

CANEX
Consolidated Financial Statements
March 31, 2022

| | |
|--|--------|
| Independent Auditor's Report | 2 - 4 |
| Financial Statements | |
| Consolidated Balance Sheet | 5 |
| Consolidated Operations | 6 |
| Consolidated Deficit | 7 |
| Consolidated Cash Flows | 8 |
| Notes to Consolidated Financial Statements | 9 - 20 |

Independent Auditor's Report

To the Non-Public Oversight and Advisory Board of
CANEX

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Opinion

We have audited the consolidated financial statements of Canadian Forces Exchange System (CANEX) (hereafter "the Company"), which comprise the consolidated balance sheet as at March 31, 2022, and the consolidated statements of operations, deficit and cash flows for the year then ended, and notes to 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 financial position of the Company as at March 31, 2022, 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 "Auditor's responsibilities for the audit of the consolidated financial statements" section of our report. We are independent of the Company 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 consolidated financial statements

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

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

Those charged with governance are responsible for overseeing the Company'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 Company'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 Company'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 Company 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 group 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.

Raymond Chabot Grant Thornton LLP¹

Montréal
September 28, 2022

¹ CPA auditor, public accountancy permit no. A125741

CANEX

Consolidated Balance Sheet

March 31, 2022

(In thousands of Canadian dollars)

| | <u>2022</u> | <u>2021</u> |
|--|---------------|---------------|
| | \$ | \$ |
| ASSETS | | |
| Current | | |
| Cash | 137 | 152 |
| Due from Canadian Forces Central Fund (Note 9) | 10 619 | 10 390 |
| Account and accrued receivables | 229 | 295 |
| Inventory | 18 758 | 19 745 |
| Prepaid expenses | 569 | 301 |
| | <u>30 312</u> | <u>30 883</u> |
| Long-term | | |
| Property and equipment (Notes 4 and 11) | 33 968 | 37 016 |
| | <u>64 280</u> | <u>67 899</u> |
| LIABILITIES | | |
| Current | | |
| Accounts payable and accrued liabilities | 4 293 | 4 046 |
| Current portion of loans payable to Canadian Forces Central Fund | 3 132 | 2 903 |
| | <u>7 425</u> | <u>6 949</u> |
| Long-term | | |
| Asset retirement obligation (Note 11) | 519 | 519 |
| Loans payable to Canadian Forces Central Fund (Note 5) | 36 673 | 37 522 |
| | <u>44 617</u> | <u>44 990</u> |
| EQUITY | | |
| Contributed capital | 23 280 | 23 280 |
| Cumulative translation adjustment | (1 946) | (1 450) |
| Retained earnings (deficit) | (1 671) | 1 079 |
| | <u>19 663</u> | <u>22 909</u> |
| | <u>64 280</u> | <u>67 899</u> |

Commitments and contingencies (Note 10)

The accompanying notes are an integral part of the consolidated financial statements.

On behalf of Chief of Defence Staff,



Frank Rocchetti

Senior Vice President CANEX/NATEX



Julie Peckham

Chief Financial Officer

CANEX

Consolidated Operations

Year ended March 31, 2022

(In thousands of Canadian dollars)

| | <u>2022</u> | <u>2021</u> |
|---|----------------|---------------|
| | \$ | \$ |
| Sales | 114,435 | 108,336 |
| Cost of sales | <u>91,871</u> | <u>88,557</u> |
| Gross profit | 22,564 | 19,779 |
| Other revenue (Notes 6 and 9) | <u>12,840</u> | <u>11,185</u> |
| | 35,404 | 30,964 |
| Expenses | | |
| Payroll and benefits (Note 8) | 20,074 | 19,813 |
| Other operating expenses (Notes 7 and 9) | 11,457 | 12,636 |
| Amortization of property and equipment | 4,757 | 5,059 |
| Interest on loans payable to Canadian Forces Central Fund | <u>1,565</u> | <u>1,676</u> |
| | 37,853 | 39,184 |
| Loss before royalties and contributions | (2,449) | (8,220) |
| Royalties and contributions (Note 9) | <u>(301)</u> | <u>(489)</u> |
| Net loss | (2,750) | (8,709) |

The accompanying notes are an integral part of the consolidated financial statements.

