Federated Co-operatives Limited

# CONSOLIDATED FINANCIAL STATEMENTS

2021

# INDEPENDENT AUDITOR'S REPORT

**To the Members of Federated Co-operatives Limited:**

**Opinion**

We have audited the accompanying consolidated financial statements of Federated Co-operatives Limited (the "Co-operative"), which comprise the consolidated statement of financial position as at October 31, 2021, and the consolidated statements of comprehensive income, members' equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Co-operative as at October 31, 2021, and the results of its consolidated operations and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

**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 Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Co-operative in accordance with the ethical requirements that are relevant to our audit of the consolidated 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 Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Co-operative's financial reporting process.

**Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Co-operative'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 Co-operative's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Co-operative to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Co-operative 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.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

MNP LLP

Chartered Professional Accountants

Saskatoon, Saskatchewan
December 15, 2021

# CONSOLIDATED FINANCIAL STATEMENTS

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years ended October 31

In millions of CAD $

| Notes | | 2021 | 2020 |
|---|---|---|---|
| | **Sales** | **$ 9,069** | $ 7,938 |
| 17 | **Cost of Products Sold** | **7,790** | 7,191 |
| | **Gross Margin** | **1,279** | 747 |
| 17 | Operating and administration expenses | **500** | 491 |
| 17 | Loyalty payments | **180** | 185 |
| 17, 19 | Finance costs | **22** | 22 |
| 9, 11 | Impairment (reversals) losses | **(12)** | 93 |
| 23 | Losses (gains) on derivatives | **106** | (194) |
| 16 | Other income | **(71)** | (50) |
| | | **725** | 547 |
| | **Net Income Before Income Taxes** | **554** | 200 |
| 21 | Income taxes | **59** | 23 |
| | **Net Income Before Other Comprehensive Income** | **495** | 177 |
| 15 | Actuarial gain (loss) on defined benefit plan (net of tax) | **53** | (17) |
| | **Total Comprehensive Income** | **$ 548** | $ 160 |

# CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended October 31 | In millions of CAD $

| Notes | | 2021 | 2020 |
|---|---|---|---|
| | **Operating Activities** | | |
| | Net income | $ 495 | $ 177 |
| | Adjustments for: | | |
| 9, 10, 11 | Depreciation, depletion and amortization | 413 | 416 |
| | Gain on disposal of long-lived assets | (2) | - |
| 9, 11 | Impairment (reversals) losses | (12) | 93 |
| 21 | Deferred tax | 43 | (39) |
| 23 | Unrealized losses (gains) on derivatives | 87 | (55) |
| 13 | Settlement of asset retirement obligations | (8) | (5) |
| 13 | Accretion | 5 | 5 |
| | Contributions to the pension liability, net of expense | (38) | (25) |
| | Changes in non-cash operating working capital: | | |
| | Members accounts receivable | (476) | 266 |
| | Non-members accounts receivable | (51) | 98 |
| | Inventories | (256) | 82 |
| | Prepaid expenses | - | (14) |
| | Accounts payable | 283 | (46) |
| | Income taxes payable | (76) | (6) |
| | Cash provided by operating activities | 407 | 947 |
| | **Investing Activities** | | |
| | Additions to short-term investments | (61) | (151) |
| | Decrease (increase) to investments and advances | 114 | (7) |
| 9, 10 | Additions to long-lived assets | (267) | (203) |
| | Additions to intangible assets | (29) | (21) |
| 9 | Additions due to acquisitions | (36) | - |
| | Proceeds from sale of long-lived assets | 4 | 8 |
| | Cash used in investing activities | (275) | (374) |
| | **Financing Activities** | | |
| | Redemption of share capital | (113) | (498) |
| | Proceeds from members' funds, net | 142 | 66 |
| | Principal repayment of leases | (9) | (8) |
| | Cash provided by (used in) financing activities | 20 | (440) |
| | **Increase in Cash and Cash Equivalents** | 152 | 133 |
| | **Cash and Cash Equivalents, Beginning of Year** | 949 | 816 |
| | **Cash and Cash Equivalents, End of Year** | $ 1,101 | $ 949 |
| | **Cash and Cash Equivalents are comprised of:** | | |
| | Cash | 288 | 353 |
| | Cash equivalents | 813 | 596 |
| | | $ 1,101 | $ 949 |

# CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at October 31 | In millions of CAD $

| Notes | | 2021 | 2020 |
|---|---|---|---|
| | **Current Assets** | | |
| | Cash and cash equivalents | $ 1,101 | $ 949 |
| | Short-term investments | 1,038 | 977 |
| | Members accounts receivable | 1,141 | 665 |
| | Non-members accounts receivable | 408 | 357 |
| 6 | Inventories | 923 | 620 |
| | Prepaid expenses | 19 | 19 |
| | Income taxes receivable | 41 | - |
| 7 | Current portion of advances | 61 | 81 |
| | | 4,732 | 3,668 |
| | **Non-Current Assets** | | |
| 7 | Investments and advances | 148 | 242 |
| 21 | Deferred tax asset | 4 | 4 |
| 10 | Investment property | 32 | 25 |
| 9 | Property, plant and equipment | 3,662 | 3,908 |
| 11 | Intangible assets | 202 | 188 |
| 28 | Assets held for sale | 114 | - |
| | | $ 8,894 | $ 8,035 |
| | **Current Liabilities** | | |
| | Accounts payable | $ 1,208 | $ 839 |
| 12 | Members' funds | 463 | 321 |
| | Income taxes payable | - | 35 |
| | | 1,671 | 1,195 |
| | **Non-Current Liabilities** | | |
| 20 | Long-term lease obligations | 18 | 16 |
| 12 | Long-term debt | 299 | 299 |
| 13 | Asset retirement obligations | 110 | 173 |
| 15 | Pension liability | 56 | 166 |
| 21 | Deferred tax liability | 723 | 656 |
| 28 | Liabilities related to assets held for sale | 44 | - |
| | | 1,250 | 1,310 |
| | **Members' Equity** | | |
| 14 | Members' share capital | 1,946 | 1,706 |
| | Retained earnings | 4,019 | 3,824 |
| | | 5,965 | 5,530 |
| 9 | Non-controlling interest | 8 | - |
| | | 5,973 | 5,530 |
| | | $ 8,894 | $ 8,035 |

On behalf of the Board:

Director

Director

# CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY

As at October 31 | In millions of CAD $

| | Members' Share Capital | Accumulated Other Comprehensive (Loss) Income | Retained Earnings | Non-controlling Interest | Total Equity |
|---|---|---|---|---|---|
| **Balance as at October 31, 2019** | **$ 2,086** | **$ (126)** | **$ 3,908** | **$ -** | **$ 5,868** |
| Net income | - | - | 177 | - | 177 |
| Other comprehensive loss | - | (17) | - | - | (17) |
| Patronage allocation | 118 | - | (118) | - | - |
| Redemption of shares | (498) | - | - | - | (498) |
| **Balance as at October 31, 2020** | **$ 1,706** | **$ (143)** | **$ 3,967** | **$ -** | **$ 5,530** |
| Net income | - | - | 495 | - | 495 |
| Other comprehensive income | - | 53 | - | - | 53 |
| Non-controlling interest | - | - | - | 8 | 8 |
| Patronage allocation | 353 | - | (353) | - | - |
| Redemption of shares | (113) | - | - | - | (113) |
| **Balance as at October 31, 2021** | **$ 1,946** | **$ (90)** | **$ 4,109** | **$ 8** | **$ 5,973** |

## NOTE 1 Federated Co-operatives Limited

Federated Co-operatives Limited is incorporated under the *Canada Cooperatives Act*. The address of the registered office is 401-22nd Street East, Saskatoon, Sask., S7K 3M9. The consolidated financial statements as at and for the years ended October 31, 2021 and 2020 comprise Federated Co-operatives Limited and its subsidiaries (collectively, "the Co-operative") and the Co-operative's interest in joint operations. The Co-operative provides central wholesaling, manufacturing, refining and administrative services to 165 locally owned retail co-operatives across Western Canada.

## NOTE 2 Basis of preparation

**(a) Statement of compliance**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The consolidated financial statements were authorized for issue by the Board of Directors on December 15, 2021.

**(b) Basis of measurement**

The consolidated financial statements are prepared on the historical cost basis, except as detailed in the accounting policies disclosed in Note 3. The accounting policies described in Note 3 have been applied consistently to all periods presented in these consolidated financial statements with the exception of new standards adopted, the impacts of which are disclosed in Note 5 (a).

**(c) Functional currency**

These consolidated financial statements are presented in Canadian dollars, which is the Co-operative's functional and presentation currency.

## NOTE 3 Summary of significant accounting policies

**(a) Basis of consolidation**

*i. Subsidiaries*

The consolidated financial statements include the accounts of the Co-operative and its subsidiaries. Subsidiaries are entities that the Co-operative controls. Subsidiaries are fully consolidated from the date that control commences until the date that control ceases. All subsidiaries' functional currency is Canadian dollars.

*ii. Joint arrangements*

A joint arrangement can take the form of a joint operation or joint venture. All joint arrangements are established by a contractual agreement that establishes joint control. The Co-operative has interests in joint operations. For a joint operation, the Co-operative's proportionate share of the assets, liabilities, revenues and expenses of the arrangement are included in the consolidated financial statements, on a line-by-line basis, from the date that the joint control commences until the date that joint control ceases.

*iii. Transactions eliminated on consolidation*

Intercompany balances and transactions, and any unrealized income and expenses arising from said transactions, are eliminated on consolidation.

**(b) Foreign currency translations**

Items included in the Co-operative's consolidated financial statements are measured using the functional currency. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains or losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities not denominated in the functional currency of an entity, are recognized in the consolidated statements of comprehensive income.

**(c) Fair value measurement**

A number of the Co-operative's accounting policies and disclosures require the measurement of fair value for both financial and non-financial assets and liabilities. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Co-operative characterizes inputs used in determining fair value using a hierarchy that prioritizes inputs depending on the degree to which they are observable. The three levels of the fair value hierarchy are as follows:

- Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 – valuation techniques for which the lowest level input that is significant to the fair value is directly or indirectly observable.
- Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The Co-operative recognizes transfers between levels of the hierarchy at the end of the reporting period during which the change has occurred.

**(d) Cash and cash equivalents**

Cash and cash equivalents consist of balances with financial institutions and investments in money market instruments which have a maturity of three months or less at the time of purchase.

