

CANEX
Consolidated Financial Statements
March 31, 2020

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Raymond Chabot Grant Thornton

Independent Auditor's Report

To the Non-Public Property Board

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Opinion

We have audited the accompanying consolidated financial statements of Canadian Forces Exchange System (CANEX) (hereafter "the Company") which comprise the consolidated balance sheet as at March 31, 2020 and the consolidated statements of operations, retained earnings and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of CANEX as at March 31, 2020 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 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.

Other matter - Comparative information audited by a predecessor auditor

The financial statements for the year ended March 31, 2019 were audited by another auditor who expressed an unmodified opinion on those statements on November 25, 2019.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of these 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 responsibility for the audit of the consolidated 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 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 financial consolidated statements, including the disclosures, and whether the 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

Montreal
October 26, 2020

¹ CPA auditor, CA public accountancy permit no. A125741

CANEX

Consolidated Balance Sheet

March 31, 2020

(in thousands of Canadian dollars)

	<u>2020</u>	<u>2019</u>
	\$	\$
ASSETS		
Current		
Cash	5,271	5,933
Due from Canadian Forces Central Fund (note 8)	5,426	11,817
Account and accrued receivables	609	790
Inventory	25,428	27,499
Prepaid expenses	786	747
	<u>37,520</u>	<u>46,786</u>
Long-term		
Property and equipment (notes 3 and 11)	40,226	42,721
	<u>77,746</u>	<u>89,507</u>
LIABILITIES		
Current		
Accounts payable and accrued liabilities	1,903	4,630
Current portion of loans payable to Canadian Forces Central Fund (note 4)	2,915	2,684
	<u>4,818</u>	<u>7,314</u>
Long-term		
Asset retirement obligation (note 11)	507	880
Loans payable to Canadian Forces Central Fund (note 4)	40,384	37,573
	<u>45,709</u>	<u>45,767</u>
EQUITY		
Contributed capital	23,280	23,280
Cumulative translation adjustment	(1,031)	(1,392)
Retained earnings	9,788	21,852
	<u>32,037</u>	<u>43,740</u>
	<u>77,746</u>	<u>89,507</u>

Commitments and contingencies (notes 9 and 10)

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

On behalf of the Board,



 Chief Financial Officer

CANEX

Consolidated Statement of Operations

Year ended March 31, 2020
(in thousands of Canadian dollars)

	2020	2019
	\$	\$
Sales	133 025	130 038
Cost of merchandise sold	109 609	104 724
Gross profit	23 416	25 314
Other revenue (notes 5 and 8)	12 455	11 476
	35 871	36 790
Expenses		
Payroll and benefits (note 7)	21 666	20 525
Other operating expenses (notes 6 and 8)	15 785	13 656
Amortization of property and equipment	5 230	4 902
Interest on loans payable to Canadian Forces Central Fund	1 631	1 649
	44 312	40 732
Loss before royalties and contributions	(8 441)	(3 942)
Royalties and contributions (note 8)	(3 623)	(3 702)
Net loss for the year	(12 064)	(7 644)

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

CANEX

Consolidated Statement of Retained Earnings

Year ended March 31, 2020
(in thousands of Canadian dollars)

	<u>2020</u>	<u>2019</u>
	\$	\$
Retained earnings – Beginning of year	21 852	29 496
Net loss for the year	<u>(12 064)</u>	<u>(7 644)</u>
Retained earnings – End of year	<u>9 788</u>	<u>21 852</u>

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

CANEX

Consolidated Statement of Cash Flows

Year ended March 31, 2020
(in thousands of Canadian dollars)

	<u>2020</u>	<u>2019</u>
	\$	\$
OPERATING ACTIVITIES		
Net loss for the year	(12 064)	(7 644)
Items not affecting cash		
Amortization of property and equipment	5 230	4 902
Loss on disposal of property and equipment	4	3
	<u>(6 830)</u>	<u>(2 739)</u>
Net change in working capital items (note 13)	5 877	8 826
Cash flows from operating activities	<u>(953)</u>	<u>6 087</u>
INVESTING ACTIVITIES		
Purchase of property and equipment	(3 080)	(5 743)
Proceeds on disposal of property and equipment		8
Cash flows from investing activities	<u>(3 080)</u>	<u>(5 735)</u>
FINANCING ACTIVITIES		
Proceeds from the issuance of loans payable to Canadian Forces Central Fund	5 765	6 469
Repayment of loans payable to Canadian Forces Central Fund	(2 724)	(2 730)
Cash flows from financing activities	<u>3 041</u>	<u>3 739</u>
Net change in cash for the year	(992)	4 091
Cash – Beginning of year	5 933	4 967
Effect of foreign exchange rate on cash	330	(3 125)
Cash – End of year	<u>5 271</u>	<u>5 933</u>
Supplementary non-cash information		
Non-cash additions to property and equipment		(163)
Non-cash additions to asset retirement obligation		163

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

CANEX

Notes to Consolidated Financial Statements

March 31, 2020

(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, 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 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 controlled subsidiaries, NATEX and AMSTO (collectively, CANEX or the Organization). 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 determined using 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.