CANEX

Consolidated Deficit

Year ended March 31, 2022

(In thousands of Canadian dollars)

| | <u>2022</u> | <u>2021</u> |
|--|-----------------------|---------------------|
| | \$ | \$ |
| Retained earnings, beginning of year | 1,079 | 9,788 |
| Net loss | (2,750) | (8,709) |
| Retained earnings (deficit), end of year | <u>(1,671)</u> | <u>1,079</u> |

The accompanying notes are an integral part of the consolidated financial statements.

CANEX

Consolidated Cash Flows

Year ended March 31, 2022

(In thousands of Canadian dollars)

| | <u>2022</u> | <u>2021</u> |
|---|----------------|----------------|
| | \$ | \$ |
| OPERATING ACTIVITIES | | |
| Net loss | (2,750) | (8,709) |
| Non-cash items | | |
| Amortization of property and equipment | 4,757 | 5,059 |
| Loss (gain) on disposal of property and equipment | (25) | 6 |
| | <u>1,982</u> | <u>(3,644)</u> |
| Net change in working capital items (Note 12) | 803 | 8,786 |
| Cash flows from operating activities | <u>2,785</u> | <u>5,142</u> |
| INVESTING ACTIVITIES | | |
| Purchase of property and equipment and cash flows from investing activities | <u>(1,684)</u> | <u>(1,855)</u> |
| FINANCING ACTIVITIES | | |
| Proceeds from the issuance of loans payable to Canadian Forces Central Fund | 2,283 | 323 |
| Repayment of loans payable to Canadian Forces Central Fund | <u>(2,903)</u> | <u>(3,197)</u> |
| Cash flows from financing activities | <u>(620)</u> | <u>(2,874)</u> |
| Net increase in cash | 481 | 413 |
| Cash, beginning of year | 152 | 146 |
| Effect of foreign exchange rate on cash | <u>(496)</u> | <u>(407)</u> |
| Cash, end of year | <u>137</u> | <u>152</u> |
| Supplementary non-cash information | | |
| Non-cash additions to property and equipment | - | - |
| Non-cash additions to asset retirement obligation | - | - |

The accompanying notes are an integral part of the consolidated financial statements.

CANEX

Notes to Consolidated Financial Statements

March 31, 2022

(In thousands of Canadian dollars)

1 - BASIS OF ORGANIZATION

CANEX is a commercial activity of Canadian Forces Morale and Welfare Services (CFMWS) operating under the authority of the Chief of the Defence Staff (CDS) in his Non-public Property (NPP) capacity.

In Canada, the business consists of merchandising operations at Canadian Forces Bases, Wings and Units operating under the name CANEX. In Germany, similar businesses are operated at the North Atlantic Treaty Organization Air Base at Geilenkirchen (NATO Air Base) under the name NATEX, in accordance with the concession contract (NATEX contract) between CANEX and the NAEWF E-3A Component headquarters. CANEX also operates an automotive sales transaction office in Germany under the name AMSTO.

CANEX distributes royalties through CFMWS to the Bases, Wings and Units at which CANEX operates. NATEX distributes royalties to the NATO Air Base in accordance with the NATEX contract.

2 - ACCOUNTING CHANGE

On January 1, 2021, the Company applied the changes to Section 3856, Financial Instruments, and to Section 3840, Related Party Transactions, of Part II of the *CPA Canada Handbook – Accounting*. The purpose of these changes is to provide additional recommendations on the accounting treatment of financial instruments originated or exchanged in a related party transaction.

The changes require that financial assets originated or acquired and financial liabilities issued or assumed in a related party transaction be initially measured at cost, with the exception of certain specific financial instruments that are initially measured at fair value. The cost of a financial asset originated or acquired or of a financial liability issued or assumed in these circumstances depends on whether the instrument has repayment terms. When the financial instrument has repayment terms, its cost is determined using the undiscounted cash flows, excluding interest and dividend payments, and less any impairment losses previously recognized by the transferor. The cost of a financial instrument that does not have repayment terms is determined using the consideration transferred or received in the transaction.

The changes generally require that financial assets and liabilities from related party transactions be subsequently measured using the cost method, except for investments in equity instruments that are quoted in an active market which are measured at fair value.

