Central Alberta Co-op Ltd.
Financial Statements
January 31, 2019

Management's Responsibility

To the Members of Central Alberta Co-op Ltd.:

Management is responsible for the preparation and presentation of the accompanying financial statements, including responsibility for significant accounting judgments and estimates in accordance with Canadian accounting standards for private enterprises. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Board of Directors is composed entirely of Directors who are neither management nor employees of the Co-operative. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Board fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management, internal auditors, and external auditors. The Board is also responsible for recommending the appointment of the Co-operative's external auditors.

MNP LLP is appointed by the members to audit the financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Board and management to discuss their audit findings.

Chief Executive Officer

Independent Auditor's Report

To the Members of Central Alberta Co-op Ltd.:

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Central Alberta Co-op Ltd. (the "Co-operative"), which comprise the balance sheet as at January 31, 2019, and the statements of net savings, retained savings and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Co-operative as at January 31, 2019, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Co-operative in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian accounting standards for private enterprises, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the 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.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 financial statements.

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

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

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.

Red Deer, Alberta

MNP LLP

April 25, 2019

Chartered Professional Accountants

Central Alberta Co-op Ltd.
Balance Sheet
As at January 31, 2019

	2019	2018
Current assets		
Cash and cash equivalents	$ 6,454,508	$ 4,417,557
FCL special deposit (Note 4(a))	-	7,000,000
Accounts receivable - Customer (Note 5)	7,767,677	7,457,658
- Other	347,693	458,607
Income taxes recoverable	1,296,224	1,733,148
Inventories (Note 6)	51,180,762	43,986,980
Prepaid agriculture suppliers	3,881,195	2,074,752
Prepaid expenses	690,792	764,709
Current portion long-term receivable	-	82,250
	71,618,851	67,975,661
Long-term receivable	-	23,850
Investments		
Federated Co-operatives Limited (Note 4(b))	27,335,370	23,558,315
Other organizations	6,625	6,625
Property, plant and equipment (Note 7)	74,354,472	74,772,907
Intangible asset (Note 8)	302,848	319,673
Goodwill (Note 9)	1,426,549	1,426,549
Total assets	**$ 175,044,715**	**$ 168,083,580**
Current liabilities		
Accounts payable and trust liabilities (Note 11)	$ 30,438,842	$ 27,781,851
Customer prepaid accounts	10,785,390	12,868,582
Current portion of long-term debt (Note 12)	2,906,784	3,237,101
	44,131,016	43,887,534
Long-term debt (Note 12)	17,215,948	19,384,170
Asset retirement obligation (Note 4(c))	236,101	227,360
Total liabilities	61,583,065	63,499,064
Members' equity		
Share capital (Note 13)	44,456,619	40,688,311
Reserves and retained savings (Note 14)	69,005,031	63,896,205
	113,461,650	104,584,516
Total liabilities and members' equity	**$ 175,044,715**	**$ 168,083,580**

Subsequent event (Note 21)
Commitments (Note 22)

Approved on behalf of the Board of Directors

Director

Director

The accompanying notes are an integral part of these financial statements

CO-OP

Central Alberta Co-op Ltd.

