# CANEX

Consolidated Financial Statements
**March 31, 2017**
(in thousands of Canadian dollars)

pwc

October 27, 2017

# Independent Auditor's Report

## To the Non-Public Property Board

We have audited the accompanying consolidated financial statements of the Canadian Forces Exchange System ("CANEX"), which comprise the consolidated balance sheet as at March 31, 2017 and the consolidated statements of loss, retained earnings and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

### Management's responsibility for the consolidated 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.

### Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

*PricewaterhouseCoopers LLP*
*99 Bank Street, Suite 710, Ottawa, Ontario, Canada K1P 1E4*
*T: +1 613 237 3702, F: +1 613 237 3963*

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

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of CANEX as at March 31, 2017 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises.

**Other matter**

The consolidated financial statements of CANEX for the year then ended March 31, 2016 were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on November 3, 2016.

PricewaterhouseCoopers LLP

**Chartered Professional Accountants, Licensed Public Accountants**

# CANEX

## Consolidated Balance Sheet

**As at March 31, 2017**

(in thousands of Canadian dollars)

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash and cash equivalents | 5,339 | 6,697 |
| Due from Canadian Forces Central Fund (note 3) | 29,615 | 26,168 |
| Account and accrued receivables | 384 | 918 |
| Inventory | 20,186 | 21,167 |
| Prepaid expenses | 400 | 393 |
| | 55,924 | 55,343 |
| **Property and equipment** (notes 4 and 12) | 26,063 | 30,345 |
| | 81,987 | 85,688 |
| **Liabilities** | | |
| **Current liabilities** | | |
| Accounts payable and accrued liabilities | 4,446 | 8,800 |
| Current portion of loans payable (note 5) | 2,540 | 2,467 |
| | 6,986 | 11,267 |
| **Asset retirement obligation** (note 12) | 704 | 691 |
| **Loans payable** (note 5) | 21,065 | 18,651 |
| | 28,755 | 30,609 |
| **Equity** | | |
| **Contributed capital** | 23,280 | 23,280 |
| **Deferred loss on currency exchange** | (2,245) | (1,058) |
| **Retained earnings** | 32,197 | 32,857 |
| | 53,232 | 55,079 |
| | 81,987 | 85,688 |

**Commitments and contingencies** (note 10)

**Approved on behalf of the NPP Board**

_______________ Shirley Tang-Jassemi, Chief Financial Officer

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

# CANEX

## Consolidated Statement of Loss

**For the year ended March 31, 2017**

(in thousands of Canadian dollars)

| | 2017 $ | 2016 $ |
|---|---|---|
| **Sales** | 131,092 | 132,713 |
| **Cost of merchandise sold** | 102,456 | 103,877 |
| **Gross profit** | 28,636 | 28,836 |
| **Other revenue** (notes 3 and 6) | 11,481 | 12,025 |
| | 40,117 | 40,861 |
| **Operating expenses** | | |
| Payroll and benefits (note 8) | 19,818 | 18,536 |
| Other operating expenses (note 9) | 12,779 | 14,567 |
| Amortization of property and equipment (note 12) | 3,579 | 3,319 |
| Interest on loans payable (note 5) | 918 | 754 |
| Levies (note 7) | 1 | 69 |
| | 37,095 | 37,245 |
| **Earnings before royalties and contributions** | 3,022 | 3,616 |
| **Royalties and contributions** (note 9) | (3,682) | (3,804) |
| **Net loss for the year** | (660) | (188) |

**Approved on behalf of the NPP Board**

________________________________ Shirley Tang-Jassemi, Chief Financial Officer

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

# CANEX

## Consolidated Statement of Retained Earnings

**For the year ended March 31, 2017**

(in thousands of Canadian dollars)

| | 2017 $ | 2016 $ |
|---|---|---|
| **Retained earnings - Beginning of year** | 32,857 | 33,045 |
| **Net loss for the year** | (660) | (188) |
| **Retained earnings - End of year** | 32,197 | 32,857 |