CANEX

Notes to Consolidated Financial Statements

March 31, 2020

(in thousands of Canadian dollars)

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and equipment and intangible assets

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

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.

Impairment of property and equipment

Property and equipment are tested for recoverability whenever events or changes in circumstances indicate their carrying amount may not be recoverable. An impairment loss is recognized when its carrying value exceeds the total undiscounted cash flows expected from its use and eventual disposition. 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 to 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 (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

Notes to Consolidated Financial Statements

March 31, 2020

(in thousands of Canadian dollars)

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 consolidated statement of operations. A pension asset has not been recorded on 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.

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 (note 3).

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 record an accrual an accrual is recorded and subsequent true-up upon the receipt of the concessionaire's results.

The Personal Insurance Company revenues are commission income which are 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 tax under Part 1 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 entities operate (the functional currencies). The functional currency of NATEX and AMSTO is the Euro. NATEX and AMSTO are considered self-sustaining foreign operations.

CANEX

Notes to Consolidated Financial Statements

March 31, 2020

(in thousands of Canadian dollars)

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currency translation (Continued)

Functional currencies (Continued)

NATEX 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 earnings (loss) for the year. 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 functional currencies using the exchange rate in effect at the transaction dates. 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.

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.

3 - PROPERTY AND EQUIPMENT

	2020		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Buildings	51 629	27 102	24 527
Motor vehicles and computer equipment	2 455	2 342	113
Point of sale system	10 081	4 787	5 294
Fixtures and equipment	9 653	8 867	786
Building improvements	25 361	17 149	8 212
Work-in-progress	1 294		1 294
	100 473	60 247	40 226

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Notes to Consolidated Financial Statements

March 31, 2020

(in thousands of Canadian dollars)

3 - PROPERTY AND EQUIPMENT (Continued)

	2019		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Buildings	48 289	22 900	25 389
Motor vehicles and computer equipment	2 485	2 384	101
Point of sale system	10 345	3 513	6 832
Fixtures and equipment	9 495	8 626	869
Building improvements	25 924	20 412	5 512
Work-in-progress	4 018		4 018
	<u>100 556</u>	<u>57 835</u>	<u>42 721</u>

4 - LOANS PAYABLE TO CFCF

Loans payable held by CFCF bear interest at a fixed rate of 4% (2019 - 4%) per annum and are unsecured. Principal repayments over the next five years and thereafter are as follows:

	\$
Year ending March 31, 2021	2 915
2022	2 892
2023	2 930
2024	2 964
2025	2 977
Thereafter	<u>28 621</u>
	43 299
Less: Current portion	<u>2 915</u>
Long-term portion	<u>40 384</u>

5 - OTHER REVENUE

	2020	2019
	\$	\$
Concessions	4 716	4 542
The Personal Insurance Company	4 171	3 717
Interest income NATEX & AMSTO		1 492
Other NATEX & AMSTO	516	499
Other commission (duty free, post office)	731	354
Home heating oil	232	315
Rental and delivery	300	238
Miscellaneous	465	161
Advertising	66	158
BMO Royalty	408	
CF Appreciation	850	
	<u>12 455</u>	<u>11 476</u>

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Notes to Consolidated Financial Statements

March 31, 2020

(in thousands of Canadian dollars)

6 - OTHER OPERATING EXPENSES

	<u>2020</u>	<u>2019</u>
	\$	\$
Support Services User Fees (accounting, information technology, human resources)	3 309	3 343
Service (cleaning, delivery, consulting)	3 303	2 909
Facilities	2 176	2 260
Marketing and Advertising	1 760	1 521
Fees (recycling, credit card, terminal)	1 530	1 206
Other (bad debt, supplies, travel, equipment)	3 707	2 417
	<u>15 785</u>	<u>13 656</u>

7 - PENSION PLAN

CANEX share of contributions to the Plan was \$786 (\$1,057 in 2019) and is included in the payroll and benefits expense on the consolidated statement of operations.

Extrapolations of an actuarial valuation prepared as at December 31, 2019 indicated the following information about the overall Plan:

	<u>December 31,</u>	<u>December 31,</u>
	2019	2018
	\$	\$
Fair value of plan assets	415 364	362 095
Accrued benefit obligation	(315 227)	(282 280)
Surplus	<u>100 137</u>	<u>79 815</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 \$91,470 (\$93,500 in 2018).

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 \$48,460 (\$41,800 in 2018).

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

CANEX

Notes to Consolidated Financial Statements

March 31, 2020

(in thousands of Canadian dollars)

8 - RELATED PARTY TRANSACTIONS

Transactions with related parties and are measured at their exchange amounts, which are the amounts established and agreed to by the related parties involved.