**(e) Financial instruments**

*i. Initial measurement and classification*

The Co-operative initially measures and classifies financial assets and liabilities to reflect the segment in which they are managed and the related cash flow characteristics. Financial assets and liabilities are classified and measured either at amortized cost or fair value through profit or loss (FVTPL). Transaction costs directly attributable to the acquisition of financial assets or financial liabilities subsequently measured at FVTPL are recognized immediately in comprehensive income. If not subsequently measured at FVTPL, transaction costs are included in the fair value on initial recognition.

*ii. Derecognition*

The Co-operative derecognizes a financial asset when the contractual rights to the cash flow from the financial asset expire or it transfers the contractual rights to receive the cash flow. Any difference between the carrying amount of the asset and the consideration received is recognized in comprehensive income. The Co-operative derecognizes a financial liability when it is extinguished. Any difference between the carrying amount of the liability extinguished and the consideration paid is recognized in comprehensive income.

*iii. Non-derivative financial assets*

A financial asset is subsequently measured at amortized cost using the effective interest method and net of any impairment losses if:

- the asset is held within a segment with an objective to hold assets in order to collect contractual cash flows and
- the contractual terms of the financial assets give rise, on specified dates, to cash flows that are solely payments of principal and interest.

Financial assets other than those measured at amortized cost are subsequently measured at FVTPL. Financial assets are not reclassified subsequent to their initial recognition unless there is a change in the business model of managing them.

Financial assets measured at amortized cost are comprised of members and non-members accounts receivable and investments and advances. Financial assets measured at FVTPL comprise cash and cash equivalents and short-term investments. In addition, derivative financial instruments measured at FVTPL are included in non-members accounts receivable or accounts payable.

*iv. Non-derivative financial liabilities*

Financial liabilities other than those measured at amortized cost are subsequently measured at FVTPL.

Financial liabilities measured at amortized cost are comprised of accounts payable, members' funds and long-term debt. Financial liabilities measured at FVTPL are comprised of derivative financial instruments and are included in non-members accounts receivable or accounts payable.

*v. Derivative financial instruments*

The Co-operative uses derivative financial instruments, such as financial contracts, to manage exposure to fluctuations in commodity prices and foreign currency exchange rates, as part of its overall risk management program. The Co-operative's policy is not to use derivative financial instruments for speculative purposes. The Co-operative has chosen not to use hedge accounting for any derivative financial instruments. All derivative instruments are classified and recorded at fair value on the consolidated statements of financial position as either an asset or liability with changes in fair value recognized in comprehensive income. Realized gains or losses from financial derivatives are recognized as they occur. Unrealized gains or losses are recognized in comprehensive income at each respective reporting period. The fair value of these transactions is based upon the estimated amounts that would have been paid to, or received from, counterparties to settle the outstanding transactions with reference to the estimated future prices as of the reporting date.

Fixed-price commodity contracts entered into for the purpose of receipt or delivery in accordance with the Co-operative's expected purchase, sale or usage requirements are not considered to be derivative financial instruments.

*vi. Offsetting financial assets and liabilities*

Financial assets and liabilities are offset, and the net amount presented in the consolidated statements of financial position when the Co-operative has the legally enforceable right to set off the recognized amounts and it intends to realize the asset and settle the liability simultaneously. Assets and liabilities related to derivative instruments are currently offset.

**(f) Inventories**

Inventories are measured at the lower of cost and net realizable value. Cost is determined by the first-in, first-out method and the weighted average method. The cost of inventories includes all costs of acquisition, production or conversion and other costs incurred to bring them to their existing location and condition.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and selling. A write-down is recognized if the carrying amount exceeds net realizable value and may be reversed if the circumstances which caused it no longer exist.

**(g) Property, plant and equipment**

*i. Recognition and measurement*

Property, plant and equipment are measured at cost less accumulated depreciation, depletion and recognized impairment losses. Cost includes all expenditures directly attributable to bringing the asset to the location, installing it for its intended use and any related borrowing costs. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as major components.

*ii. Subsequent cost*

Subsequent expenditures are capitalized when it is probable that future economic benefit will flow to the Co-operative. When the cost of replacing part of an item of property, plant and equipment is capitalized, the carrying amount of the replaced part is derecognized. The costs of planned major inspection, overhaul and turnaround activities are capitalized when they benefit future years of operation. Repairs and maintenance costs are expensed as incurred. Any gain or loss arising on the disposal of an item is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognized in other income.

*iii. Borrowing costs*

The Co-operative capitalizes borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, as part of the cost of that asset until such time that the asset is substantially ready for its intended use or sale. The Co-operative identifies a qualifying asset as one that takes a minimum of one year to get ready for its intended use or sale. To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the Co-operative capitalizes the actual borrowing costs incurred on that borrowing during the period, less any investment income earned on the temporary investment of these borrowings. To the extent that a qualifying asset is funded generally, the Co-operative determines borrowing costs eligible for capitalization by applying the weighted average cost of borrowing for the period to the expenditures on that asset. All other borrowing costs are expensed in the period in which they occur.

*iv. Depreciation*

Items of property, plant and equipment are depreciated on a straight-line basis over the estimated useful life. Depreciation method, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

| Asset description | Estimated useful life (years) |
|---|---|
| Land and buildings | 50 |
| Equipment and fixtures | 3-30 |

*v. Oil and gas development costs*

The technical feasibility and commercial viability of extracting a resource is considered to be when proven reserves are determined to exist and management has determined with reasonable certainty that appropriate financial resources exist to proceed with development of the property. Depletion of oil and gas assets begins when the field or unit is ready to commence commercial operations as this is the point when economic benefit will be realized. Oil and gas properties are depleted using the units of production method over the proven and probable reserves. This results in a depletion charge that is proportional to the anticipated remaining production from the property.

*vi. Exploration and evaluation assets*

Exploration and evaluation costs, including the costs of acquiring licenses, geological studies, exploratory drilling and sampling, are initially capitalized as either tangible or intangible exploration and evaluation assets according to the nature of the assets acquired. The costs are accumulated in cost centres by geographical unit pending determination of technical feasibility and commercial viability. Successful expenditures are transferred to property, plant and equipment. Expenditures deemed to be unsuccessful are recognized in comprehensive income immediately. Pre-license costs are expensed as incurred.

**(h) Intangible assets**

*i. Supply agreements*

The Co-operative has exclusive supply agreements with various retail members to supply virtually all of their food, home and building solutions, ag solutions and energy product requirements. The supply agreements are initially measured at fair value using the discounted cash flow method. The supply agreements are subsequently measured at cost and amortized over the estimated useful life of the contracts, which range from 10 to 30 years, less any accumulated impairment losses.

*ii. Research and development*

Research is an original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge or understanding. Research costs are expensed as incurred.

Development activities involve a plan and design to produce new or substantially improved products and/or processes. Development costs are capitalized if they can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Co-operative intends to, and has sufficient resources to, complete the development and to use or sell the asset. Development costs capitalized include the costs directly attributable to preparing the asset for its intended use. Other development costs are expensed as incurred. Capitalized development costs are depreciated straight-line over the expected useful life of the project.

*iii. Goodwill*

Goodwill is carried at cost, is not amortized, and represents the excess of the purchase price over the fair value of the Co-operative's share of the net identifiable assets acquired through business combinations. Goodwill is assigned to appropriate CGUs or groups of CGUs and tested annually for impairment. Impairment losses are recognized in comprehensive income and are not subject to reversal.

**(i) Investment property**

Investment property is property held to earn rental income and/or for capital appreciation, but not held for sale in the ordinary course of business, used in the production or supply of goods or services, or for administrative purposes. Investment properties are measured initially at cost, including transaction costs, and subsequently at cost less accumulated depreciation and any accumulated impairment losses. Rental income and operating expenses from investment property are reported in comprehensive income. When the use of a property changes such that it is reclassified as property, plant and equipment, its net book value at the date of reclassification becomes its cost for subsequent accounting. Buildings classified as investment property are depreciated straight-line over the useful life of 50 years.

**(j) Leased assets**

*i. The Co-operative as lessor*

Leases that transfer substantially all of the risks and rewards of ownership are accounted for as finance leases. At commencement, a lease receivable at an amount equal to the net investment in the lease is recognized. Subsequently, lease income is recognized on a straight-line basis over the lease term. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Rental income from operating leases is recognized on a straight-line basis over the lease term.

*ii. The Co-operative as lessee*

A lease is a contract that conveys the right to control the use of an identified asset for a period of time. The Co-operative recognizes a right-of-use (ROU) asset and lease liability at an amount equal to the present value of the future lease payments on the lease commencement date. The discount rate used in the present value calculation is the interest rate implicit in the lease or, if the rate cannot be readily determined, the Co-operative's incremental borrowing rate. Lease costs are recognized in comprehensive income as depreciation of the ROU asset and finance costs of the lease liability. Lease liabilities are remeasured when there is a change in management's assessment of whether it will exercise a renewal or termination option or a change in future lease payments and ROU assets are adjusted by the same remeasurement amount. Leases with terms of less than twelve months, leases of low-value assets and contracts that do not contain a lease are charged to comprehensive income on a straight-line basis over the lease term.

**(k) Impairment**

*i. Non-financial assets*

At the end of each reporting period, the Co-operative reviews its tangible and intangible assets to determine whether there is any indication of impairment or impairment reversal. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any, or reversal of previously recorded impairment losses. Where it is not possible to estimate the recoverable amount of an individual asset, the Co-operative estimates the recoverable amount of the cash generating unit (CGU) to which the asset belongs. A CGU is the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs. Otherwise, corporate assets are allocated to the smallest group of CGUs for which a reasonable and consistent allocation base can be identified.

The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs of disposal. Value in use is assessed using the estimated future cash flows discounted to their present value using a pre-tax rate. Fair value less costs of disposal is the amount that would be obtained from the sale of the asset in an arm's length transaction between two knowledgeable and willing parties.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in comprehensive income.

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment losses been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately in comprehensive income. An impairment loss in respect to goodwill is not reversed.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

*ii. Financial assets*

The Co-operative determines impairment of financial assets measured at amortized cost using an expected credit loss model whereby a loss allowance is recorded that is either equal to the 12-month expected credit losses or, where the credit risk on that financial instrument has increased significantly since initial recognition, equal to the lifetime expected credit losses.

Evidence of an increase in credit risk includes default or delinquency by a debtor, restructuring of an amount due to the Co-operative on terms that the Co-operative would not consider otherwise, indications that a debtor or issuer will enter bankruptcy and the disappearance of an active market due to financial difficulty. An impairment loss with respect to a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in comprehensive income. Any decrease in impairment loss is reversed through comprehensive income, when an event occurring after the impairment was recognized causes the amount of impairment loss to decrease.