Statement of Net Savings and Statement of Retained Savings

For the Year Ended January 31, 2019

	2019	%	2018	%
Sales (Note 15)	$ 339,145,220	100.0	$ 320,107,753	100.0
Cost of goods sold	288,522,454	85.1	269,020,149	84.0
Gross margin	50,622,766	14.9	51,087,604	16.0
Expenses				
Operating and administration	54,992,634	16.2	56,394,619	17.6
Net interest (Note 16)	467,675	0.1	257,740	0.1
	55,460,309	16.3	56,652,359	17.7
Loss from operations	(4,837,543)	(1.4)	(5,564,755)	(1.7)
Patronage refunds	18,885,274	5.6	10,389,948	3.2
Savings before income taxes	14,047,731	4.2	4,825,193	1.5
Income taxes (Note 18)	1,744,656	0.5	249,593	0.1
Savings before gain on amalgamation	**12,303,075**	3.7	**4,575,600**	1.4
Gain on amalgamation (Note 20)	-	-	3,294,044	(1.1)
Net Savings	**$ 12,303,075**	3.6	**$ 7,869,644**	2.5
Retained savings, beginning of year	**$ 38,596,215**		**$ 35,528,057**	
Net savings	12,303,075		7,869,644	
Transfer to general reserve (Note 14)	(1,404,773)		(811,924)	
Patronage allocation to members (Note 21)	(7,171,129)		(3,989,562)	
Retained savings, end of year (Note 14)	**$ 42,323,388**		**$ 38,596,215**	

The accompanying notes are an integral part of these financial statements

Central Alberta Co-op Ltd.

Statement of Cash Flows

For the Year Ended January 31, 2019

	2019	2018
Operating activities		
Net savings	$ 12,303,075	$ 7,869,644
Adjustments for:		
Depreciation	6,233,937	5,398,070
Amortization	16,825	16,825
Accretion	8,741	7,286
FCL patronage refund	(18,885,274)	(10,389,948)
(Gain)/loss on the disposal of property, plant and equipment	(288,622)	66,455
Changes in non-cash operating working capital:		
Accounts receivable	(199,105)	(401,791)
Income taxes recoverable	436,924	(660,274)
Inventories	(7,193,782)	(11,967,327)
Prepaid agriculture suppliers	(1,806,443)	421,032
Prepaid expenses	73,917	(42,795)
Long-term receivables	106,100	(12,876)
Accounts payable and trust liabilities	2,656,991	7,402,019
Customer prepaid accounts	(2,083,192)	1,764,476
Cash used for operating activities	(8,619,908)	(529,204)
Investing activities		
Redemption of FCL shares	15,108,219	10,058,409
Increase in FCL shares from Eckville Co-operative	-	(1,415,274)
Additions to property, plant and equipment	(5,953,361)	(15,656,018)
Increase in other assets	-	(336,498)
Proceeds from the disposal of property, plant and equipment	426,480	93,925
Investment in other organization	-	(6,525)
Cash provided by (used for) investing activities	9,581,338	(7,261,981)
Financing activities		
Increase in long-term debt	10,126,318	17,157,601
Repayment of long-term debt	(12,624,856)	(6,861,178)
Increase in asset retirement obligation	-	11,970
Share capital issued	19,035	23,170
Share capital issued - Eckville amalgamation	-	1,542,566
GST on allocation	139,489	138,531
Redemption of share capital	(3,584,465)	(3,141,013)
Cash (used for) provided by financing activities	(5,924,479)	8,871,647
Net (decrease) increase in cash and cash equivalents	**(4,963,049)**	**1,080,462**
Cash and cash equivalents, beginning of year	**11,417,557**	**10,337,095**
Cash and cash equivalents, end of year	**$ 6,454,508**	**$ 11,417,557**
Cash and cash equivalents are comprised of:		
Cash and cash equivalents	$ 6,454,508	$ 4,417,557
FCL special deposit	-	7,000,000
	$ 6,454,508	**$ 11,417,557**

The accompanying notes are an integral part of these financial statements

1. Incorporation and operations

Red Deer Co-op Limited was incorporated under the Co-operatives Act of Alberta on February 24, 1956 and Central Alberta Co-op Ltd. was incorporated under the Co-operatives Act of Alberta on November 29, 1940. On February 1, 2013, the two co-operatives amalgamated to form Central Alberta Co-op Ltd. Eckville Co-operative Association Limited ("the Co-operative") was incorporated under the Co-operatives Act of Alberta on April 20, 1938. On February 1, 2017 the two co-operatives amalgamated to form Central Alberta Co-op Ltd. ("the Co-operative"). The primary business of the Co-operative is operating retail agricultural, food, and petroleum outlets in Red Deer, Alberta, and surrounding area.