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

# CANEX

## Consolidated Statement of Cash Flows

**For the year ended March 31, 2017**

(in thousands of Canadian dollars)

| | 2017 $ | 2016 $ |
|---|---|---|
| **Cash provided by (used in)** | | |
| **Operating activities** | | |
| Net loss for the year | (660) | (188) |
| Items not affecting cash | | |
| Amortization of property and equipment | 3,579 | 3,319 |
| Loss on disposal of property and equipment | 34 | 130 |
| | 2,953 | 3,261 |
| Net change in non-cash operating working capital items (note 14) | (4,225) | 3,727 |
| | (1,272) | 6,988 |
| **Investing activities** | | |
| Purchase of property and equipment | (1,563) | (11,198) |
| Proceeds on disposal of property and equipment | 10 | 3 |
| | (1,553) | (11,195) |
| **Financing activities** | | |
| Issuance of loans payable | 6,024 | 3,581 |
| Repayment of loans payable | (3,537) | (1,994) |
| | 2,487 | 1,587 |
| **Effect of exchange rate on foreign currency translation adjustment** | (1,020) | 2,419 |
| **Net change in cash for the year** | (1,358) | (201) |
| **Cash and cash equivalents - Beginning of year** | 6,697 | 6,898 |
| **Cash and cash equivalents - End of year** | 5,339 | 6,697 |
| Cash and cash equivalents comprise: | | |
| Cash | 5,040 | 6,405 |
| Short-term investments | 299 | 292 |
| | 5,339 | 6,697 |

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

(in thousands of Canadian dollars)

## 1 Basis of organization

The Canadian Forces Exchange System ("CANEX") is a commercial activity of the Canadian Forces Morale and Welfare Services (CFMWS) (prior to April 1, 2014 was called Canadian Forces Personnel and Family Support Services) operating under the authority of the Chief of the Defence Staff (CDS) in his Non-Public Property (NPP) capacity. Responsibility for directing the affairs of CANEX rests with the Director General Morale and Welfare Services as delegated by the CDS.

The level of public support provided to CANEX is outlined in Chapter 5 of the Department of National Defence (DND) Manual A-PS-110-001/AG-002, "Public Support of Personnel Support Programs", and under Treasury Board Directive No. 689194, which states in part that:

> "A reasonable level of goods, services and recreation facilities should be available to Canadian Forces personnel in their area of service. Where the levels are inadequate, the Department's responsibility, as an employer, is to ensure their availability, where practical and desirable, may be discharged through a system of non-public fund organizations."

The DND provides direct and indirect public support to CANEX based on the location of the Bases, Wings and Units. Bases, Wings and Units are classified as remote, rural, semi-urban or urban, with each classification having a specified level of DND public fund support.

As at March 31, 2017, the Canadian Forces Central Fund (CFCF) had committed to an amount of $28,157 (2016 - $3,057) in work-in-progress relating to a new location or improvement of the current location. Rights and obligations are transferred to CANEX once the project is completed and generates operating revenue.

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 (ASPE) as issued by the Canadian Accounting Standards Board.

### Financial presentation

These consolidated financial statements include the sales, cost of sales, operating expenses, assets and liabilities of CANEX, NATEX and AMSTO. These entities are collectively referred to as CANEX for the purposes of these consolidated financial statements. All significant transactions and balances between these entities have been eliminated.

(in thousands of Canadian dollars)

### Revenue recognition

Revenue from the sale of merchandise is recorded upon acceptance by the customer. CANEX records revenue from Canadian sales under its credit plan when the customer takes possession of the merchandise and collectability is assured. Credit plan balances are transferred to the Canadian Forces Central Fund (CFCF) (note 3). Concession and administrative fees are recognized each period in accordance with the terms of the agreements.

### Cash and cash equivalents

Cash and cash equivalents include cash and short-term investments with original maturities of three months or less. CANEX uses both the CFCF banking facility and local banking arrangements. Since CFCF banking facilities are not controlled by CANEX, all amounts in this facility have been classified as "Due from Canadian Forces Central Fund" (note 3).