### (l) Employee benefits

*i. Defined contribution plan*

The Co-operative provides a defined contribution plan to qualifying employees. This is a post-employment plan under which the Co-operative pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. The cost of the pension benefits earned by employees in the defined contribution pension plans are expensed as incurred.

*ii. Defined benefit plan*

The Co-operative provides a defined benefit plan to certain employees at Consumers' Co-operative Refineries Limited (CCRL) in Regina. The cost of the benefits earned by employees is determined by a qualified actuary using the projected unit credit method based on service and management's best estimate of demographic and financial assumptions. The Co-operative accrues its obligations under the plan and the related costs, net of plan assets. The plan assets are valued at fair value. The Co-operative recognizes actuarial gains or losses immediately in other comprehensive income (OCI) which are then transferred directly to retained earnings. Changes in the present value of the defined benefit obligation resulting from plan amendments, settlements and curtailments are recognized when they occur in comprehensive income as past service costs. The defined benefit asset or liability is comprised of the present value of the defined benefit obligation and the fair value of plan assets from which the obligations are to be settled. Plan assets are measured at fair value based on the closing bid price when there is a quoted price in an active market. Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the Co-operative's creditors. Defined benefit obligations are estimated by discounting expected future payments using the year-end market rate of interest for high-quality corporate debt instruments with cash flows that match the timing and amount of expected benefit payments.

*iii. Retirement allowance*

The Co-operative is committed to providing certain employees at CCRL with a retirement allowance. The entitlement to these benefits is conditional on the employee remaining in service up to their retirement age. The expected cost of these benefits was estimated using management's best estimate of service years of the qualifying employees. This obligation is re-valued annually and changes are recognized in OCI.

### (m) Provisions – Asset retirement obligations

A provision is recognized if, as a result of a past event, the Co-operative has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognized for asset retirement obligations (ARO) associated with the Co-operative's oil and gas assets and the participation of retail members in the contaminated site management program. No provision for AROs has been accrued for the facilities at CCRL and the ethanol complex as the expected timing of the reclamation activity cannot be estimated at this time. Provisions for AROs are measured at the present value of management's best estimate of future cash flows required to settle the present obligation at the balance sheet date, discounted using a risk adjusted rate. The liability is recorded in the period in which the obligation arises with a corresponding increase to the carrying value of the related asset. The liability is accreted over time as the effect of discounting unwinds; this expense is recognized as a finance cost. The costs capitalized to the related asset are depreciated in a manner consistent with the depreciation of the underlying asset. Changes in the estimated liability resulting from revisions to estimated timing of decommissioning, expected amount of cash flows or changes in the discount rate are recognized as a change in the ARO and the related asset retirement cost. Actual reclamation expenditures are charged against the provision as they are incurred.

### (n) Revenue recognition

*i. Sale of goods and services*

Revenue is recognized when the Co-operative satisfies the performance obligations in its contracts by transferring control of a product or service to its customers. Revenue for the sale of goods is recognized upon delivery to the customer. Revenue for the sale of services is recognized when the promised service is rendered. Revenue is measured at the fair value of the consideration received or receivable, net of returns, discounts and rebates. When the amount of these returns, discounts and rebates are probable and can be measured reliably, they are recognized as a reduction of revenue as the sales are recognized. The pricing of the Co-operative's sales contracts with customers are generally fixed, with the exception of energy products, which are based on market-related pricing. No significant element of financing is deemed present due to the short-term nature of the sales contracts. Due to the nature of the business, the Co-operative does not generally have warranty claims that are not passed through to the end customer.

*ii. Co-op gift cards*

The Co-operative administers all gift cards on behalf of its retail members. When a Co-op gift card is purchased by an individual customer, the Co-operative recognizes a liability in accounts payable when it receives the corresponding cash from the retail members. Upon recognition of the liability, management recognizes a percentage as income based on the historical experience of unredeemed gift cards at the time of the gift card sale. The percentage recognized as income is reviewed annually and adjusted based on changes in experience. When a Co-op gift card is redeemed, the Co-operative reduces the corresponding gift card liability and reimburses the retail member.

*iii. Other revenue*

Interest income is recognized as it accrues as other income, using the effective interest method. Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

Government grants are recognized at their fair value where there is reasonable assurance that the grant will be received, and the Co-operative will meet the attached conditions. When the grant relates to an expense item, it is recognized as income over the period necessary to match the grant with the costs that it is intended to compensate. Government grants are recognized in other income.

### (o) Income taxes

Income tax is comprised of current and deferred tax. Current and deferred tax is recognized in comprehensive income except to the extent that it relates to a business combination or is recognized directly in equity or OCI.

*i. Current tax*

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using the tax rates enacted or substantively enacted at the reporting date, and any adjustments to income taxes payable in respect to previous years.

*ii. Deferred tax*

Deferred tax is recognized in respect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on tax rates enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. The carrying amount of a deferred tax asset is reviewed at each reporting period and reduced to the extent that it is no longer probable that the related tax benefit will be realized.

**(p) Segment reporting**

An operating segment is a component of the Co-operative that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses with other operating segments. To be classified as a segment, discrete financial information must be available and operating results must be reviewed by the chief operating decision-maker.

**(q) Business combinations**

Business combinations are accounted for using the acquisition method of accounting, in which the identifiable net assets acquired and liabilities assumed are recognized and measured at their fair value at the acquisition date. For each business combination, the Co-operative recognizes any non-controlling interest in the acquired entity either at fair value or at the proportionate share of the acquired entity's net identifiable assets. Any excess of the purchase price for each acquisition plus any non-controlling interest in the acquired entity, over the fair value of the net identifiable assets acquired, is recognized as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognized directly in profit or loss as a bargain purchase. Transaction costs are expensed as incurred.

**(r) Assets held for sale**

The Co-operative classifies a non-current asset or group of assets and related liabilities (a disposal group) as held for sale when, amongst other things, the Co-operative has committed to a plan of disposition, the asset is available for immediate sale, the plan is not expected to change significantly, and the sale is expected to occur within one year. The held for sale assets or disposal groups are presented separately on the consolidated statements of financial position. The assets or disposal groups are measured at the lower of their carrying amount and estimated fair value less costs of disposal. Impairment losses on initial classification or reversals of past impairment losses and subsequent gains or losses on remeasurement are recognized in comprehensive income. When the assets or disposal groups are sold, the gains or losses on the sale are recognized in gain or loss on disposal of assets. Assets classified as held for sale are not depreciated, depleted or amortized.

## NOTE 4 Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and judgments that affect the application of accounting policies and the reported amount of assets, liabilities, revenues, expenses, gains and losses. Accordingly, actual results may differ from estimated amounts as future confirming events occur. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future period affected. Significant estimates and judgments used in the preparation of the consolidated financial statements are described below.

**(a) Useful lives of property, plant and equipment, and intangible assets**

Property, plant and equipment, and intangible assets represent a significant portion of the Co-operative's total assets. Changes in the use of the asset may cause the estimated useful lives of these assets to change. These useful lives are reviewed annually and any adjustment to depreciation is made prospectively.

**(b) Recoverability of long-lived tangible and intangible assets**

The Co-operative assesses each asset or CGU at each reporting period to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs of disposal and value in use. The assessments require the use of estimates and assumptions such as long-term prices, discount rates, operating costs, future capital requirements, future viability of retail stores, decommissioning costs, operating performance and, in the case of oil and gas properties, exploration potential and reserves information. These estimates and assumptions are subject to risk and uncertainty. Therefore, there is a possibility that changes in circumstances will impact these projections, which may impact the recoverable amount of assets and/or CGUs. Judgment is required when determining what constitutes a CGU.

**(c) Reserve and resource estimates**

Reserves are estimates of the amount of hydrocarbons that can be economically and legally extracted from the Co-operative's oil and gas properties. The Co-operative estimates its commercial reserves and resources based on information compiled by appropriately qualified persons relating to the geological and technical data on the size, depth, shape and grade of the reserve body and suitable production techniques and recovery rates. Future development costs are estimated using assumptions as to the number of wells required to produce the commercial reserves, the cost of such wells and associated production facilities and other capital costs. As the economic assumptions used may change and as additional geological information is obtained during the operation of a field, estimates of recoverable reserves may change. Such changes may impact the Co-operative's reported financial position and results.

**(d) Exploration and evaluation expenditures**

The application of the Co-operative's accounting policy for exploration and evaluation expenditures requires judgment to determine whether future economic benefits are likely, either from future exploration or sale, or whether activities have reached a stage which permits a reasonable assessment of the existence of reserves. Any such estimates and assumptions may change as new information becomes available. If, after an expenditure is capitalized, information becomes available suggesting that the recovery of the expenditure is unlikely, the relevant capitalized amount is written off in comprehensive income.

**(e) Decommissioning and reclamation provision**

Significant decommissioning and reclamation activities are not undertaken until near the end of the useful life of the asset. Actual costs are uncertain and the estimate can vary as a result of changes to regulations, the emergence of new technology, operating experience, prices and reclamation plans. A significant change to the estimated costs, discount rate or useful lives of the assets may result in a material change in the amount presented on the consolidated financial statements. The liability at the reporting date represents management's best estimate of the present value of the future decommissioning costs required.

**(f) Deferred tax**

The Co-operative operates in a number of tax jurisdictions and is required to estimate income taxes in each of these jurisdictions in preparing its consolidated financial statements. In this calculation, consideration is given to factors such as tax rates in the different jurisdictions, non-deductible expenses, allowances, changes in tax law and management's expectations about future results. The Co-operative estimates deferred taxes based on temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The effect of these differences is recorded as deferred tax assets or liabilities in the consolidated financial statements.

**(g) Leases**

Management applies judgment in determining whether a contract is, or contains, a lease from both a lessee and lessor perspective. This assessment is based on whether the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Key judgments include whether a contract identifies an asset (or portion of an asset), whether the lessee obtains substantially all the economic benefits of the asset over the contract term and whether the lessee has the right to direct the asset's use. Judgment is also applied in determining the interest rate used to discount the present value of fixed payments in accounting for the lease liability and corresponding ROU asset, and in determining whether it is likely that a lease term will be extended.