2. Significant accounting policies

These financial statements have been prepared by management in accordance with Canadian accounting standards for private enterprises. A precise determination of many assets and liabilities is dependent upon future events and consequently, the preparation of these financial statements involves the use of estimates and approximations. Areas subject to estimation include valuation of accounts receivable, inventory, useful life of property, plant and equipment, impairment of long-lived assets, goodwill, income taxes, accrued liabilities, asset retirement obligation, and potential contingencies. These estimates also affect the disclosure of contingencies at the date of the financial statements and the reported amounts of assets, liabilities, revenues and expenses. Actual results could differ from those estimates.

These financial statements have been prepared to reflect the following significant accounting policies:

(a) Definition of financial year

The Co-operative's financial year ends on the Saturday closest to January 31.

(b) Cash and cash equivalents

Cash and cash equivalents are defined as cash and investments with an initial maturity of less than three months.

(c) Inventories

Inventories are valued using a weighted average formula, first-in first-out method, and the retail method. Inventories are stated at the lower of cost and net realizable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventories by the most appropriate method for that particular inventory class.

The Co-operative estimates net realizable value as the amount that inventories are expected to be sold for, taking into consideration fluctuations of retail price due to seasonality less estimated costs necessary to make the sale. Inventories are written down to net realizable value when the cost of inventories is determined to be not recoverable due to obsolescence, damage or permanent declines in selling prices.

(d) Investments

The Co-operative's investments are accounted for using the cost method. Accordingly, the investments are recorded at acquisition cost, less any provisions for permanent impairment or adjustments for patronage refunds or share redemptions. All transactions with FCL are disclosed in a separate note (Note 4).

(e) Financial instruments

Financial instruments are recorded at fair value on initial recognition and are subsequently recorded at amortized cost, unless management has elected to carry the instruments at fair value. The Co-operative has not elected to carry any such financial instruments at fair value. Financial instruments, which are subsequently measured at amortized cost, are adjusted by transaction and financing costs incurred on acquisition.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the Co-operative determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the Co-operative could realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

(f) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Depreciation is taken over the estimated useful lives of the assets using the following methods and rates:

Buildings	Straight-line & declining balance	10 - 25 years & 10%
Pavement	Declining balance	8% - 10%
Furniture & equipment	Declining balance	20%
Vehicles	Declining balance	30%
Leasehold improvements	Straight-line	3 - 10 years
Computer equipment	Declining balance	55%
Asset retirement cost	Straight-line	25 - 35 years

Assets acquired from amalgamation are depreciated at the full year rate.

Expenditures for maintenance and repairs are charged to operating expenses as incurred. Significant expenditures for improvements are capitalized. Gains or losses realized on the disposal of property, plant and equipment are reflected in operations in the year of disposition.

Claims for assistance under various FCL programs are recorded as a reduction of the cost of related assets in the period in which eligible expenditures are incurred, with any depreciation calculated on the net amount.

Petroleum assets built in connection with an FCL Petroleum Purchase Agreement, along with any corresponding liability, are recorded by the Co-operative upon commissioning of the assets, as FCL retains ownership of the assets until the project is commissioned. Accordingly, any grants and debt financing provided by FCL are recorded at the project commissioning date.

An impairment loss is recognized when the carrying amount of a long-lived asset is not recoverable and exceeds its fair value. No such impairment loss was recorded during the year.

(g) Asset retirement obligation

The Co-operative has a liability for an asset retirement obligation in the period in which a legal liability is incurred. The liability is based on management's best estimate. The liability is subsequently adjusted for the passage of time, which is recognized as an accretion expense in the statement of operations. The liability is also adjusted due to revisions in either the timing or the amount of the original estimated cash flows associated with the liability. Actual costs incurred upon settlement of the asset retirement obligations are charged against the asset retirement obligation to the extent of the liability recorded.