The changes provide additional guidance on how to measure the impairment loss of a financial asset originated or acquired in a related party transaction subsequently measured using the cost method.

The changes also require that an enterprise recognize the effect of the forgiveness of a financial asset originated or created in a related party transaction or the extinguishment of a financial liability issued or assumed in a related party transaction in equity or net income, depending on the circumstances that gave rise to the financial asset or liability.

CANEX

Notes to Consolidated Financial Statements

March 31, 2022

(In thousands of Canadian dollars)

2 - ACCOUNTING CHANGE (Continued)

In accordance with the transitional provisions, these changes, that are applicable for fiscal years beginning on or after January 1, 2021, have been applied retrospectively taking certain relief measures into account.

Application of the changes did not have any impact on the financial statements for the year ended March 31, 2021.

3 - SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These consolidated financial statements have been prepared in accordance with Canadian accounting standards for private enterprises.

Principles of consolidation

These consolidated financial statements include the accounts of CANEX and its wholly-owned subsidiaries, NATEX and AMSTO (together "CANEX" or "the Company"). All significant transactions and balances between these entities have been eliminated.

Inventory

Inventory, which is composed of retail products, is recorded at the lower of cost and net realizable value. The cost method for inventory is substantially determined using the average cost. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale, which correspond to the direct cost of the inventory.

Property and equipment

Amortization

Property and equipment are initially recorded at cost and are then amortized on a straight-line basis over their estimated useful lives at the following annual rates:

| | <u>Rates</u> |
|---------------------------------------|--------------|
| Buildings | 5% |
| Motor vehicles and computer equipment | 24% |
| Point of sale system | 17% |
| Fixtures and equipment | 12% |
| Building improvements | 9% |

Work in progress is amortized when the asset is substantially completed.

CANEX

Notes to Consolidated Financial Statements

March 31, 2022

(In thousands of Canadian dollars)

3 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment

Property and equipment are tested for recoverability when events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized when their carrying value exceeds the total undiscounted cash flows expected from their use and eventual disposal. The amount of the impairment loss is determined as the excess of the carrying value of the asset over its fair value.

Asset retirement obligation

Asset retirement obligations relate to estimated future costs to remove underground motor fuel storage tanks and are based on CANEX's prior experience in removing these fuel tanks, the fuel tanks' estimated useful lives, external estimates and governmental regulatory requirements. A discounted liability is recorded for the fair value of an asset retirement obligation with a corresponding increase in the carrying value of the related long-lived asset at the time an underground storage fuel tank is installed. To determine the initial recorded liability, the future estimated cash flows are discounted at a rate representing the Canadian Forces Central Fund (CFCF) banking facility and local banking arrangement rates, taking into consideration inflation. The amount added to property and equipment is amortized.

Following the initial recognition of the asset retirement obligation, the carrying amount of the liability is increased to reflect the passage of time and then adjusted for variations in the current market based discount rate or the scheduled underlying cash flows required to settle the liability.

Employee future benefits

CANEX participates in the Canadian Forces Non-public Funds Employees Pension Plan (hereafter "the Plan"), which is a multi-employer, contributory, defined benefit plan. The Plan provides retirement benefits relating to contributions and years of service of staff of all Non-public Funds. Substantially all CANEX employees are eligible to be members of the plan.

CANEX's portion of the Plan is accounted for as a defined contribution plan as there is insufficient information available to use defined benefit plan accounting. As a result, CANEX's contributions to the Plan are included as an expense in the statement of consolidated operations. A pension asset has not been recorded in the consolidated balance sheet.

Revenue recognition

The Company's principal sources of revenue comprise the sale of merchandise, concession revenue and Personal Insurance Company revenue. Revenue is recognized when the following criteria are met:

- Persuasive evidence of an arrangement exists;
- Delivery has occurred or services have been rendered;
- The price to the buyer is fixed or determinable;
- Collection is reasonably assured.

CANEX

Notes to Consolidated Financial Statements

March 31, 2022

(In thousands of Canadian dollars)

3 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue from the sale of merchandise is recorded on acceptance by the customer. CANEX records revenue from Canadian sales under its credit plan when the customer takes possession of the merchandise and collectibility is assured. Credit plan balances are transferred to the CFCF and are non-interest bearing.