**(h) Pension benefits**

The determination of the cost of the defined benefit pension plan reflects a number of assumptions that affect the expected future benefit payments. The valuation of these plans is prepared by an independent actuary engaged by the Co-operative. These assumptions include, but are not limited to, the estimate of expected plan investment performance, salary escalation, retirement age, attrition and mortality. The fair value of the plan assets is used for the purposes of calculating the expected return on plan assets. Mortality rates are based on the latest available standard mortality tables. The assumptions are reviewed each year and are adjusted where necessary to reflect changes in fund experience and actuarial recommendations. The rate of return on pension plan assets is based on a projection of real long-term bond yields and an equity risk premium, which are combined with inflation assumptions and applied to the actual asset mix of each plan. The amount of the expected return on plan assets is calculated using the expected rate of return for the year and the fair value of assets at the beginning of the year. Future salary increases are based on expected future inflation rates.

**(i) Retirement allowance**

The determination of the retirement allowance reflects a number of assumptions. The liability reflects management's best estimate of the expected future payments. Assumptions include retirement age, attrition and discount rates. The assumptions are reviewed annually and adjusted where necessary.

**(j) Fair value of financial instruments**

Where the fair value of financial assets and financial liabilities recorded in the consolidated statements of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments and reported expenses and income.

**(k) Business combinations**

The Co-operative uses judgment in applying the acquisition method of accounting for business combinations and estimates to value identifiable assets and liabilities at the acquisition date. The Co-operative may engage independent third parties to determine the fair value of property, plant and equipment, and intangible assets. Estimates are used to determine cash flow projections, including the period of future benefit, and future growth and discount rates, among other factors. The values placed on the acquired assets and liabilities assumed affect the amount of goodwill recorded on an acquisition.

## NOTE 5 New standards and interpretations adopted and not yet adopted

**(a) New standards adopted**

The IASB and IFRS Interpretations Committee ("IFRIC") have issued certain standards and amendments or interpretations to existing standards that were effective for the Co-operative on November 1, 2020. The transition to the accounting pronouncements as listed below had no material impact on the Co-operative.

*(i) Amendments to IFRS 3, Business Combinations – Definition of a Business*

This amendment introduced a narrowed definition of a business, which could result in the recognition of fewer business combinations than under the previous standard. The implication is that amounts which may have been recognized as goodwill in a business combination under the previous standard may now be recognized as allocations to net identifiable assets acquired under the amended standard. The Co-operative has applied the updated definition to business acquisitions completed after November 1, 2020. The adoption of this amendment has no material impact on the Co-operative.

**(b) New standards and interpretations not yet adopted**

The IASB has issued the following standards that were not yet effective as at October 31, 2021.

*i. IFRS 17, Insurance Contracts*

This standard is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. This standard will be effective for the Co-operative on November 1, 2023. The Co-operative is evaluating the impact, if any, of the new standard.

*ii. Amendments to IFRS 16 – Coronavirus (COVID-19) Related Rent Concessions beyond June 30, 2021*

This amendment was issued to provide a one-year extension to the practical expedient for COVID-19 rent concessions under IFRS 16. This amendment will be effective for the Co-operative on November 1, 2021. The Co-operative is evaluating the impact, if any, of the amendment.

*iii. Amendments to IAS 8 – Definition of Accounting Estimate*

This amendment was issued to clarify the definition of an accounting estimate and distinction from an accounting policy. The distinction is important, as changes in accounting policies are accounted for retrospectively, while changes in accounting estimates are accounted for prospectively. The amendment is aimed to reduce the diversity of application in practice. This standard will be effective for the Co-operative on November 1, 2023. The Co-operative is evaluating the impact, if any, of the amendment.

For the years ended October 31, 2021 and 2020 (in millions of Canadian dollars except as noted)

## NOTE 6 Inventories

| | 2021 | 2020 |
|---|---|---|
| Manufactured product | **536** | 292 |
| Goods purchased for resale | **339** | 303 |
| Parts and supplies | **48** | 25 |
| | **923** | 620 |

In 2021, write-downs of inventory to net realizable value amounted to $18 (2020 – $nil) and were included in cost of products sold.

## NOTE 7 Investments and advances

| | 2021 | 2020 |
|---|---|---|
| **Investments:** | | |
| The Co-operators Group Limited | **2** | 2 |
| Interprovincial Cooperative Limited | **1** | 1 |
| Other | **1** | 1 |
| **Advances:** | | |
| Retail lending program | **204** | 315 |
| Finance agreements | **1** | 4 |
| | **209** | 323 |
| Less: current portion | **(61)** | (81) |
| | **148** | 242 |

## NOTE 8 Joint operations

The Co-operative conducts a portion of its oil and gas exploration, development and production through joint operations. The Co-operative has a range of interests in jointly controlled wells, both where it is not the operator and where it is the operator. The Co-operative records its share of the assets, liabilities, revenues and expenses in the consolidated financial statements grouped in the Energy segment.

## NOTE 9 Property, plant and equipment

| | 2021 | 2020 |
|---|---|---|
| Wholesaling | **627** | 628 |
| Manufacturing | **2,795** | 3,026 |
| Assets under construction | **240** | 254 |
| **Net book value** | **3,662** | 3,908 |

| | Land and buildings | Equipment and fixtures | Assets under construction | Development and production assets | Exploration and evaluation assets | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At October 31, 2019 | 531 | 6,463 | 324 | 505 | 12 | 7,835 |
| Additions | 20 | 56 | 138 | 25 | - | 239 |
| Disposals | - | (109) | - | - | - | (109) |
| Transfers | 26 | 175 | (201) | 1 | (1) | - |
| Changes in ARO estimates | 15 | - | - | (3) | - | 12 |
| At October 31, 2020 | 592 | 6,585 | 261 | 528 | 11 | 7,977 |
| Additions | 11 | 112 | 157 | 8 | - | 288 |
| Disposals | (1) | (161) | - | - | - | (162) |
| Transfers | 8 | 106 | (171) | - | - | (57) |
| Transfers to assets held for sale (Note 28) | - | - | - | (536) | - | (536) |
| Acquisitions | 31 | 5 | - | - | - | 36 |
| Changes in ARO estimates | (17) | - | - | - | - | (17) |
| At October 31, 2021 | 624 | 6,647 | 247 | - | 11 | 7,529 |
| **Accumulated depreciation and depletion** | | | | | | |
| At October 31, 2019 | 196 | 3,157 | - | 338 | - | 3,691 |
| Depreciation and depletion | 12 | 367 | - | 29 | - | 408 |
| Disposals | - | (104) | - | - | - | (104) |
| Impairment losses | 5 | - | 7 | 59 | 3 | 74 |
| At October 31, 2020 | 213 | 3,420 | 7 | 426 | 3 | 4,069 |
| Depreciation and depletion | 10 | 374 | - | 17 | - | 401 |
| Disposals | (1) | (159) | - | - | - | (160) |
| Transfers | (2) | - | - | - | - | (2) |
| Transfers to assets held for sale (Note 28) | - | - | - | (429) | - | (429) |
| Impairment (reversals) losses | (9) | 3 | - | (14) | 8 | (12) |
| At October 31, 2021 | 211 | 3,638 | 7 | - | 11 | 3,867 |
| **Net book value at October 31, 2021** | **413** | **3,009** | **240** | **-** | **-** | **3,662** |
| Net book value at October 31, 2020 | 379 | 3,165 | 254 | 102 | 8 | 3,908 |

For the years ended October 31, 2021 and 2020 (in millions of Canadian dollars except as noted)

**Capitalized borrowing costs**

Capitalized borrowing costs related to property, plant and equipment amounted to $2 (2020 - $3), with a capitalization rate of 2.05% (2020 - 2.31%).

**Acquisitions**

Through a series of transactions that closed on July 30, 2021, the Co-operative and Blair's Family of Companies created a new company, Blair's Crop Solutions (2020) Inc., with 80% interest held by the Co-operative and 20% interest held by Blair's Fertilizer Ltd. Blair's Crop Solutions (2020) Inc. supplies crop, fertilizer and farm related products.

The following table summarizes the allocation of the purchase price to the fair value of the net assets acquired:

| | 2021 |
|---|---|
| Cash consideration transferred | 32 |
| Non-controlling interest | 8 |
| Total consideration and non-controlling interest | 40 |
| The fair value of assets acquired and liabilities assumed are as follows: | |
| Inventories | 17 |
| Property and equipment | 36 |
| Accounts payable | (17) |
| Total net identifiable assets | 36 |
| Goodwill (Note 11) | 4 |

The Co-operative incurred acquisition costs of $1 relating to external legal fees and due diligence costs. These costs have been expensed in the consolidated statements of comprehensive income.

**Impairment testing of other non-current assets**

In 2021, the Co-operative recorded a capital spare parts impairment of $3 (2020 - $nil) and an impairment reversal of $9 (2020 - loss of $5) on asset retirement costs previously capitalized in the Energy segment. The 2020 impairment is related to sites that became vacant during the year and therefore have no value in use. The 2021 impairment reversal is related to previously vacant sites that became active during the year. In 2021, the Co-operative also recorded an impairment reversal of $14 (2020 - loss of $59) on development and production assets in the Energy segment related to the Saskatchewan and Alberta crude oil CGUs due to the change in estimated reserve volumes, increasing production rates and increasing price assumptions. Impairment of $8 (2020 - $3) was recognized on exploration and evaluation assets in the Energy segment related to the Saskatchewan crude oil CGU due to expiration of leases. The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs of disposal. Value in use is assessed using the estimated future cash flows discounted to their present value using a pre-tax rate. The recoverable amount of $107 for development and production assets represent the reserve's fair value less cost of disposal calculated as the tax effected price that is expected to be received to sell the assets in an orderly transaction between market participants. The fair value is categorized within Level 1 of the fair value hierarchy. In 2020, the recoverable amount of $102 for development and production assets represented the reserve's fair value less cost of disposal calculated using a discount rate of 10%. The fair value was categorized within Level 3 of the fair value hierarchy.

Over the past several years, the Co-operative has undertaken a number of foundational technology projects that require significant development costs. During the year, it was determined that no indictors of impairment existed. In 2020, it was determined that $7 of these development costs were not recoverable. This impairment cost is administrative in nature and is allocated to all reportable segments. There was no reversal of impairment recognized in 2020 or 2021.

**Changes in accounting estimates**

In 2021, the Co-operative changed the estimated useful lives of certain assets in the Energy segment, in response to changing government regulations and consumer trends toward a low-carbon economy. The reduction in useful lives resulted in an additional $18 of annual depreciation expense beginning in 2021.

## NOTE 10 Investment property

| | **2021** | 2020 |
|---|---|---|
| **Cost** | | |
| Balance, beginning of year | **43** | 44 |
| Disposals | **-** | (2) |
| Transfers from property, plant and equipment | **10** | 1 |
| Balance, end of year | **53** | 43 |
| **Accumulated depreciation** | | |
| Balance, beginning of year | **18** | 18 |
| Depreciation | **1** | 1 |
| Disposals | **-** | (2) |
| Transfers from property, plant and equipment | **2** | 1 |
| Balance, end of year | **21** | 18 |
| **Net book value, end of year** | **32** | 25 |

Net rental income from investment properties recognized in other income was $8 (2020 - $7).