(h) Share capital

The Co-operative approves an allocation to members subsequent to year end. The amount is recorded as an addition to share capital and a reduction in retained savings. The Co-operative records the redemption of shares that is to be paid to members at the time it has been approved by the Board of Directors.

(i) Revenue recognition

The Co-operative recognizes revenue when evidence of an arrangement exists, delivery or change of ownership has occurred, the price has been determined, and collection is reasonably assured.

(j) Income taxes

The Co-operative follows the taxes payable method whereby only current income tax assets and liabilities are recognized to the extent they remain unpaid or are recoverable. In addition, the benefit relating to a tax loss incurred in the current period and carried back to prior periods is recognized as a current asset. Current income tax assets and liabilities are measured using substantively enacted tax rates and laws expected to apply when the tax liabilities or assets are to be either settled or realized.

(k) Goodwill

Goodwill resulting from business combinations represents the portion of the purchase price that was in excess of the fair value of the net identifiable assets acquired. Goodwill is not amortized and is tested for impairment whenever changes in circumstances indicate that the carrying amount of the reporting unit to which goodwill is assigned exceeds the fair value of the reporting unit. If the carrying value of the reporting unit to which goodwill has been assigned exceeds its fair value, then, with respect to the reporting unit's goodwill, any excess of its carrying value over its fair value is expensed. Impairment losses relating to goodwill cannot be reversed in future years.

(l) Intangible assets

Intangible assets are carried at cost, less accumulated amortization and accumulated impairment losses, if any. Finite life intangible assets are tested for impairment when events or circumstances indicate the carrying value may not be recoverable. When the recoverable amount is less than the carrying value, an impairment loss is recognized in net savings for the year. Intangible assets, once functional, are amortized on a straight-line basis over their useful lives.

(m) Business combinations

Business combinations are accounted for using the acquisition method. The application of this method requires certain estimates and assumptions especially concerning the determination of the fair value of the acquired intangible assets, property, plant and equipment, as well as the liabilities assumed at the date of the acquisition, based on information available at that date.

At the acquisition date, the Co-operative recognizes, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the subsidiary. Identifiable assets acquired and liabilities assumed are measured at their acquisition-date fair values. Any non-controlling interest in a subsidiary is measured either at fair value or at the non-controlling interest's proportionate share of the subsidiary's identifiable net assets.

The consideration transferred for each acquisition is measured as the sum of the acquisition-date fair values of the assets transferred, the liabilities incurred, and equity instruments issued by the Co-operative to obtain control of the subsidiary.

3. Financial instruments and risk management

The significant financial risks to which the Co-operative is exposed are credit risk, interest rate risk, liquidity risk, and commodity price risk.

(a) Credit risk

The Co-operative is exposed to credit risk on accounts receivable from its customers. The Co-operative manages credit risk through an active credit management program. The Co-operative does not have a significant exposure to any individual customer.

(b) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in interest rates. Changes in market interest rates may have an effect on cash flows associated with some financial assets and liabilities, known as cash flow risk, and on the fair value of other financial assets or liabilities, known as price risk. The Co-operative's sensitivity to fluctuations in interest rates is limited to its cash and debt. The Co-operative manages its exposure to interest rate risk through floating rate deposits and borrowings.

(c) Liquidity risk

Liquidity risk is the risk that the Co-operative will encounter difficulty in meeting obligations associated with financial liabilities. The Co-operative is exposed to liquidity risk arising primarily from the current obligations. The Co-operative's ability to meet obligations depends on funds generated by its operations.

(d) Commodity price risk

The Co-operative enters into transactions to purchase crop production products, for which market prices fluctuate. The nature of the Co-operative’s activities exposes it to risk of changes in commodity prices related to crop inputs that may occur between the time products are received from the supplier and actual date of sale to customers. To mitigate a portion of this risk, the Co-operative enters into contracts with the supplier to purchase the product at specified prices.

4. Transactions with Federated Co-operatives Limited (FCL)

(a) FCL special deposit

Amounts held with FCL as special deposits earn interest at rates based on prime rates.