### 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 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

Property and equipment are recorded at cost and are 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% |

Construction 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 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 disposition. The amount of the impairment loss is determined as the excess of the carrying value of the asset over its fair value. No impairment loss was recorded for the years ended March 31, 2017 and 2016.

(in thousands of Canadian dollars)

**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 life, 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 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'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 loss. A pension asset has not been recorded on the consolidated balance sheet.

**Income taxes**

CANEX is a Crown NPP entity and is therefore not subject to income taxes in Canada or Germany. Accordingly, no provision for income taxes has been recorded in these consolidated financial statements.

**Foreign currency translation**

CANEX's reporting and functional currency is the Canadian dollar. The functional currency of NATEX and AMSTO is the Euro. NATEX and AMSTO are considered self-sustaining foreign operations.

NATEX and AMSTO's monetary assets and liabilities have been translated into Canadian dollars at the rates of exchange prevailing at the consolidated balance sheet date. NATEX and AMSTO's revenues and expenses are translated at the average rate of exchange for the year. Gains and losses resulting from translation of the accounts of NATEX and AMSTO are recorded in a separate component of equity.

**Financial instruments**

Financial assets and financial liabilities are initially recognized at fair value when the Company becomes a party to the contractual provisions of the financial instrument. Subsequently, all financial instruments are measured

(in thousands of Canadian dollars)

at amortized cost. CANEX recognizes in net earnings an impairment loss, if any, when there are indicators of impairment and it determines that a significant adverse change has occurred during the period in the expected timing or amount of future cash flows. When the extent of impairment of a previously written-down asset decreases and the decrease can be related to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to net earnings in the period the reversal occurs.

**Use of estimates**

The preparation of consolidated financial statements in accordance with ASPE requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities and 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 presented. Actual results could differ from those estimates.

## 3 Amount due from Canadian Forces Central Fund

The CFCF, which provides banking services and financial assistance to NPP activities at Bases, Wings and Units as well as to CANEX, is a separate entity under the directional responsibility of the NPP Board, which also has ultimate responsibility for CANEX. The amount due from the CFCF is non-interest bearing and due on demand with the exception of $17,965 (2016 - $17,841). 60% of these funds receive interest based on the CFCF rate of return less 0.50% and 40% of the funds receive interest based on the Bank of Montreal prime rate plus 0.25%. Interest earned in the year ended March 31, 2017, amounted to $1,062 (2016 - $1,082) and is included in other revenue.

The 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 the 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 (2016 - 1%). Fees charged in the year ended March 31, 2017, amounted to $590 (2016 - $516).

## 4 Property and equipment

| | | | 2017 |
|---|---|---|---|
| | Cost<br>$ | Accumulated amortization<br>$ | Net<br>$ |
| Buildings | 36,028 | 20,748 | 15,280 |
| Motor vehicles and computer equipment | 2,575 | 1,980 | 595 |
| Point of sale system | 3,056 | 2,598 | 458 |
| Fixtures and equipment | 10,397 | 8,954 | 1,443 |
| Building improvements | 26,010 | 18,917 | 7,093 |
| Construction in progress | 1,194 | - | 1,194 |
| | 79,260 | 53,197 | 26,063 |

(in thousands of Canadian dollars)

| | | | 2016 |
|---|---|---|---|
| | Cost<br>$ | Accumulated amortization<br>$ | Net<br>$ |
| Buildings | 36,223 | 19,977 | 16,246 |
| Motor vehicles and computer equipment | 2,589 | 1,779 | 810 |
| Point of sale system | 3,098 | 2,591 | 507 |
| Fixtures and equipment | 10,580 | 8,885 | 1,695 |
| Building improvements | 25,509 | 18,312 | 7,197 |
| Construction in progress | 3,890 | - | 3,890 |
| | 81,889 | 51,544 | 30,345 |

## 5 Loans payable

Loans payable held by the CFCF bear interest at a fixed rate of 4% (2016 - 4%) per annum and are unsecured. Principal repayments over the next five years and thereafter are as follows.

| | $ |
|---|---|
| 2018 | 2,490 |
| 2019 | 2,446 |
| 2020 | 2,362 |
| 2021 | 2,370 |
| 2022 | 2,320 |
| Thereafter | 11,617 |
| | 23,605 |
| Less: Current portion | 2,540 |
| Long-term portion | 21,065 |

(in thousands of Canadian dollars)

## 6 Other revenue

Other revenue is comprised of the following.