The concessions revenues are from concessions on the basis of agreements established between CANEX and each individual concessioner. Revenue is therefore recorded in line with the terms of the agreements, which include straight-line or variable basis. Where revenue is contingent on a variable, CANEX records an accrual and, upon the receipt of the concessioner's results, CANEX will then record a subsequent true-up.

The Personal Insurance Company revenue corresponds to commission income which is recognized on the effective date of the policies when the customer has accepted the policy or has not sent modification that the policy will not be renewed.

Income taxes

In common with other non-public funds, CANEX is exempt from paying income taxes under Part I of the Income Tax Act.

Foreign currency translation

Functional currencies

Items included in the consolidated financial statements are measured using the currencies of the primary economic environment in which the Company operates (hereafter "the functional currencies"). The functional currency of NATEX and AMSTO is the euro. NATEX and AMSTO are considered self-sustaining foreign operations.

NATEX's and AMSTO's assets and liabilities are translated into Canadian dollars at the exchange rate in effect at the consolidated balance sheet date. NATEX's and AMSTO's revenues and expenses are translated at the exchange rate in effect on the dates on which such items are recognized in consolidated operations. Gains and losses resulting from the translation of the accounts of NATEX and AMSTO are recorded as translation adjustments in a separate component of equity.

Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currencies using the exchange rate in effect at the transaction date. Monetary assets and liabilities denominated in foreign currencies are adjusted to reflect the exchange rate in effect at the consolidated balance sheet date. An exchange gain or loss that arises on translation or settlement is included in the determination of net earnings (loss) for the year.

CANEX

Notes to Consolidated Financial Statements

March 31, 2022

(In thousands of Canadian dollars)

3 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets and liabilities

Initial measurement

Upon initial measurement, the Company's financial assets and liabilities from transactions not concluded with related parties and those from transactions with parties whose sole relationship with the entity is in the capacity of management (and members of the immediate family) are measured at fair value, which, in the case of financial assets or financial liabilities that will be measured subsequently at amortized cost, is increased or decreased by the amount of the related financing fees and transaction costs. The Company's financial assets and liabilities from related party transactions are measured at cost.

Subsequent measurement

At each reporting date, the Company measures its financial assets and liabilities from transactions not concluded with related parties at amortized cost (including any impairment in the case of financial assets), whereas financial assets and liabilities from related party transactions are measured using the cost method (including any impairment in the case of financial assets).

Transaction costs relating to financial assets and liabilities that are measured at amortized cost are amortized on a straight-line basis over the term of the related financial instrument. Amortization of transaction costs related to long-term debt is recognized in consolidated earnings as interest expense.

With respect to financial assets measured at amortized cost or using the cost method, the Company assesses whether there are any indications of impairment. When there is an indication of impairment, and if the Company determines that, during the year, there was a significant adverse change in the expected timing or amount of future cash flows from a financial asset, it will then recognize a reduction as an impairment loss in consolidated earnings. The reversal of a previously recognized impairment loss on a financial asset measured at amortized cost or using the cost method is recognized in consolidated earnings in the year the reversal occurs.

Use of estimates

The preparation of consolidated financial statements in accordance with Canadian accounting standards for private enterprises requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates. The estimates are reviewed annually and as adjustments become necessary, they are recognized in the consolidated financial statements in the year they become known.

CANEX

Notes to Consolidated Financial Statements

March 31, 2022

(In thousands of Canadian dollars)

4 - PROPERTY AND EQUIPMENT

| | 2022 | | |
|---------------------------------------|----------------|-----------------------------|------------------------|
| | Cost | Accumulated amortization | Net carrying amount |
| | \$ | \$ | \$ |
| Buildings | 49,539 | 29,073 | 20,466 |
| Motor vehicles and computer equipment | 2,512 | 2,247 | 265 |
| Point of sale system | 9,491 | 6,928 | 2,563 |
| Fixtures and equipment | 11,221 | 8,350 | 2,871 |
| Building improvements | 24,150 | 18,340 | 5,810 |
| Work in progress | 1,993 | | 1,993 |
| | <u>98,906</u> | <u>64,938</u> | <u>33,968</u> |
| | | | 2021 |
| | Cost | Accumulated amortization | Net carrying amount |
| | \$ | \$ | \$ |
| Buildings | 51,480 | 29,040 | 22,440 |
| Motor vehicles and computer equipment | 2,463 | 2,327 | 136 |
| Point of sale system | 9,959 | 6,072 | 3,887 |
| Fixtures and equipment | 9,370 | 8,688 | 682 |
| Building improvements | 25,062 | 18,161 | 6,901 |
| Work in progress | 2,970 | | 2,970 |
| | <u>101,304</u> | <u>64,288</u> | <u>37,016</u> |