(b) Patronage refund

The Co-operative, along with other Co-operatives in Western Canada, own FCL. At the end of each year, FCL divides a substantial portion of its net savings among these retail Co-operatives in proportion to the business done by each with FCL. During FCL's fiscal year ended October 31, 2018, the Co-operative purchased goods amounting to $231,756,527 (2018 - $203,301,385) from FCL in the normal course of operations.

These purchases resulted in a patronage refund from FCL which was received as non-cash consideration in the form of additional shares in FCL. FCL, based on its available cash flow, redeemed an amount of FCL shares held by the Co-operative. The amounts of the patronage refund and shares redeemed are as follows:

	2019	2018
Opening investment balance	$ 23,558,315	$ 21,811,502
Patronage refund	18,885,274	10,389,948
FCL shares from Eckville	-	1,415,274
Share redemptions	(15,108,219)	(10,058,409)
Closing investment balance	$ 27,335,370	$ 23,558,315

(c) Asset retirement obligation

The Co-operative participates in a contaminated site management program established by FCL to manage its asset retirement obligations. This program limits the Co-operative’s liability to $25,000 per site as long as the Co-operative continues to exercise due diligence. The Co-operative has 16 sites under this program. Management believes that due diligence has been exercised and that the impact of the asset retirement obligation to the Co-operative's financial statements is not significant. As of January 31, 2019, the Co-operative has accrued a liability in the amount of $236,101 (2018 - $227,360). A corresponding amount has been capitalized as an asset retirement cost and added to the carrying value of tanks. For the year ended January 31, 2019, the Co-operative has recorded $8,741 in accretion expense (2018 - $7,286).

The Co-operative has four fertilizer sites that are covered under the contaminated site management program established by FCL. Management cannot make a reasonable estimate of the future asset retirement obligation due to the uncertainty of the environmental impact from its fertilizer division.

(d) Purchase commitments

(i) Under the terms of the agreement with FCL, the Co-operative has committed to purchase petroleum products, at market price, from FCL for its gas bar and cardlock operations over a ten year period commencing from August 2009. Failure to meet this commitment would require the Co-operative to immediately pay outstanding gas bar and cardlock loan balances owed to FCL, plus repay any gas bar and cardlock grants received, including interest on the grants compounded annually at 10% from the grant date. Total grants received during this period amounted to approximately $14,672,404 (2018 - $12,138,311). Management intends to fulfill all existing contracts with FCL.

(ii) Under the terms of the agreement with FCL, the Co-operative has committed to purchase petroleum products, at market price, from the FCL corporate bulk plant over a ten year period commencing from July 2015. Failure to meet this commitment would require the Co-operative to pay a portion of the capital costs of the bulk plant to FCL determined by a formula based upon usage. Management intends to fulfill all existing contracts with FCL.

(iii) Under the terms of the agreement with FCL, the Co-operative has committed to purchase all food, pharmacy, and food-related products, from FCL and continue to operate all food stores acquired through the Sobey's acquisition over a thirty year period commencing from May 2014. Failure to meet this commitment would require the Co-operative to repay the assistance received on a prorated basis. Management intends to fulfill all commitments with FCL.

(iv) Under the terms of the agreement with FCL, the Co-operative has committed to purchase fertilizer products, at market price, from FCL over a five year period commencing from July 2015. Failure to meet this commitment would require the Co-operative to pay a termination charge to FCL determined by a formula based on purchases and years remaining in the contract. Management intends to fulfill all existing contracts with FCL.

5. Accounts receivable - customer

Shown net of an allowance for doubtful accounts of $100,000 (2018 - $213,987).

6. Inventories

	2019	2018
Raw material	$ 14,716,572	$ 9,470,112
Goods for resale	36,464,190	34,516,868
	$ 51,180,762	$ 43,986,980

The cost of inventories recognized as an expense during the year was $287,188,420 (2018 - $268,050,594).

