as follows:

	2020	2019
Balance, beginning of year	$ 193,170	$ 191,637
Shares redeemed for cash	(2,988)	(3,583)
Inactive members' shares transferred to retained earnings	(3,991)	(4,216)
Shares issued for cash	13	22
	186,204	183,860
Current year's patronage returns to be paid in shares (note 12)	6,300	9,310
Balance, end of year	$ 192,504	$ 193,170

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.

	2020	2019
Food	$ 737,389	$ 657,393
Petroleum	354,749	431,743
Other	171,795	147,953
	$ 1,263,933	$ 1,237,089

(in thousands of dollars)

12. Patronage returns:

The Board of Directors approved the payment of patronage returns in the amount of $24,500 (2019 – $37,120). The portion of the patronage returns to be paid in cash in the amount of $18,200 (2019 – $27,810) is included in accounts payable and accrued liabilities and the portion to be paid in shares in the amount of $6,300 (2019 – $9,310) is included in members' shares.

13. Income taxes:

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

	2020	2019
Statutory rate	24.49%	26.66%
Earnings before income tax, excluding jointly controlled enterprise income (net of tax), less the patronage return to members	$ (3,161)	$ 17,084
Expected (recovery) expense at statutory rate	(774)	4,554
Permanent difference	25	26
Non-taxable portion of capital gain	–	(1,171)
Enacted tax rate decrease	(514)	214
Other	(134)	(156)
Income tax (recovery) expense	$ (1,397)	$ 3,467

(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:

		2020		2019
Future tax assets:				
Supplemental defined contribution employee retirement plan – difference between accounting and tax base	$	153	$	144
Deferred lease inducements - difference between accounting and tax base		406		426
Accrued future rents- difference between accounting and tax base		487		438
Contract commitments - difference between accounting and tax base		1,734		305
Property and equipment - difference in accounting book value and undepreciated capital cost		4,388		6,230
Unrecognized capital losses		–		–
	$	7,168	$	7,543
Future tax liabilities:				
Patronage refund receivable	$	1,402	$	12,012

14. Change in non-cash working capital:

		2020		2019
Operating activities:				
Accounts receivable	$	15,130	$	6,726
Inventories		(3,297)		2,696
Prepaid expenses and deposits		954		(2,346)
Accounts payable and accrued liabilities		(8,224)		7,166
Income taxes		6,419		5,384
Government payables		3,009		(1,056)
	$	13,991	$	18,570
Investing activities:				
Accounts payable for capital expenditures	$	(1,677)	$	3,355

(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 $4,514 (2019 – $4,300) of expense relating to this plan, and there were no significant changes to the rates of employer contributions.

The Association has established a supplemental defined contribution employee retirement plan. For the year ended October 31, 2020, an expense of $141 (2019 – $139) has been recorded relating to this plan. The total liability at October 31, 2020 is $664 (2019 – $569).

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:

2021	$	17,092
2022		15,702
2023		15,509
2024		15,292
2025		13,348
Subsequently		75,974
	$	152,917

(b) Utility service commitment:

The Association has a commitment of $4,310 to purchase electricity at fixed rates per KWH to June 30, 2022 and a commitment of $240 to purchase natural gas at fixed rates per GJ to May 31, 2021.

(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 $17,100 (2019 – $24,500).

16. Commitments and guarantees (continued):

(c) Product purchase commitment (continued):

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 $10,000 (2019 – $5,548).

17. Financial Instruments:

(a) Credit risk:

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

(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.

(in thousands of dollars)

17. Financial Instruments (continued):

(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, other receivables, demand revolving facility and demand non revolving facility. The Association has entered into an interest rate forward 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 2019, other than as impacted by the matter disclosed in note 1(a)).

18. Government payables:

	2020	2019
Payroll deductions	$ 2,547	$ 1,124
Federal fuel charge (carbon tax)	1,624	–
Transit passes	3	41
	$ 4,174	$ 1,165

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 31, 2020, FCL was the major petroleum supplier to the Association, in addition to other commodities. The Association owns approximately 10% (2019 – 10%) of the shares in FCL.

(a) Purchases:

For the year ended October 31, 2020, the Association made purchases from FCL in the amount of $410,453 (2019 – $656,376). These purchases represented 45% (2019 – 67%) of the Association's total purchases and were transacted in the normal course of operations and were recorded at the exchange amount. Included in accounts payable and accrued liabilities are amounts owed to FCL of $26,582 (2019 – $45,373).

19. Related party transactions (continued):

(a) Purchases (continued):

For the year ended October 31, 2020, the Association earned interest income at prime less 1.50% (2019 - prime less 1.50%) of $53 (2019 – $302) as a result of early payments on normal trade payable balances to FCL. The average early payment balance with FCL amounted to $3,386 (2019 – $12,345).

(b) Patronage refund:

FCL approved the payment of a patronage refund to the Association in the amount of $6,095 (2019 – $47,737). The portion of the patronage refund to be received in cash in the amount of $5,485 (2019 – $35,148) is included in accounts receivable of $4,571 (2019 – $27,988) and income tax payable of $914 (2019 – $7,160). The portion to be received in FCL shares in the amount of $609 (2019 – $12,589) 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 31, 2020, the Association received capital grants of $4,452 (2019 – $2,432) from FCL for this purpose. In addition, FCL provided a lease subsidy of $189 (2019 – $68) 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 $325 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 has filed claims against a third party relating to agreements on the sale and development of certain properties (note 3). The third party has filed counterclaims against the Association. Given the current stage of these claims and counterclaims, the outcome is not determinable. No provision for gains or losses arising from such claims, if any, has been included in these financial statements.

21. Contingencies (continued):

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. Given the early 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 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 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 31, 2020, the Association has recorded deferred revenue related to these payments of $10,038 (2019 – $1,230), of which $1,954 (2019 – $400) is included in accounts payable and accrued liabilities and $8,084 (2019 – $830) is included in other liabilities.

23. Comparative information:

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


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