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Concessions revenues | 4,474 | 4,268 |
| Revenue from the Personal Insurance Company | 3,063 | 3,709 |
| AMSTO revenues | 1,011 | 1,188 |
| NATEX other revenues (including interest) | 1,010 | 1,085 |
| Other commission revenues (Duty Free, Post Office) | 1,023 | 803 |
| Rental and delivery revenues | 292 | 293 |
| Other miscellaneous revenues | 157 | 276 |
| Advertising revenues | 164 | 266 |
| Home heating oil revenues | 287 | 137 |
| | 11,481 | 12,025 |

## 7 Levies

Levies are paid to the Support our Troops Fund at a rate of 0.15% of total sales. Levies on AMSTO revenue are paid to the CFCF at a rate of 20% of revenue earned by AMSTO.

## 8 Pension plan

CANEX's contributions to the Plan of $917 (2016 - $824) are included in payroll and benefits on the consolidated statement of loss.

Actuarial valuations prepared for accounting purposes as at December 31, 2016, indicated the following information about the Plan.

| | December 31, 2016<br>$ | December 31, 2015<br>$ |
|---|---|---|
| Fair value of plan assets | 318,136 | 287,554 |
| Accrual benefit obligation | (243,028) | (229,948) |
| Surplus | 75,108 | 57,606 |

(in thousands of Canadian dollars)

In addition, the Plan was actuarially valued at December 31, 2016, on a going concern basis as well as on the solvency basis.

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 $73.4 million (2016 - $57.9 million).

Conversely, under the hypothetical solvency (or wind up) 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 wind up liabilities on the valuation date. This valuation resulted in a deficit of $41.3 million (2016 - $48.2 million).

These valuations are utilized to assess monthly and annual employer contributions. The Plan is required to have its next actuarial valuation performed as at December 31, 2017.

## 9 Related party transactions

### Royalties and contributions

In the year ended March 31, 2017, CANEX contributed an amount of $3,150 (2016 - $3,167) to enhance NPP Morale and Welfare Programs at Canadian Forces Bases, Wings and Units.

In the year ended March 31, 2017, NATEX contributed $532 (2016 - $637) to the NATO Air Base. NATEX's contributions are based on various percentages of consumer sales, in accordance with the NATEX contract.

### Department of National Defence

In the year ended March 31, 2017, the DND contributed $2,390 (2016 - $2,605) to CANEX towards payroll costs, travel and supplies. All amounts received are recorded against the corresponding operating expense in the consolidated statement of loss.

The DND 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 the DND has not been determined and therefore, has not been recorded in the consolidated financial statements.

### 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 $3,328 for the year ended March 31, 2017 (2016 - $3,433). This is the amount of consideration established and agreed to by the related parties and represents management's best estimate of fair value.

(in thousands of Canadian dollars)

## 10 Commitments and contingencies

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

| | $ |
|---|---|
| 2018 | 5,750 |
| 2019 | 5,750 |
| 2020 | 5,750 |
| 2021 | 5,750 |
| 2022 | 3,833 |

From time to time, CANEX is involved in claims in the normal course of business. Management assesses such claims and where considered likely to result in a material exposure and where the amount of the claim is quantifiable, provisions for loss are made based on management's assessment of the likely outcome. CANEX does not provide for claims that are considered unlikely to result in a significant loss, claims for which the outcome is not determinable or claims where the amount of the loss cannot be reasonably estimated. Any settlement or awards under such claims are provided for when reasonably determinable.

## 11 Environmental liability

CANEX has assessed that sites operated as gas stations under the old Shell program but not released yet to the DND/Canadian Forces might become a source of an eventual environmental liability if it was determined that leaks had occurred and caused the contamination of these sites. Due to the uncertainty of a possible contamination of these sites, CANEX has concluded that the occurrence of this contingency is not determinable at this time and any eventual liability cannot be reasonably estimated.