7. Property, plant and equipment

	Original Cost	Accumulated Depreciation	**2019** Book Value	2018 Book Value
Land	$ 14,903,722	$ -	$ 14,903,722	$ 14,836,129
Buildings	48,990,510	10,698,624	38,291,886	36,497,270
Pavement	8,519,256	2,733,462	5,785,794	4,602,320
Furniture & equipment	32,719,891	20,487,373	12,232,518	10,151,574
Vehicles	8,201,880	5,733,812	2,468,068	2,756,026
Leasehold improvements	2,385,550	2,375,324	10,226	15,340
Computer equipment	4,379,588	3,823,290	556,298	779,766
Asset retirement cost	182,157	76,197	105,960	112,597
Under construction	-	-	-	5,021,885
	$ 120,282,554	$ 45,928,082	$ 74,354,472	$ 74,772,907

Depreciation for the current year included in operating and administration expense was $6,233,937 (2018 - $5,398,070).

8. Intangible asset

	Original Cost	Accumulated Amortization	**2019** Book Value	2018 Book Value
Intangible asset - customer list	$ 336,498	$ 33,650	$ 302,848	$ 319,673

Intangible assets with a definite life are amortized on a straight line basis over 20 years. Amortization for the current year end, included in operating and administration expenses was $16,825 (2018 - $16,825).

9. Goodwill

The changes in the carrying amount of goodwill for January 31, 2019 are as follows:

	2019	2018
Balance, beginning of year	$ 1,426,549	$ 1,426,549
Impairment losses	-	-
Balance, end of year	$ 1,426,549	$ 1,426,549

10. Line of credit

The Co-operative has a $12,000,000 line of credit of which no amount has been drawn as at January 31, 2019 (2018 - $nil). The line of credit is secured by a promissory note and a General Security Agreement covering all present and after acquired property. Interest on the line of credit is prime plus 0.25% (4.2% at January 31, 2019).

11. Accounts payable and trust liabilities

	2019	2018
FCL payables	$ 26,097,417	$ 24,723,218
Other payables	4,269,807	2,981,261
Trust liabilities:		
Payroll deductions	71,618	77,372
	$ 30,438,842	$ 27,781,851

12. Long-term debt

	Total	**2019** Current Portion	**2019** Deferred Portion	2018 Current Portion	2018 Deferred Portion
FCL LOC (1)	$ 16,583,435	$ 2,171,952	$ 14,411,483	$ 2,171,952	$ 16,583,436
FCL Loan (2)	-	-	-	732,996	-
FCL Loan (3)	$ 750,878	375,439	375,439	-	-
Credit Union Loan (4)	$ 2,788,419	359,393	2,429,026	332,153	2,800,734
	$ 20,122,732	$ 2,906,784	$ 17,215,948	$ 3,237,101	$ 19,384,170

(1) Lacombe, Crossfield, Blackfalds, Timberlands and Eckville loans bear interest at the prime rate of 3.95% (2018 - 3.45%) and are repayable via an annual reduction in available credit. The loans are subject to certain non-financial covenants. The Co-operative believes it is in compliance with these covenants as at year end and have been in compliance since the loan start dates. The loans are unsecured. The available credit per year is as follows:

	Lacombe	Crossfield	Blackfalds	Timberlands	Eckville
2020	2,394,000	2,520,000	1,674,585	9,777,100	217,750
2021	2,128,000	2,240,000	1,488,520	8,554,963	-
2022	1,862,000	1,960,000	1,302,455	7,332,825	-
2023	1,596,000	1,680,000	1,116,390	6,110,688	-
2024	1,330,000	1,400,000	930,325	4,888,550	-
2025	1,064,000	1,120,000	744,260	3,666,413	-
2026	798,000	840,000	558,195	2,444,275	-
2027	532,000	560,000	372,130	1,222,138	-
2028	266,000	280,000	186,065	-	-

The Co-operative's total available credit per year is as follows:

	Total
2020	16,583,435
2021	14,411,483
2022	12,457,280
2023	10,503,078
2024	8,548,875
2025	6,594,673
2026	4,640,470
2027	2,686,268
2028	732,065

(2) FCL Blackfalds gas bar loan was paid in full during 2018.