5 - LOANS PAYABLE TO CFCF

Loans payable to CFCF bear interest at a fixed rate of 4% (4% as at March 31, 2021) per annum and are unsecured. Principal repayments over the next five years and thereafter are as follows:

| | \$ |
|----------------------------|---------------|
| Year ending March 31, 2023 | 3,132 |
| 2024 | 3,176 |
| 2025 | 3,197 |
| 2026 | 3,084 |
| 2027 | 3,029 |
| Thereafter | <u>24,187</u> |
| | 39,805 |
| Less: Current portion | <u>3,132</u> |
| Long-term portion | <u>36,673</u> |

CANEX

Notes to Consolidated Financial Statements

March 31, 2022

(In thousands of Canadian dollars)

6 - OTHER REVENUE

| | <u>2022</u> | <u>2021</u> |
|---|---------------|---------------|
| | \$ | \$ |
| Concessions | 3,582 | 3,132 |
| The Personal Insurance Company | 4,683 | 4,468 |
| Interest income – NATEX and AMSTO | 870 | 843 |
| Other – NATEX and AMSTO | 190 | 321 |
| Other commission (duty-free, post office) | 514 | 496 |
| Home heating oil | 216 | 61 |
| Rental and delivery | 585 | 436 |
| Miscellaneous | 564 | 361 |
| Advertising | 150 | 28 |
| BMO Royalty | 1,069 | 702 |
| CF appreciation | 417 | 337 |
| | <u>12,840</u> | <u>11,185</u> |

7 - OTHER OPERATING EXPENSES

| | <u>2022</u> | <u>2021</u> |
|--|---------------|---------------|
| | \$ | \$ |
| Support services user fees (accounting, information technology, human resources) | 3,292 | 3,285 |
| Service (cleaning, delivery, consulting) | 2,645 | 2,944 |
| Facilities | 1,806 | 1,719 |
| Marketing and advertising | 1,287 | 1,841 |
| Fees (recycling, credit card, terminal) | 1,274 | 1,238 |
| Other (doubtful accounts, supplies, travel, equipment) | 1,153 | 1,609 |
| | <u>11,457</u> | <u>12,636</u> |

8 - PENSION PLAN

CANEX share of contributions to the Plan was \$942 (\$794 in 2021) and is included in the payroll and benefits expense on the statement of consolidated operations.

Extrapolations of an actuarial valuation prepared as at December 31, 2021 indicated the following information about the overall Plan:

| | <u>2022-12-31</u> | <u>2021-12-31</u> |
|----------------------------|-------------------|-------------------|
| | \$ | \$ |
| Fair value of plan assets | 521,460 | 438,724 |
| Accrued benefit obligation | (361,570) | (350,681) |
| Surplus | <u>159,890</u> | <u>88,043</u> |

Under the going concern basis, this valuation compares the relationship between the value of the Plan's assets and the present value of the expected future benefit cash flows in respect of accrued service, assuming the Plan will be maintained indefinitely. Under this scenario, the valuation resulted in a surplus of \$142,110 (\$80,500 in 2021).

CANEX

Notes to Consolidated Financial Statements

March 31, 2022

(In thousands of Canadian dollars)

8 - PENSION PLAN (Continued)

Conversely, under the hypothetical solvency (or windup) basis, the Plan is assumed to be wound up and settled on the valuation date, assuming benefits are settled in accordance with the existing taxation rules and under circumstances producing the maximum windup liabilities on the valuation date. This valuation resulted in a deficit of \$468 (\$83,400 in 2021).

These valuations are utilized to assess monthly and annual employer contributions.

9 - RELATED PARTY TRANSACTIONS

The related party transactions are measured at the exchange amount, which is the value established and accepted by the parties, excluding the resulting financial instruments.