The fair value of investment properties at October 31, 2021 was $60 (2020 - $42). This recurring fair value measurement is categorized within Level 3 of the fair value hierarchy. The fair value of investment properties was determined using the appraisal value when available, or a discounted cash flow of the future lease payments on the investment properties. A market valuation by the Co-operative's internal expert was performed on idle land that was not currently leased. No independent valuation was performed on any of the investment properties.

## NOTE 11 Intangible assets

| | 2021 | 2020 |
|---|---|---|
| **Cost** | | |
| Balance, beginning of year | **272** | 256 |
| Additions[1, 2] | **25** | 19 |
| Disposals | **-** | (3) |
| Balance, end of year | **297** | 272 |
| **Accumulated amortization** | | |
| Balance, beginning of year | **84** | 58 |
| Amortization | **11** | 7 |
| Impairment | **-** | 19 |
| Balance, end of year | **95** | 84 |
| **Net book value, end of year** | **202** | **188** |

[1]The accruals for supply agreements were $18 (2020 - $22). This is a non-cash reduction to the accrual of $4 (2020 - $2) in the year.
[2]Includes $4 of goodwill related to the acquisition discussed in Note 9.

**Impairment**

In 2021, the Co-operative recognized an impairment loss of $nil (2020 - $19). The 2020 impairment loss relates to renovation costs for stores under existing supply agreements that were previously capitalized in the Food segment in multiple CGUs. The Co-operative performed its annual impairment test for goodwill, and no impairment was identified. The CGU's recoverable amount was determined on a fair value less costs of disposal approach.

## NOTE 12 Borrowing

The Co-operative's borrowings are measured at amortized cost.

| | 2021 | 2020 |
|---|---|---|
| Members' funds | **463** | 321 |
| Long-term debt (less net unamortized debt issue costs) | **299** | 299 |
| **Total borrowing** | **762** | 620 |

**Bank indebtedness**

Bank indebtedness consists of an unsecured revolving credit facility, with a maturity date of February 19, 2024. The Co-operative can draw on the credit facility to a maximum of $150. As at October 31, 2021, no amount was drawn under the credit facility (2020 - $nil).

**Members' funds**

| | 2021 | 2020 |
|---|---|---|
| Balance, beginning of year | **321** | 255 |
| Proceeds | **4,714** | 4,201 |
| Repayments | **(4,572)** | (4,135) |
| **Balance, end of year** | **463** | 321 |

Members' funds accumulate interest at a rate of prime less 1.10% (2020 - prime less 1.15%) and are repayable on demand.

**Long-term debt**

In June 2015, the Co-operative issued unsecured Series 2015-1 notes for gross proceeds of $300. The notes are due on June 17, 2025, bear interest at 3.917% per annum and require semi-annual interest only payments.

The Co-operative may, at its option, redeem all or part of the notes at any time prior to maturity by paying accrued and outstanding interest, plus the greater of the face amount of the notes and the price which provides a yield equal to the yield to maturity of a Government of Canada bond with a term to maturity equal to the remaining term on the notes, plus 0.5%.

In conjunction with closing of the note offering, issue costs of $2.5 were incurred. These costs reduce the carrying value of the notes and are amortized over the expected life of the notes using the effective interest rate method, resulting in an effective rate of 4.0%. As at October 31, 2021, unamortized debt issue costs totaled $1 (2020 - $1).

## NOTE 13 Asset retirement obligations

The Co-operative's decommissioning liabilities consist of reclamation and closure costs. The obligations were determined using an inflation rate of 2% (2020 - 2%) and discount rates ranging from 0.71% to 4% (2020 - 0.24% to 4%). The Co-operative estimates the total undiscounted payments of future obligations to be $233 (2020 - $243) which will be incurred over the next one to 50 years.

While the provision is based on the best estimate of future costs, discount rates and the economic lives of the underlying assets, there is uncertainty regarding the amount and timing of these costs.

| | 2021 | 2020 |
|---|---|---|
| Balance, beginning of year | **173** | 155 |
| Additions | **1** | 6 |
| Settlement of asset retirement obligations | **(8)** | (5) |
| Change in estimate and discount rates | **(17)** | 12 |
| Accretion expense (Note 19) | **5** | 5 |
| Transfer to liabilities related to assets held for sale (Note 28) | **(44)** | - |
| **Balance, end of year** | **110** | 173 |

For the years ended October 31, 2021 and 2020 (in millions of Canadian dollars except as noted)

## NOTE 14 Members' share capital

The Co-operative is authorized to issue an unlimited number of member shares of $100 (in dollars) par value each. Under certain circumstances and with the approval of the Board of Directors, member shares may be redeemed at par value.

| (Thousands of shares) | 2021 | 2020 |
|---|---|---|
| Balance, beginning of year | 17,055 | 20,860 |
| Shares issued for current year's patronage allocation | 3,534 | 1,175 |
| Shares redeemed | (1,126) | (4,980) |
| **Balance, end of year** | 19,463 | 17,055 |

## NOTE 15 Pension liability

| | 2021 | 2020 |
|---|---|---|
| Defined benefit plan (asset) liability | (7) | 118 |
| Retirement allowance | 63 | 48 |
| **Total** | 56 | 166 |

**(a) Defined contribution plan**

The Co-operative provides a defined contribution plan, with costs charged to comprehensive income for services rendered by employees during the year. With this plan, the Co-operative and the majority of its employees make contributions to one multi-employer defined contribution plan. The Co-operative's total contribution expense for these plans in 2021 was $16 (2020 - $14).

**(b) Defined benefit plan**

The defined benefit plan covers certain non-management employees at CCRL in Regina. The plan provides pensions based on the number of years in service and the average of the best three years earnings. Employees contribute to the plan, as discussed below under *plan amendments*.

The costs of the Co-operative's defined benefit plan are determined periodically by independent actuaries, with results as of December 31, 2019 and extrapolated to October 31, 2021. The costs charged to comprehensive income for the year include the costs for benefits provided for services rendered during the year, using the projected unit credit method pro-rated on services. Actuarial gains or losses are recognized in OCI as incurred.

A reconciliation of the funded status of the benefits plan to the consolidated financial statements is as follows:

| | 2021 | 2020 |
|---|---|---|
| **Plan assets** | | |
| Fair value, beginning of year | 514 | 588 |
| Employer contributions | 23 | 47 |
| Employee contributions | 3 | 1 |
| Benefits paid (See *pension curtailment*) | (18) | (133) |
| Settlement payments | (208) | - |
| Expected return on plan assets | 14 | 18 |
| Actuarial gains (losses) | 16 | (7) |
| **Fair value, end of year** | 344 | 514 |
| **Accrued benefit obligation** | | |
| Balance, beginning of year | 632 | 712 |
| Current service cost | 10 | 16 |
| Past service cost | (47) | - |
| Interest cost | 17 | 22 |
| Benefits paid (See *pension curtailment*) | (18) | (133) |
| Settlement payments | (208) | - |
| Employee contributions | 3 | 1 |
| Remeasurement (gains) losses | (55) | 14 |
| **Balance, end of year** | 334 | 632 |
| **Funded status** | 10 | (118) |
| Effect of asset ceiling | (3) | - |
| **Net pension asset (liability)** | 7 | (118) |

The actual return on plan assets for the year ended October 31, 2021 was a gain of $30 (2020 - gain of $11).

The total actuarial gain recognized in OCI net of tax in 2021 was $51 (2020 - loss of $15). The total actuarial gains and losses are not reclassified to comprehensive income.

The expense recognized for the defined benefit plan and the retirement allowance is as follows:

| | 2021 | 2020 |
|---|---|---|
| Current service cost | **10** | 16 |
| Interest on accrued benefit obligation | **17** | 22 |
| Expected return on plan assets | **(14)** | (18) |
| Retirement allowance (c) | **20** | 2 |
| **Total** | **33** | 22 |

*Pension curtailment*

A partial plan termination for certain non-management employees of the defined benefit plan was effective January 1, 2021. In 2021, benefits for non-management employees were settled, either through a lump sum transfer or an annuity purchase, and as such the obligation at October 31, 2021 for this group is $nil. Any differences between the amounts settled and the obligation held at the end of the previous fiscal year is considered an experience adjustment through OCI. See discussion below on the retirement allowance.

*Plan amendments*

As a result of ratification of the collective bargaining agreement on June 22, 2020, the following amendments to the defined benefit plan for non-management employees were effective:

*i. Employee contributions*

As of ratification, employee members were required to contribute 4% of pensionable earnings toward their current service cost. These contributions increase to 8% of pensionable earnings towards their current service costs on February 1, 2021 and will further increase to 50% of the current service cost effective February 1, 2022, based on the most recently filed actuarial valuation of the defined benefit plan for funding purposes. The effect of this change is reflected in the results for 2021.

*ii. Pension choice*

Non-management employee members were given a one-time option to join the defined contribution plan effective January 1, 2021 or remain in the defined benefit plan and contribute as detailed above. Employees who chose to transition to the defined contribution plan had the option to either transfer the commuted value of their accrued benefit or have an annuity purchased on their behalf in the same amount. These members are also eligible for a contingent retirement allowance with terms consistent with the retirement allowance for management employees. The effect of this change is reflected in the results for 2021.

*iii. Buy-in conversion*

The plan was amended effective December 31, 2020 to permit members covered by the group annuity buy-in policy to choose between continuing to receive their pension benefit through the group annuity buy-in or to have their pension benefit converted to a buy-out annuity with a third-party. Members electing the buy-out annuity receive pensions directly from the third-party effective June 1, 2021. The effect of this change is $nil.

*Actuarial assumptions*

The cost of the Co-operative's defined benefit plan is determined periodically by independent actuaries, using the projected unit credit method of valuation. The significant actuarial assumptions were as follows:

| | 2021 | 2020 |
|---|---|---|
| Discount rate – obligation | **3.60%** | 3.00% |
| Discount rate – expense | **3.00%** | 3.20% |
| Rate of compensation increase | **3.00%** | 3.00% |
| Expected return on plan assets | **3.60%** | 3.00% |

The discount rate to be used in the determination of the pension cost is to be based on the yield at the beginning of the year on high-grade corporate bonds of similar duration to the plan's liabilities.