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.

(in thousands of Canadian dollars)

## 12 Asset retirement obligation

As at March 31, 2017, the discounted value of the asset retirement cost included in the buildings category of property and equipment is estimated at $293. The amortization of this asset has generated an expense of $55 in 2017 (2016 - $55). The total undiscounted amount of estimated cash flows to settle the asset retirement obligation is approximately $810 (discounted value - $704) and is expected to be incurred over the next 20 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, 2017, no amount is expected to be paid within the next 12 months.

In 2017, $nil (2016 - $nil) has been paid toward the retirement of fuel tanks.

## 13 Financial instruments and risk management

CANEX, through its financial assets and financial liabilities, is exposed to the following risks from its use of financial instruments: liquidity risk, credit risk and market risk. The following analysis provides a measurement of risks as at March 31, 2017.

### Liquidity risk

Liquidity risk refers to the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

CANEX manages liquidity risk by maintaining adequate banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows, and matching the maturity profiles of financial assets and financial liabilities. CANEX uses both the CFCF banking facility and local banking arrangements in Germany.

### Credit risk

Credit risk refers to the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

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 $58,715 (2016 - $57,621). As at March 31, 2017, no financial instruments are past due or impaired (note 3).

The credit risk on cash and cash equivalents is limited because the counterparties are chartered banks with high credit ratings assigned by national credit rating agencies.

### Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk. CANEX is exposed mainly to interest rate risk and currency risk.

(in thousands of Canadian dollars)

### *Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. CANEX's financial assets which are exposed to interest rate risk consist of cash and cash equivalents invested at short-term interest rates and the amount due from the CFCF (note 3). The loans payable bear interest at fixed rates. Consequently, the loans payable only have a fair value exposure and are not exposed to cash flow fluctuations (note 5). The interest-bearing temporary investments included in cash and cash equivalents have limited exposure to interest rate risk due to their short-term maturity.

### *Currency risk*

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. CANEX earns certain revenue and incurs certain expenses in currencies other than its functional currency and is therefore subject to foreign currency risk. Included in other operating expenses is a foreign exchange gain of $476 (2016 - gain of $125). The carrying amounts of CANEX's foreign currency-denominated financial assets and financial liabilities as at March 31, 2017 and 2016 are as follows.

| | Current assets | | | | Current liabilities | | | |
|---|---|---|---|---|---|---|---|---|
| | 2017 | | 2016 | | 2017 | | 2016 | |
| | € | $ | € | $ | € | $ | € | $ |
| NATEX | 13,402 | 19,099 | 13,129 | 19,398 | 393 | 560 | 296 | 437 |
| AMSTO | 9,440 | 13,453 | 9,453 | 13,967 | 8 | 11 | 641 | 947 |

## Fair value

### *Establishing fair value*

The fair values of amount due from the CFCF, account and accrued receivables, and accounts payable and accrued liabilities approximate their carrying amounts in the consolidated financial statements due to the relatively short period to maturity of these financial instruments.

The fair value of the loans payable is comparable to their book value given their competitive terms and conditions.

(in thousands of Canadian dollars)

## 14 Net change in non-cash operating working capital items

| | 2017 $ | 2016 $ |
|---|---|---|
| Due from CFCF | (3,447) | 4,319 |
| Account and accrued receivables | 524 | 103 |
| Inventory | 820 | (2,337) |
| Prepaid expenses | (11) | 165 |
| Accounts payable and accrued liabilities | (2,111) | 1,477 |
| | (4,225) | 3,727 |

## 15 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.

| | | | 2017 | | | 2016 |
|---|---|---|---|---|---|---|
| | € | $ | % | € | $ | % |
| Total assets | 23,610 | 33,647 | 41 | 23,385 | 34,551 | 40 |
| Sales and other revenue | 12,874 | 18,540 | 13 | 13,105 | 18,971 | 13 |
| Earnings before royalties and contributions | 1,517 | 2,185 | 61 | 1,728 | 2,502 | 69 |