CFCF, which provides banking services and financial assistance to NPP activities at Bases, Wings and Units as well as to CANEX, also operates under the authority of the CDS in his NPP capacity. The due from CFCF of \$10,619 (\$10,390 as at March 31, 2021) comprises interest and non-interest bearing funds:

| | <u>2022</u> | <u>2021</u> |
|----------------------|---------------|---------------|
| | \$ | \$ |
| Interest bearing | 24,581 | 24,581 |
| Non-interest bearing | (13,962) | (14,191) |
| Total | <u>10,619</u> | <u>10,390</u> |

Interest bearing funds relate to the due from CFCF previously held by NATEX/AMSTO. These funds receive interest based on the CFCF rate of return less 0.5%. Interest earned from CFCF of \$870 (\$842 in 2021) is included in other revenue.

Non-interest bearing funds relate to CANEX operations and are due from/to CFCF on demand.

CFCF assumes all trade payables from CANEX for consideration at their fair value. In addition, the risks and rewards of receivable collection related to the credit plan and other trade receivables are assumed by CFCF for consideration at their fair value. All credit plan balances and other trade receivables and all trade payables are assumed by the CFCF at fair value. At year-end, CANEX recorded a provision of 1% for the estimate of potential future losses on the credit plan receivables balance (1% in 2021). Fees charged by CFCF amounted to \$559 (\$524 in 2021).

Royalties and contributions

CANEX did not contribute any amount (nil in 2021) to enhance NPP Morale and Welfare Programs at Canadian Forces Bases, Wings and Units.

NATEX contributed \$300 (\$489 in 2021) to the NATO Air Base. NATEX's contributions are based on various percentages of consumer sales, in accordance with the NATEX contract.

CANEX

Notes to Consolidated Financial Statements

March 31, 2022

(In thousands of Canadian dollars)

9 - RELATED PARTY TRANSACTIONS (Continued)

Department of National Defence

The Department of National Defence (DND), a Canadian government department, provides certain facilities and land. It also pays for and provides other services on behalf of, and at no cost to, CANEX. These services include payment in lieu of taxes and the use of legal, environmental and other advisory services. The fair value of the facility and services provided to CANEX by DND has not been determined and therefore has not been recorded in the consolidated financial statements.

The Department of National Defence (DND) contributions of \$2,818 (\$2,732 in 2021) toward payroll costs are included in the statement of consolidated operations.

The Department of National Defence (DND) contributions of \$278 (\$1,703 in 2021) toward a wage subsidy due to CANEX store closures and reduced operations are included in the statement of consolidated operations.

Canadian Forces Morale and Welfare Services

The Canadian Forces Morale and Welfare Services (CFMWS) provides accounting, information technology and human resources services to CANEX. These transactions occurred in the normal course of operations and are recorded in other operating expenses at the exchange amount of \$3,280 (\$3,300 in 2021), which is the value established and accepted by the parties, excluding the resulting financial instruments.

10 - COMMITMENTS

CANEX is committed to minimum annual payments under motor fuel supply agreements as follows:

| | \$ |
|----------------------------|---------------|
| Year ending March 31, 2023 | 5,019 |
| 2024 | 1,587 |
| 2025 | 1,587 |
| 2026 | 1,587 |
| 2027 | 1,058 |
| | <u>10,838</u> |

The minimum annual payments were calculated using the average fuel price (\$1.46) from April 1, 2021 to March 31, 2022 and the minimum annual motor fuel purchase stipulated in each agreement.

CANEX also entered into two separate agreements ending in 2023 and 2024 or until 5.5M and 15M litres of motor fuel have been purchased, respectively.

CANEX

Notes to Consolidated Financial Statements

March 31, 2022

(In thousands of Canadian dollars)

11 - ASSET RETIREMENT OBLIGATION

The discounted value of the asset retirement cost included in the buildings category of property and equipment is estimated at \$304. The amortization of this asset has generated an expense of \$21 in 2022 (\$21 in 2021). The total undiscounted amount of estimated cash flows to settle the asset retirement obligation is approximately \$720 (discounted value \$529) and is expected to be incurred over the next 23 years. Should changes occur in estimated future removal costs, fuel tank useful lives or governmental regulatory requirements, revisions to the liability shall be made. Of the total liability recorded in the consolidated balance sheet as at March 31, 2022, no amount is expected to be paid within the next twelve months.