Expected return on plan assets is the expected long-term rate of return on plan assets for the year and is based on plan assets at the beginning of the year that have been adjusted on a weighted average basis for contributions and benefit payments expected for that year.

The composition of the defined benefit pension plan assets as at October 31, 2021 and 2020 was as follows:

| | 2021 | 2020 |
|---|---|---|
| Fixed income securities | **66%** | 59% |
| Equity instruments | **31%** | 34% |
| Money market | **3%** | 7% |
| **Total** | **100%** | 100% |

The Co-operative expects to make cash contributions to its defined benefit pension plan in 2022 of $14.

**(c) Retirement allowance**

The entitlement to this benefit is conditional on the employee remaining in service up to their retirement age. This allowance is treated like a defined benefit obligation for accounting purposes. Assumptions that influence the calculation of the obligation are the ages of the employees included in the allowance, their likelihood to still be employed at CCRL upon retirement and the discount rate used. The allowance is not impacted by changes in salaries as these are fixed at the time of the settlement of the previous defined benefit obligation.

| | 2021 | 2020 |
|---|---|---|
| **Accrued benefit obligation** | | |
| Balance, beginning of the year | **48** | 44 |
| Past service costs | **17** | - |
| Interest cost | **1** | 2 |
| Remeasurement (gains) losses | **(3)** | 2 |
| **Balance, end of year** | **63** | 48 |

The total actuarial gain recognized in OCI net of tax in 2021 was $2 (2020 - loss of $2). The total actuarial gains and losses are not reclassified to comprehensive income.

*Actuarial assumptions*

The cost of the Co-operative's retirement allowance is determined periodically by independent actuaries. The present value of the expected obligation was discounted at 3.20% (2020 - 3.00%) and the retirement allowance cost at 3.60% (2020 - 3.20%).

The Co-operative expects to make cash payments against its retirement allowance in 2022 up to a maximum of $13.

**(d) Actuarial sensitivities**

The sensitivity of the defined benefit obligation to changes in relevant actuarial assumptions is:

| | 2021 | 2020 |
|---|---|---|
| **Increase (decrease) in defined benefit obligation** | | |
| Discount rate | | |
| 1% increase | **(56)** | (112) |
| 1% decrease | **73** | 153 |
| Rate of compensation increase | | |
| 1% increase | **16** | 40 |
| 1% decrease | **(18)** | (38) |

The sensitivity analysis provided in the table above is hypothetical and should be used with caution. The sensitivities of each key assumption have been calculated independent of any changes in other key assumptions. Actual experience may result in changes in a number of key assumptions simultaneously. Changes in one factor may result in changes in another, which could amplify or reduce the impact of such assumptions.

For the years ended October 31, 2021 and 2020 (in millions of Canadian dollars except as noted)

## NOTE 16 Other expense/(income)

| | 2021 | 2020 |
|---|---|---|
| Canadian Emergency Wage Subsidy[1] | (40) | - |
| Interest income | (23) | (40) |
| Rental income (Note 10) | (8) | (7) |
| Gain on disposal of property, plant and equipment | (2) | - |
| Other miscellaneous | 2 | (3) |
| | (71) | (50) |

[1]In 2021, the Co-operative recognized $40 of Canadian Emergency Wage Subsidy in other income related to wages and salaries incurred during the period. There were no unfulfilled conditions as of October 31, 2021. The amount recognized is subject to the results of the Canada Revenue Agency's audit, which are uncertain.

## NOTE 17 Expenses by nature

| | 2021 | 2020 |
|---|---|---|
| Changes in inventory | 7,159 | 6,473 |
| Personnel expenses (Note 18) | 422 | 383 |
| Depreciation, depletion and amortization (Notes 9, 10, 11) | 413 | 416 |
| Other expenses | 296 | 410 |
| Loyalty payments | 180 | 185 |
| Finance costs (Note 19) | 22 | 22 |
| Impairment (reversals) losses (Notes 9, 11) | (12) | 93 |
| | 8,480 | 7,982 |

*Loyalty payments*

On November 1, 2019, the Co-operative entered into agreements with the majority of its retail members related to a loyalty payment which provides its retail members more timely cash flows. Provided the retail member uses the Co-operative's centralized services and purchases from the Co-operative 90% or more of their goods for resale that the Co-operative supplies, the Co-operative pays a quarterly amount calculated on a formula based on litres of fuel purchased at an established rate per litre. The amount per litre may vary year to year.

Expenses by nature reconcile to the consolidated statements of comprehensive income as follows:

| | 2021 | 2020 |
|---|---|---|
| Cost of products sold | 7,790 | 7,191 |
| Operating and administration expenses | 500 | 491 |
| Loyalty payments | 180 | 185 |
| Finance costs | 22 | 22 |
| Impairments (reversals) losses | (12) | 93 |
| | 8,480 | 7,982 |

## NOTE 18 Personnel expenses

The following personnel expenses are included in cost of products sold and operating and administration expenses:

| | 2021 | 2020 |
|---|---|---|
| Wages and salaries | 384 | 314 |
| Statutory and other company benefits | 36 | 33 |
| Expenses related to defined benefit plan (Note 15) | 33 | 22 |
| Expenses related to past service costs (Note 15) | (47) | - |
| Contributions to defined contribution plan (Note 15) | 16 | 14 |
| | 422 | 383 |

## NOTE 19 Finance costs

| | 2021 | 2020 |
|---|---|---|
| Interest expenses | 16 | 16 |
| Accretion of asset retirement obligations (Note 13) | 5 | 5 |
| Interest expenses on lease liabilities (Note 20) | 1 | 1 |
| | 22 | 22 |

## NOTE 20 Leases

**The Co-operative as lessor**

The Co-operative is party to a number of leases involving its investment properties including land, building/store facilities, gas bars, propane tanks and warehouses.

Payments received under these operating leases are recognized in other income with net rental income totaling $8 (2020 - $7) for the year ended October 31, 2021. Of this operating lease income recognized, $4 (2020 - $4) was contingent income based on gross sales and/or fuel sales of the lessee.

The investment property leases have lease terms between one and 25 years. Substantially all of these leases have renewal options for additional terms based on market rates. There is no option to purchase the property at the end of the lease term.

The future minimum lease receipts of the operating leases are:

| < 1 year | 1-5 years | > 5 years | Total |
|---|---|---|---|
| 4 | 13 | 33 | 50 |

**The Co-operative as lessee**

The Co-operative leases railcars, land, buildings and equipment with lease payments of $9 (2020 - $8). ROU assets are included within the underlying assets in property, plant and equipment and investment properties. The current portion of lease liabilities are included in accounts payable. Lease terms are between one and 20 years with renewal options available at market rates.

ROU assets are as follows:

| | Railcars | Land and buildings | Other | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| At November 1, 2019 | 12 | 10 | 4 | 26 |
| Additions | 1 | 4 | - | 5 |
| At October 31, 2020 | 13 | 14 | 4 | 31 |
| Additions | 1 | 8 | - | 9 |
| Terminations | - | (1) | - | (1) |
| At October 31, 2021 | 14 | 21 | 4 | 39 |
| **Accumulated depreciation** | | | | |
| At November 1, 2019 | - | - | - | - |
| Depreciation | 3 | 3 | 2 | 8 |
| At October 31, 2020 | 3 | 3 | 2 | 8 |
| Depreciation | 4 | 3 | 1 | 8 |
| At October 31, 2021 | 7 | 6 | 3 | 16 |
| **Net book value at October 31, 2021** | **7** | **15** | **1** | **23** |
| Net book value at October 31, 2020 | 10 | 11 | 2 | 23 |

Lease liabilities are as follows:

| | Railcars | Land and buildings | Other | Total |
|---|---|---|---|---|
| **Lease liability** | | | | |
| At November 1, 2019 | 12 | 10 | 4 | 26 |
| Additions | 1 | 4 | - | 5 |
| Lease payments | (4) | (3) | (1) | (8) |
| Interest expenses | 1 | - | - | 1 |
| At October 31, 2020 | 10 | 11 | 3 | 24 |
| Additions | 1 | 8 | - | 9 |
| Terminations | - | (1) | - | (1) |
| Lease payments | (4) | (4) | (1) | (9) |
| Interest expenses | - | 1 | - | 1 |
| Lease liability | 7 | 15 | 2 | 24 |
| Less: current portion | (3) | (3) | - | (6) |
| **At October 31, 2021** | **4** | **12** | **2** | **18** |

For the years ended October 31, 2021 and 2020 (in millions of Canadian dollars except as noted)

The future minimum lease payments under these leases are as follows:

| | < 1 year | 1-5 years | > 5 years | Total |
|---|---|---|---|---|
| Railcars | 4 | 4 | - | 8 |
| Land and buildings | 4 | 5 | 9 | 18 |
| **Total** | 8 | 9 | 9 | 26 |

## NOTE 21 Corporate income taxes

The Co-operative's effective tax rate is determined as follows:

| | 2021 | 2020 |
|---|---|---|
| Net income before tax | **554** | 200 |
| Patronage allocation | **(353)** | (118) |
| Net income before tax less patronage allocation | **201** | 82 |
| Combined federal and provincial income tax rate[1] | **27.00%** | 27.00% |
| Computed tax expense based on the combined rate | **54** | 22 |
| (Decrease) increase resulting from: | | |
| Manufacturing and processing tax rate reduction | **(1)** | - |
| Rate differential in different provinces | **(2)** | (1) |
| Other non-taxable/non-deductible items | **8** | 2 |
| Provision for income taxes | **59** | 23 |
| Effective rate on net income before tax less patronage allocation | **29.35%** | 28.05% |
| Classified in the consolidated statements of comprehensive income as: | | |
| Income taxes – current | **17** | 62 |
| Income taxes – deferred | **42** | (39) |
| **Provision for income taxes** | **59** | 23 |

[1]There was no significant change in the combined federal and provincial income tax rates.