(3) FCL Innisfail gas bar loan bears no interest and is repayable at $375,439 annually, due on September 30, 2019. Security for the loan is a first security interest in the equipment purchased with a net book value of $956,789 (2018 - $nil).

(4) Servus Credit Union Home Building Centre loan bears interest at 4.25% (2018 - 4.25%) and is repayable at $38,240 monthly. The next renewal date is February 1, 2023. Security is provided by a mortgage on land and building with a net book value of $4,214,153 (2018 - $4,350,837) and assignment of rents as well as a general security agreement covering all assets of the Co-operative.

The loans are subject to certain measurable covenants. As at January 31, 2019, the Co-operative is in compliance with all such covenants.

The scheduled principal repayments on the long-term debt for the next five years and subsequent are as follows:

2020	$ 2,906,784
2021	2,921,277
2022	2,345,173
2023	2,362,364
2024	2,380,055
Subsequent payments	7,207,079
	$ 20,122,732

13. Share capital

Authorized, unlimited @ $1	**2019**	2018
Balance, beginning of year	$ 40,688,311	$ 38,098,124
Allocation to members	7,171,129	3,989,562
Cash from new members	19,035	23,170
Eckville share capital	-	1,542,566
GST on allocation	139,489	138,531
Shares transferred from reserves	29,216	38,127
	48,047,180	43,830,080
General repayment	2,938,976	2,763,776
Shares transferred to reserves	6,096	756
Withdrawals and retirements	389,707	121,805
Withholding tax	255,782	255,432
	3,590,561	3,141,769
Balance, end of year	$ 44,456,619	$ 40,688,311

14. Reserves and retained savings

	General Reserve	**Retained Savings**	**2019**	2018
Balance, beginning of year	$ 25,299,990	$ 38,596,215	$ 63,896,205	$ 60,053,494
Net savings distributed to retained savings	-	12,303,075	12,303,075	7,869,644
Patronage allocation	-	(7,171,129)	(7,171,129)	(3,989,562)
Shares transferred	(23,120)	-	(23,120)	(37,371)
Reserve transfers	1,404,773	(1,404,773)	-	-
Balance, end of year	$ 26,681,643	$ 42,323,388	$ 69,005,031	$ 63,896,205

15. Sales

	2019	2018
Food and pharmacy division	$ 88,549,161	$ 86,156,256
Home centre division	21,314,405	22,353,359
Gas bar division	91,459,327	80,257,298
Liquor division	19,096,464	19,916,947
Agro and petroleum division	118,725,863	111,423,893
	$ 339,145,220	$ 320,107,753

All sales are to external customers and no single customer accounts for more than 10% of sales.

16. Net interest

	2019	2018
Interest expense on		
- Short-term debt	$ 88,794	$ 145,547
- Long-term debt	935,054	655,934
Interest revenue	(556,173)	(543,741)
	$ 467,675	$ 257,740

17. Pension plan

The Co-operative participates in a multi-employer defined contribution plan whereby the Co-operative and participating employees contribute equal amounts up to the maximum allowed under the Income Tax Act. The Co-operative has no unfunded liability under this plan. During the year, the Co-operative recorded $1,136,833 (2018 - $1,141,728) of expense relating to the plan. There were no significant changes to the rate of employer contributions during the year.