During the year, no amount (nil in 2021) was paid toward the retirement of fuel tanks.

12 - NET CHANGE IN WORKING CAPITAL ITEMS

| | <u>2022</u> | <u>2021</u> |
|--|-------------------|---------------------|
| | \$ | \$ |
| Due from CFCF | (229) | 1,558 |
| Account and accrued receivables | 66 | 314 |
| Inventory | 987 | 5,683 |
| Prepaid expenses | (268) | 485 |
| Accounts payable and accrued liabilities | 247 | 746 |
| | <u>803</u> | <u>8,786</u> |

13 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Credit risk

CANEX provides credit to its customers through its credit plan. CANEX has credit evaluation, approval and monitoring processes intended to mitigate potential credit risks. Credit plan balances are transferred to the CFCF and are non-interest bearing. The amount outstanding on the CANEX credit plan due to the CFCF is \$48,978 (\$52,416 in 2021).

Currency risk

Included in other expenses is a foreign exchange gain of \$1 (\$3 in 2021). The carrying amounts of CANEX's foreign currency denominated balances are as follows:

| | <u>2022</u> | | <u>Current assets</u> | |
|-------|--------------|--------------|-----------------------|-------|
| | € | \$ | € | \$ |
| NATEX | 3,034 | 4,202 | 2,866 | 4,230 |
| AMSTO | 2,546 | 3,528 | 2,045 | 3,018 |

CANEX

Notes to Consolidated Financial Statements

March 31, 2022

(In thousands of Canadian dollars)

13 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

| | 2022 | | Current liabilities 2021 | |
|-------|------|-----|-----------------------------|-----|
| | € | \$ | € | \$ |
| NATEX | 326 | 451 | 245 | 362 |
| AMSTO | 122 | 169 | 26 | 39 |

Interest rate risk

CANEX is exposed to interest rate risk with respect to financial assets and liabilities bearing fixed and variable interest rates. The loans payable to CFCF bear interest at a fixed rate and CANEX is, therefore, exposed to the risk of changes in fair value resulting from interest rate fluctuations. The amount due from (to) CFCF bears interest at a variable rate and CANEX is, therefore, exposed to the cash flow risk resulting from interest rate fluctuations.

Liquidity risk

Liquidity risk represents the risk that CANEX could encounter difficulty in meeting obligations associated with its financial liabilities. CANEX is, therefore, exposed to liquidity risk with respect to all of the financial liabilities recognized on the consolidated balance sheet.

14 - NATEX/AMSTO OPERATIONS

Included in the consolidated financial statements of CANEX are the results of operations for NATEX and AMSTO. The financial information for NATEX and AMSTO is summarized as follows:

| | 2022 | | |
|---|-------|--------|----|
| | € | \$ | % |
| Total assets | 5,989 | 8,296 | 13 |
| Sales and other revenue | 7,543 | 11,054 | 9 |
| Earnings before royalties and contributions | 697 | 1,022 | – |
| | 2021 | | |
| | € | \$ | % |
| Total assets | 5,320 | 7,851 | 12 |
| Sales and other revenue | 7,706 | 11,888 | 10 |
| Loss before royalties and contributions | (3) | (4) | – |

CANEX

Notes to Consolidated Financial Statements

March 31, 2022

(In thousands of Canadian dollars)

15 - COVID-19 PANDEMIC

Beginning March 2020, the outbreak of the coronavirus disease ("COVID-19") led to governments enacting emergency measures to combat the spread of the virus. These measures, which include the worldwide implementation of travel bans, self-imposed quarantine periods, restrictions on retail services and social distancing, have caused material disruption to businesses globally and led to economic slowdowns. Canada faced additional COVID-19 outbreaks in 2021, leading to further restrictions by provinces and, as a result, a continued impact to CANEX retail services and programs due to reduced operating hours, concessionaire closures and restriction of which goods and services could be offered to the members. The net result of these restrictions has been a reduction of topline sales, revenue and profits. As Canada slowly recovers and restrictions ease, it is too early to reliably estimate the continued length and severity of COVID-19, especially with several variants currently circulating globally, which may further restrict and impact CANEX retail services, programs and operations in the near future.