In respect of each type of temporary difference, unused tax losses and unused tax credits, the amounts of deferred tax assets and liabilities recognized in the consolidated statements of financial position at October 31 and the amount of deferred tax expense recognized in comprehensive income and OCI were:

| | October 31, 2020 | Deferred tax in comprehensive income | Deferred tax in OCI | October 31, 2021 |
|---|---|---|---|---|
| Non-capital loss and deductible patronage allocation carry forwards | 57 | 29 | - | **86** |
| Miscellaneous accruals and reserves | 92 | (15) | (17) | **60** |
| Net book value in excess of undepreciated capital cost | (721) | (1) | - | **(722)** |
| Assets held for sale | - | 7 | - | **7** |
| Patronage allocations deferred for income tax purposes | (80) | (63) | - | **(143)** |
| **Net deferred tax liability** | (652) | (43) | (17) | **(712)** |

Classified in the consolidated financial statements as:

| | 2021 | 2020 |
|---|---|---|
| Deferred tax assets | **4** | 4 |
| Deferred tax assets on assets held for sale (Note 28) | **7** | - |
| Deferred tax liabilities | **(723)** | (656) |
| **Net deferred tax liability** | **(712)** | (652) |

Deferred tax assets are recognized for tax loss carry forwards to the extent that the realization of the related benefit through future taxable profits is probable. The Co-operative has determined that all recognized deferred tax assets will be realized through a combination of future reversals of temporary differences and taxable income prior to their date of expiration.

## NOTE 22 Commitments and contingencies

A commitment is an agreement that is enforceable and legally binding to make a payment in the future for the purchase of goods or services. At October 31, 2021, the Co-operative has commitments that require the following minimum future payments which are not accrued for in the consolidated statements of financial position.

| | < 1 year | 1-5 years | > 5 years | Total |
|---|---|---|---|---|
| Purchase commitments | 53 | 76 | - | 129 |
| Contractual commitments for supply agreements | 18 | 29 | - | 47 |
| Other commitments | 8 | 3 | 3 | 14 |
| **Total** | **79** | **108** | **3** | **190** |

In the normal course of operations, the Co-operative is subject to various claims and lawsuits on occasion. While it is not possible to determine the ultimate outcome of such actions at this time, it is management's opinion that the final resolution of such matters will not have a material adverse effect on the Co-operative's financial condition or results of operations.

## NOTE 23 Financial instruments and risk management

The Co-operative is exposed to financial risks from its financial instruments comprising liquidity, credit and market risk. The Co-operative employs risk management strategies and policies to ensure these risks are in compliance with the Co-operative's strategy and risk tolerance levels. This note presents information about the Co-operative's exposure to the related risks and the objectives, policies and processes for measuring and managing risk.

**(a) Credit risk**

Credit risk is the risk that a customer or counterparty will fail to perform an obligation or fail to pay amounts due causing a financial loss. The Co-operative's credit policy is designed to ensure that there is a standard credit practice throughout the Co-operative to measure and monitor credit risk. The policy outlines delegation of authority, the due diligence process required to approve a new customer and the maximum amount of credit exposure per single entity. Before transactions begin with a new customer or counterparty, their creditworthiness is assessed and a maximum credit limit is allocated. The assessment process is outlined in the credit policy and considers both quantitative and qualitative factors. The Co-operative constantly monitors the exposure to any single customer along with the financial position of the customer. If it is deemed that a customer's credit risk has increased, the Co-operative will work to reduce the credit exposure and lower the credit limit allocated. Regular reports are generated to monitor credit risk. A substantial portion of the Co-operative's accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risk. The carrying amount of cash and cash equivalents, accounts receivable and advances represent the Co-operative's maximum credit exposure.

The Co-operative's accounts receivable was aged as follows as at October 31, 2021:

| | 2021 | | 2020 | |
|---|---|---|---|---|
| | **Members** | **Non-members** | Members | Non-members |
| Current | **1,123** | **410** | 646 | 361 |
| Past due (1-30 days) | **16** | **1** | 7 | 1 |
| Past due (31-60 days) | **1** | **2** | - | - |
| Past due (more than 60 days) | **1** | **2** | 12 | 2 |
| Allowance for doubtful accounts | **-** | **(7)** | - | (7) |
| **Total accounts receivable** | **1,141** | **408** | 665 | 357 |

The loss allowance for non-members accounts receivable must be calculated using the expected lifetime credit loss and recorded at the time of initial recognition. Current economic conditions, customer history, why the accounts are past due and the accounts' industry are all considered when determining whether past due accounts should be allowed for or written-off. The allowance for doubtful accounts is calculated on a specific-identification basis for high risk accounts receivables and on a statistically-derived allowance basis for the remainder. The balance in allowance for doubtful accounts as at October 31, 2021, was $7 (2020 - $7).

The interest rate related to the retail lending program (Note 7) is based on the prime rate and payments are expected to be received in the next one to 10 years.

**(b) Liquidity risk**

Liquidity risk is the risk that the Co-operative will not be able to meet its financial obligations when they come due. The Co-operative manages its liquidity risk by ensuring an optimal capital structure is in place that provides financial flexibility and access to capital needed to fund growth opportunities, while ensuring commitments and obligations can be met in a cost-effective manner. The following policies and processes are in place to mitigate this risk:

- Maintain an optimal capital structure that reflects the Co-operative's strategy
- Forecast free cash flow from operations and spending requirements to allow the Co-operative to maintain sufficient cash and credit facilities to meet these future requirements
- Maintain a balance sheet that meets investment grade rating metrics which allows ease of access to debt
- Maintain sufficient short-term credit availability
- Maintain long-term relationships with lenders
- Invest surplus cash based on the Co-operative's investment policies that ensures investments are in a range of short-term dated money market securities. Investments are only permitted with high quality securities

For the years ended October 31, 2021 and 2020 (in millions of Canadian dollars except as noted)

The table below outlines the Co-operative's available debt facilities as of October 31, 2021:

| | Total amount | Outstanding | Available |
|---|---|---|---|
| Credit facility | 150 | - | 150 |

The Co-operative has contractual commitments to purchase certain services, for its intangible assets, and other commitments as described in Note 22.

The following are the contractual maturities of financial liabilities:

| | Carrying amount | Contractual cash flows | On demand | < 1 year | 1-5 years | > 5 years |
|---|---|---|---|---|---|---|
| **As at October 31, 2021** | | | | | | |
| Accounts payable | 1,208 | 1,208 | - | 1,208 | - | - |
| Members' funds | 463 | 463 | 463 | - | - | - |
| Long-term debt[1] | 299 | 341 | - | 12 | 329 | - |
| **As at October 31, 2020** | | | | | | |
| Accounts payable | 839 | 839 | - | 839 | - | - |
| Members' funds | 321 | 321 | 321 | - | - | - |
| Long-term debt[1] | 299 | 353 | - | 12 | 341 | - |

[1]Contractual cash flows include contractual interest payments related to debt obligations.

**(c) Market risk**

Market risk is the risk of uncertainty arising from possible market price movements and their impact on the future performance of the Co-operative. Market price movements could adversely affect the value of the Co-operative's financial assets, liabilities and expected future cash flows. The Co-operative is exposed to a number of different market risks comprising foreign currency risk, interest rate risk and price risk.

The Co-operative uses derivative financial instruments to manage its exposure to cash flow variability from commodity prices and fluctuating foreign currency exchange rates. The Co-operative does not apply hedge accounting to any of its derivative financial instruments. As a result, gains or losses from changes in the fair value are recognized in the consolidated statements of comprehensive income.

*i. Foreign currency risk*

The Co-operative is exposed to foreign currency risk primarily relating to revenues, capital and operating expenditures that are denominated in a currency other than Canadian dollars. As at October 31, 2021, the carrying amount of financial instruments measured in foreign currency includes cash (US$3), accounts receivable (US$12) and lease liabilities (US$6). The Co-operative is not exposed to material foreign exchange risk on its consolidated financial statements.

At times, the Co-operative will hedge forecasted foreign currency denominated operating and capital exposure through the use of forward currency contracts. No such contracts were outstanding at October 31, 2021. Any foreign currency forward contracts entered into are not designated as hedging instruments for accounting purposes. A 1% strengthening in the exchange rates on commodity contracts would result in a foreign exchange gain of $4. A 1% decrease would have an equal but opposite effect.

*ii. Interest rate risk*

Fluctuations in interest rates impact the future cash flows and fair values of various financial instruments. This exposure is managed by monitoring forecasted borrowing requirements and monitoring market changes in interest rates.

Financial assets bearing variable interest rate exposure are cash and cash equivalents and short-term investments. Short-term investments are invested in short-term, high-quality securities. The primary objective is to ensure liquidity and preservation of principal while achieving a satisfactory return portfolio. Financial liabilities bearing interest rate exposure are bank indebtedness and members' funds. The Co-operative determined that a 1% increase in the interest rate would result in an increase of $17 in interest income. A 1% decrease would have an equal but opposite effect.

*iii. Commodity price risk*

Commodity price risk arises from fluctuations in future commodity prices and may have an effect on comprehensive income and future cash flows. To partially mitigate exposure to commodity price risk, the Co-operative uses commodity derivative financial instruments, such as swap contracts, to manage exposure to price volatility associated with the purchase of crude oil inputs and the sale of its refined products. The Co-operative is exposed to commodity price risk on its derivative financial instruments. The sensitivity analyses are calculated with reference to period-end balances. For the purpose of the sensitivity analyses, the effect of a variation in a particular assumption on the fair value of the financial instrument was calculated independently of any change in another assumption. The Co-operative determined that a 10% increase in the price of West Texas Intermediate (WTI) and the sales price of its refined products would result in a loss on derivatives of $36 in comprehensive income. Based on the Co-operative's contract position at October 31, 2021, a 10% widening in the heavy crude differential would result in a $7 gain and a 10% strengthening in natural gas commodity prices would result in a $3 gain. A 10% decrease on both sensitivities would have an equal but opposite effect.

### (d) Classification and fair values of financial assets and liabilities

The classification and fair values of financial assets and liabilities, along with carrying amounts are as follows:

| | Fair value through profit or loss | Amortized cost | Total carrying amount |
|---|---|---|---|
| **As at October 31, 2021** | | | |
| Cash and cash equivalents | 1,101 | - | 1,101 |
| Short-term investments | 1,038 | - | 1,038 |
| Members accounts receivable | - | 1,141 | 1,141 |
| Non-members accounts receivable | - | 408 | 408 |
| Investments and advances | - | 148 | 148 |
| Total assets | 2,139 | 1,697 | 3,836 |
| Accounts payable[1] | 12 | 1,196 | 1,208 |
| Members' funds | - | 463 | 463 |
| Long-term debt | - | 299 | 299 |
| Total liabilities | 12 | 1,958 | 1,970 |

[1]Includes fair value of derivative financial instruments related to the Energy segment.

| | Fair value through profit or loss | Amortized cost | Total carrying amount |
|---|---|---|---|
| **As at October 31, 2020** | | | |
| Cash and cash equivalents | 949 | - | 949 |
| Short-term investments | 977 | - | 977 |
| Members accounts receivable | - | 665 | 665 |
| Non-members accounts receivable[1] | 75 | 282 | 357 |
| Investments and advances | - | 323 | 323 |
| Total assets | 2,001 | 1,270 | 3,271 |
| Accounts payable | - | 839 | 839 |
| Members' funds | - | 321 | 321 |
| Long-term debt | - | 299 | 299 |
| Total liabilities | - | 1,459 | 1,459 |

[1]Includes fair value of derivative financial instruments related to the Energy segment.