18. Income taxes

The Co-operative accounts for income taxes using the taxes payable method. As a result, the Co-operative's income tax expense varies from the amount that would otherwise result from the application of the statutory income tax rates as set out below:

	2019	2018
Savings before income taxes and gain on amalgamation	$ 14,047,731	$ 4,825,193
Expected income tax expense at the combined tax rate of 27.0% (2018 - 27.0%) net of the small business deduction	3,792,887	1,302,802
Increase (decrease) in income tax expense resulting from:		
Non-taxable income and non-deductible expense	(68,556)	24,857
Patronage allocation to members of $7,171,129 (2018 - $3,989,562)	(1,936,205)	(1,077,182)
Income or expenses claimed in different periods for income tax purposes:		
Depreciation in excess of capital cost allowance	-	18,574
Capital cost allowance in excess of depreciation	(36,402)	-
Reserve differences	-	(27,718)
Other items that impact income taxes:		
Prior year tax adjustment	(7,068)	8,260
Income tax expense	$ 1,744,656	$ 249,593

19. Operating leases

The Co-operative has entered into leases for the Deer Park Shopping Centre, Deer Park Pharmacy Store, Deer Park Liquor Store, Deer Park Gas Bar, Lacombe Shopping Centre, Lacombe Liquor Store, Lacombe Gas Bar/Carwash, Plaza Shopping Centre, Timberland Shopping Centre, Timberland Gas Bar and Timberland Liquor Store. Future committed minimum lease payments in aggregate amount to:

2020	$ 2,546,941
2021	2,265,304
2022	2,118,714
2023	1,856,324
2024	1,856,324
Subsequent payments	12,390,494
	$ 23,034,101

The Deer Park Shopping Centre lease expires on January 31, 2027.
The Deer Park Pharmacy Store lease expires on January 31, 2027.
The Deer Park Liquor Store lease expires on January 31, 2027.
The Deer Park Gas Bar lease expires on September 30, 2032.
The Lacombe Shopping Centre lease expires on August 31, 2021.
The Lacombe Liquor Store lease expires on November 30, 2022.
The Lacombe Gas Bar/Carwash land lease expires on November 30, 2021.
The Plaza Shopping Centre lease expires on October 31, 2019.
The Timberland Shopping Centre lease expires in 2036.
The Timberland Gas Bar lease expires in 2036.
The Timberland Liquor Store lease expires in 2036.

20. Gain on amalgamation

Immediately following the Co-operatives' 2017 year-end, the Co-operative amalgamated with Eckville Co-operative Association Limited (the "acquiree"). This amalgamation is accounted for using the acquisition method. This method results in the acquiree's identifiable assets acquired and liabilities assumed being measured at their acquisition date fair values. For amalgamations involving cooperatives, the consideration is deemed to be the amount of the acquiree's share capital at the acquisition date. The following is a summary of the fair value of the assets acquired and liabilities assumed in the amalgamation as well as the deemed consideration and calculation of the gain on amalgamation.

Current assets	$ 2,073,912
Property, plant and equipment	3,000,084
Other assets	1,421,436
Total net assets	6,495,432
Less: Total net liabilities	(1,658,822)
Deemed consideration	(1,542,566)
Gain on amalgamation	$ 3,294,044

21. Subsequent event

Patronage allocation to members

Subsequent to January 31, 2019 the Board of Directors approved a patronage allocation to members in the amount of $7,171,129 (2018 - $3,989,562).

22. Commitments

The Co-operative is committed to the upgrading the Spruceview Gas Bar. The estimated total cost of the project is $2,415,000. This project will be financed from operations or loan.

Central Alberta Co-op Ltd.
Statistical Information
For the Year Ended January 31, 2019

Record of Sales and Net Savings

From date of amalgamation, February 1, 2013.	Year	Cash payments to members	Net Sales	Net savings	%
	2014	$ 3,019,834	$ 243,146,178	$ 33,040,735	13.6
	2015	4,471,968	280,161,632	10,658,672	3.8
	2016	4,282,445	276,674,206	8,479,852	3.1
	2017	3,570,419	272,241,108	6,391,984	2.3
	2018	2,763,776	320,107,753	7,869,644	2.5
	2019	2,938,976	339,145,220	12,303,075	3.6
		$ 21,047,418	$ 1,731,476,097	$ 78,743,962	