Amount due from (to) CFCF

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. Due from CFCF, \$5,426 (\$11,817 in 2019) comprises interest and non-interest bearing funds:

	<u>2020</u>	<u>2019</u>
	\$	\$
Interest bearing	24 581	24 581
Non-interest bearing	<u>(19 155)</u>	<u>(12 764)</u>
Total	<u>5 426</u>	<u>11 817</u>

Interest bearing relates to 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 \$ - (\$1,492 in 2019) is included in other revenue.

Non-interest bearing relates to CANEX operations and is 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 2019). Fees charged by CFCF amounted to \$588 (\$588 in 2019).

Royalties and contributions

CANEX contributed \$3,152 (\$3,150 in 2019) to enhance NPP Morale and Welfare Programs at Canadian Forces Bases, Wings and Units.

NATEX contributed \$470 (\$552 in 2019) to the NATO Air Base. NATEX' contributions are based on various percentages of consumer sales, in accordance with the NATEX contract.

Department of National Defence

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.

DND contributions of \$2,716 (\$2,555 in 2019) toward payroll costs, travel and supplies are included in the consolidated statement of operations.

CANEX

Notes to Consolidated Financial Statements

March 31, 2020

(in thousands of Canadian dollars)

8 - RELATED PARTY TRANSACTIONS (Continued)

Canadian Forces Morale and Welfare Services

The 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 \$3,309 (\$3,343 in 2019). This is the amount of consideration established and agreed to by the related parties.

9 - COMMITMENTS

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

Year ending March 31, 2021	\$ 8 504
2022	7 136
2023	4 400
2024	3 617
2025	2 785
	<u>26 442</u>

10 - CONTINGENCIES

In December 2016, a gas leak was discovered at the 4 Wing Cold Lake CANEX gas station and reported to Environment Canada in January 2017. Public support is anticipated for environmental remediation. CFMWS carries environmental insurance coverage of \$5,000 per incident, \$5,000 aggregate with a \$25 deductible with Chubb Insurance Company of Canada as a safeguard, which would cover CANEX gas stations. The CANEX deductible would be limited to \$5 as CFMWS is the holder of the policy.

Due to the uncertainty of a possible financial exposure relating to the Cold Lake leakage, CANEX has concluded that the occurrence of this contingency is not determinable at this time and any eventual liability cannot be reasonably estimated, therefore no liability has been recorded within CANEX's consolidated financial statements.

11 - ASSET RETIREMENT OBLIGATION

The discounted value of the asset retirement cost included in the buildings category of property and equipment is estimated at \$346. The amortization of this asset has generated an expense of \$21 in 2020 (\$144 in 2019). The total undiscounted amount of estimated cash flows to settle the asset retirement obligation is approximately \$720 (discounted value — \$507) and is expected to be incurred over the next 24 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, 2020, no amount is expected to be paid within the next 12 months.

During the year, \$nil (nil in 2019) was paid toward the retirement of fuel tanks.

CANEX

Notes to Consolidated Financial Statements

March 31, 2020

(in thousands of Canadian dollars)

12 - 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. The amount outstanding on the CANEX credit plan due to the CFCF is \$58,668 (\$58,762 in 2019).

Currency risk

Included in other expenses is a foreign exchange gain of \$58 (\$182 in 2019).

The carrying amounts of CANEX's foreign currency denominated balances are as follows:

	2020		Current assets	
			2019	
	€	\$	€	\$
NATEX	3 435	5 353	4 958	7 438
AMSTO	1 679	2 617	1 775	2 663

	2020		Current liabilities	
			2019	
	€	\$	€	\$
NATEX	239	373	346	519
AMSTO	12	19	174	261

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 balance sheet.

CANEX

Notes to Consolidated Financial Statements

March 31, 2020

(in thousands of Canadian dollars)

13 - NET CHANGE IN WORKING CAPITAL ITEMS

	<u>2020</u>	<u>2019</u>
	\$	\$
Due from CFCF	6 391	14 493
Account and accrued receivables	181	(304)
Inventory	2 071	(4 947)
Prepaid expenses	(39)	(535)
Accounts payable and accrued liabilities	<u>(2 727)</u>	<u>119</u>
	<u>5 877</u>	<u>8 826</u>

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:

	<u>2020</u>		
	€	\$	%
Total assets	5 619	8 757	11
Sales and other revenue	9 058	13 396	9
Earnings before royalties and contributions	(688)	(1 018)	12
			<u>2019</u>
	€	\$	%
Total assets	5 447	8 172	11
Sales and other revenue	10 805	16 414	12
Earnings before royalties and contributions	1 178	1 767	(28)

15 - COVID-19 PANDEMIC

Beginning March 2020, the outbreak of the coronavirus disease ("Covid-19") has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. The duration and impact of COVID-19 outbreak is unknown at this time, nor is the efficacy of the government and central bank monetary and fiscal interventions designed to stabilize economic conditions. As a result, it is not possible to reliably estimate the length and severity of these developments nor the impact on the financial position and financial results of the Company in current and future periods.