*Fair value hierarchy*

Except as otherwise disclosed, the fair market value of the Co-operative's financial assets and liabilities approximates the carrying amount as a result of the short-term nature of the instruments or the interest rate being similar to market rates.

The following table presents the Co-operative's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **As at October 31, 2021** | | | | |
| Cash and cash equivalents | 1,101 | - | - | 1,101 |
| Short-term investments | 1,038 | - | - | 1,038 |
| Total assets | 2,139 | - | - | 2,139 |
| Accounts payable[1] | 12 | - | - | 12 |
| Total liabilities | 12 | - | - | 12 |

[1]Represents fair value of derivative financial instruments related to the Energy segment.

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **As at October 31, 2020** | | | | |
| Cash and cash equivalents | 949 | - | - | 949 |
| Short-term investments | 977 | - | - | 977 |
| Non-members accounts receivable[1] | 75 | - | - | 75 |
| Total assets | 2,001 | - | - | 2,001 |

[1]Represents fair value of derivative financial instruments related to the Energy segment.

### (e) Derivatives

Derivative contracts are used principally as hedging instruments to fix commodities' input costs and selling prices (the purchase of crude oil inputs and the sale of its refined products). Because hedge accounting is not applied, gains or losses related to derivatives are recorded in the consolidated statements of comprehensive income. A realized loss of $19 (2020 - gain of $139) and an unrealized loss of $87 (2020 - gain of $55) have been recognized in 2021. All contracts are settled on a net basis and the majority mature within a one-year period. The carrying amount of derivative contracts at October 31, 2021 included with accounts payable is the fair value of $12 (2020 - non-members accounts receivable of $75) which is derived from quoted market prices.

The following table summarizes the fair value of derivatives on the consolidated statements of financial position:

| | **2021** | 2020 |
|---|---|---|
| Crude oil contracts | **234** | (73) |
| Crude differential contracts | **(1)** | 26 |
| Diesel contracts | **(115)** | 77 |
| Gasoline contracts | **(142)** | 45 |
| Natural gas contracts | **12** | - |
| **Total** | **(12)** | 75 |

The following table summarizes the different components of the gains (losses) on derivatives included in net income:

| | **2021** | 2020 |
|---|---|---|
| Crude oil contracts | **432** | (219) |
| Crude differential contracts | **1** | 51 |
| Diesel contracts | **(218)** | 206 |
| Gasoline contracts | **(333)** | 156 |
| Natural gas contracts | **12** | - |
| **Total** | **(106)** | 194 |

For the years ended October 31, 2021 and 2020 (in millions of Canadian dollars except as noted)

## NOTE 24 Capital structure framework

The objectives of the Co-operative's capital structure framework are to:

- maintain a balance sheet that supports an investment grade rating profile,
- provide access to cost effective capital required to support the Co-operative's growth strategy,
- provide financial flexibility and the ability to withstand unexpected stress, and
- be easily understood by stakeholders and comparable to other entities.

The Co-operative's capital structure consists of bank indebtedness, members' funds, long-term debt and members' equity, net of cash and cash equivalents and short-term investments. The calculation is set out in the following table:

| | 2021 | 2020 |
|---|---|---|
| Members' funds | **463** | 321 |
| Long-term debt | **299** | 299 |
| Total debt | **762** | 620 |
| Less: cash and cash equivalents | **(1,101)** | (949) |
| Less: short-term investments | **(1,038)** | (977) |
| Net cash and cash equivalents and short-term investments | **(1,377)** | (1,306) |
| Members' equity | **5,973** | 5,530 |
| **Capital under management** | **4,596** | 4,224 |

The Co-operative's capital is monitored through the equity to asset ratio, the net debt to net debt plus members' equity ratio, the net debt to cash flow from operations ratio and the net debt to earnings before interest, taxes, depreciation, depletion and amortization. Due to the cyclical nature of the business environment, various situations can arise where the ratios fall outside of the Co-operative's targets. The Co-operative monitors the capital structure and may take actions such as adjusting capital spending, repaying debt and managing its members' equity in order to achieve the stated objectives.

Financial covenants associated with the Co-operative's syndicated credit facility (Note 12) are reviewed regularly and controls are in place to maintain compliance with the covenants. The Co-operative has complied with all financial covenants for the years ended October 31, 2021 and October 31, 2020.

## NOTE 25 Related party transactions

*Transactions with the Board of Directors and key management personnel*

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Co-operative, directly or indirectly. Key management personnel of the Co-operative include all members of the Senior Leadership Team and the Board of Directors.

In addition to their salaries and employee benefits, the Co-operative provides a post-employment benefit plan for the Senior Leadership Team.

Key management personnel compensation comprised the following:

| | 2021 | 2020 |
|---|---|---|
| Short-term salary and employee benefits | **8** | 6 |
| Post-employment benefits | **1** | 1 |
| **Total** | **9** | 7 |

## NOTE 26 Group entities

Outlined in the table below is a list of the Co-operative's significant subsidiaries:

| Name of subsidiary | Principal activity | Country of incorporation and operation | Ownership interest 2021 | Ownership interest 2020 |
|---|---|---|---|---|
| Consumers' Co-operative Refineries Limited (CCRL) | Manufactures and supplies petroleum | Canada | **100%** | 100% |
| Crestere Investments Limited | Holds investments | Canada | **100%** | 100% |
| FCL Enterprises Ltd. | Holds investment property | Canada | **100%** | 100% |
| FCL Ventures Ltd. | Holds investment property | Canada | **100%** | 100% |
| 102078290 Saskatchewan Ltd. | Manufactures and supplies ethanol | Canada | **100%** | 100% |
| 102111316 Saskatchewan Ltd. | Holds investments | Canada | **100%** | - |
| 2214896 Alberta Ltd. | Operates oil and gas assets | Canada | **100%** | 100% |
| Blair's Crop Solutions (2020) Inc. | Supplies crop, fertilizer and farm related products | Canada | **80%** | - |
| Red Shield Insurance Ltd. | Captive insurance | Barbados | **100%** | 100% |

## NOTE 27 Operating segments

The Co-operative has four reportable segments, which are the Co-operative's strategic business units (SBUs). These SBUs offer different products and services and are managed separately as they have different processes and marketing strategies. The following summary describes the operations of each SBU:

- Ag Solutions: includes purchasing, manufacturing and distribution of crop, fertilizer, animal feed and farm related products
- Food: includes purchasing and distribution of food products on a wholesale and retail basis
- Home and Building Solutions: includes purchasing and distribution of home and building supplies on a wholesale basis
- Energy: includes refining, manufacturing, distribution and marketing of petroleum and ethanol products, as well as exploration for and production of crude oil and natural gas

| | | Sales | Depreciation, depletion and amortization | Interest income | Finance cost | Income tax expense | Net income |
|---|---|---|---|---|---|---|---|
| Ag Solutions | **2021** | **1,488** | **8** | **2** | **2** | **5** | **45** |
| | 2020 | 1,254 | 6 | 4 | 2 | 4 | 35 |
| Food | **2021** | **1,949** | **18** | **3** | **3** | **9** | **79** |
| | 2020 | 1,993 | 16 | 6 | 3 | 7 | 64 |
| Home and Building Solutions | **2021** | **451** | **5** | **1** | **1** | **2** | **21** |
| | 2020 | 363 | 5 | 1 | 1 | 1 | 12 |
| Energy | **2021** | **5,181** | **382** | **17** | **16** | **43** | **350** |
| | 2020 | 4,328 | 389 | 30 | 16 | 11 | 66 |
| **Total** | **2021** | **9,069** | **413** | **23** | **22** | **59** | **495** |
| | 2020 | 7,938 | 416 | 41 | 22 | 23 | 177 |

## NOTE 28 Assets held for sale

In the fourth quarter, the Co-operative announced its intention to sell its Crude Oil business, which operates crude oil assets, resulting in assets and liabilities being classified as held for sale. The Crude Oil business is reported within the Energy segment. The Co-operative has commenced the sale process and anticipates that the sale will occur within the first quarter of 2022.

At October 31, 2021, the Crude Oil business unit's assets and liabilities were comprised of the following:

| | **2021** |
|---|---|
| Property and equipment | **107** |
| Deferred tax asset | **7** |
| Assets held for sale | **114** |
| Asset retirement obligations | **44** |
| Liabilities related to assets held for sale | **44** |

## NOTE 29 Subsequent events

*Share redemption*

Subsequent to year end, the Board of Directors approved a share redemption in the amount of $283 (2020 - $106) out of the $353 (2020 - $118) patronage allocation on December 15, 2021.

*Acquisition*

On November 30, 2021, the Co-operative announced that it had entered into a definitive agreement to purchase 181 retail and consumer fuel sites from certain wholly-owned subsidiaries of Cenovus Energy Inc. for $264. This purchase includes gas bar sites, car washes and convenience stores. The intent is to transfer the sites to Local Co-ops. This agreement is subject to certain customary closing conditions, including a review by the Canadian Competition Bureau.

## NOTE 30 Impacts of COVID-19

On March 11, 2020, the World Health Organization declared a global pandemic following the emergence and rapid spread of COVID-19. The outbreak and subsequent restrictions put in place by the Canadian, provincial and municipal governments have had a significant impact on the Co-operative's operations. A dedicated Pandemic Response Team established by management in the early stages of the pandemic is coordinating the Co-operative's crisis management response. The Co-operative's Energy segment continues to be negatively impacted, relative to pre-pandemic levels, by reduced demand for many of the Co-operative's products. The impact of the reduced demand was partially offset by an increase in petroleum product prices in the latter half of the fiscal year. The Food and Home and Building Solutions segments continue to experience increased demand as a result of the COVID-19 impact on consumer behaviour.

The full extent of the impact of COVID-19 on the Co-operative's operations and future financial performance is currently unknown. This will depend on future developments that are highly uncertain and unpredictable, including the duration and geographic spread of COVID-19 and resulting impacts on capital and financial markets, travel restrictions, business closures, supply chain disruptions, isolation/quarantine measures that are currently or may be put in place and any new information that may emerge concerning the severity of COVID-19. The pandemic presents uncertainty and risk with respect to the Co-operative, its performance, and estimates and assumptions used by management in the preparation of its financial results.

# NOTES

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